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ENTERTAINMENT LAW

Third Edition
2013 Supplement

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Editorial Offices
121 Chanlon Road, New Providence, NJ 07974
201 Mission St., San Francisco, CA 94105-1831 (415) 908-3200
www.lexisnexis.com

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Chapter 1

STRUCTURE OF THE ENTERTAINMENT INDUSTRY

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§ 1.03 Artist and Society: First Amendment Protection of Entertainment Projects

USAGE: On page 42, ADD the following heading before *Joseph Burstyn, Inc. v. Wilson*:

[A] Expressive Content is Protected Speech

§ 1.03 Artist and Society: First Amendment Protection of Entertainment Projects

USAGE: On page 47, ADD the following heading after *Joseph Burstyn, Inc. v. Wilson*:

[B] Unprotected Content

Read *Luke Records, Inc. v. Navarro* (pages and note 1352-1358).

BROWN v. ENTERTAINMENT MERCHANTS ASS'N
131 S. Ct. 2729 (2011)

Justice SCALIA delivered the opinion of the Court.

We consider whether a California law imposing restrictions on violent video games comports with the First Amendment.

I

California Assembly Bill 1179 (2005), Cal. Civ.Code Ann. §§ 17461746.5 (West 2009) (Act), prohibits the sale or rental of "violent video games" to minors, and requires their packaging to be labeled "18." The Act covers games "in which the range of options available to a player includes killing, maiming, dismembering, or sexually assaulting an image of a human being, if those acts are depicted" in a manner that "[a] reasonable person, considering the game as a whole, would find appeals to a deviant or morbid interest of minors," that is "patently offensive to prevailing standards in the community as to what is suitable for minors," and that "causes the game, as a whole, to lack serious literary, artistic, political, or scientific value for minors." § 1746(d)(1)(A). Violation of the Act is punishable by a civil fine of up to $1,000. § 1746.3.

Respondents, representing the video-game and software industries, brought a preenforcement challenge to the Act in the United States District Court for the Northern District

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of California. That court concluded that the Act violated the First Amendment and permanently enjoined its enforcement. *Video Software Dealers Assn. v. Schwarzenegger,* No. C–05–04188 RMW, 2007 WL 2261546 (2007), App. to Pet. for Cert. 39a. The Court of Appeals affirmed, *Video Software Dealers Assn. v. Schwarzenegger,* 556 F.3d 950 (C.A.9 2009), and we granted certiorari, 559 U.S. ——, 130 S.Ct. 2398 (2010).

II

California correctly acknowledges that video games qualify for First Amendment protection. The Free Speech Clause exists principally to protect discourse on public matters, but we have long recognized that it is difficult to distinguish politics from entertainment, and dangerous to try. "Everyone is familiar with instances of propaganda through fiction. What is one man's amusement, teaches another's doctrine." *Winters v. New York,* 333 U.S. 507, 510 (1948). Like the protected books, plays, and movies that preceded them, video games communicate ideas—and even social messages—through many familiar literary devices (such as characters, dialogue, plot, and music) and through features distinctive to the medium (such as the player's interaction with the virtual world). That suffices to confer First Amendment protection. Under our Constitution, "esthetic and moral judgments about art and literature ... are for the individual to make, not for the Government to decree, even with the mandate or approval of a majority." *United States v. Playboy Entertainment Group, Inc.,* 529 U.S. 803, 818 (2000). And whatever the challenges of applying the Constitution to ever-advancing technology, "the basic principles of freedom of speech and the press, like the First Amendment's command, do not vary" when a new and different medium for communication appears. *Joseph Burstyn, Inc. v. Wilson,* 343 U.S. 495, 503 (1952).

The most basic of those principles is this: "[A]s a general matter, ... government has no power to restrict expression because of its message, its ideas, its subject matter, or its content." *Ashcroft v. American Civil Liberties Union,* 535 U.S. 564, 573 (2002) (internal quotation marks omitted). There are of course exceptions. " 'From 1791 to the present,' ... the First Amendment has 'permitted restrictions upon the content of speech in a few limited areas,' and has never 'include[d] a freedom to disregard these traditional limitations.' " *United States v. Stevens,* 559 U.S. ——, ——, 130 S.Ct. 1577, 1584 (2010) (quoting *R.A.V. v. St. Paul,* 505 U.S. 377, 382–383 (1992)). These limited areas—such as obscenity, *Roth v. United States,* 354 U.S. 476, 483 (1957), incitement, *Brandenburg v. Ohio,* 395 U.S. 444, 447–449 (1969) *(per curiam),* and fighting words, *Chaplinsky v. New Hampshire,* 315 U.S. 568, 572 (1942)—represent "well-defined and narrowly limited classes of speech, the prevention and punishment of which have never been thought to raise any Constitutional problem," *id.,* at 571–572.

Last Term, in *Stevens,* we held that new categories of unprotected speech may not be added to the list by a legislature that concludes certain speech is too harmful to be tolerated. *Stevens* concerned a federal statute purporting to criminalize the creation, sale, or possession of certain depictions of animal cruelty. See 18 U.S.C. § 48 (amended 2010). The statute covered depictions "in which a living animal is intentionally maimed, mutilated, tortured, wounded, or killed" if that harm to the animal was illegal where the "the creation, sale, or possession t[ook]

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place," § 48(c)(1). A saving clause largely borrowed from our obscenity jurisprudence, see *Miller v. California,* 413 U.S. 15, 24 (1973), exempted depictions with "serious religious, political, scientific, educational, journalistic, historical, or artistic value," § 48(b). We held that statute to be an impermissible content-based restriction on speech. There was no American tradition of forbidding the *depiction of* animal cruelty—though States have long had laws against *committing* it.

The Government argued in *Stevens* that lack of a historical warrant did not matter; that it could create new categories of unprotected speech by applying a "simple balancing test" that weighs the value of a particular category of speech against its social costs and then punishes that category of speech if it fails the test. *Stevens,* 559 U.S., at ——, 130 S.Ct., at 1585. We emphatically rejected that "startling and dangerous" proposition. *Ibid.* "Maybe there are some categories of speech that have been historically unprotected, but have not yet been specifically identified or discussed as such in our case law." *Id.,* at ——, 130 S.Ct., at 1586. But without persuasive evidence that a novel restriction on content is part of a long (if heretofore unrecognized) tradition of proscription, a legislature may not revise the "judgment [of] the American people," embodied in the First Amendment, "that the benefits of its restrictions on the Government outweigh the costs." *Id.,* at ——, 130 S.Ct., at 1585.

That holding controls this case.[1] As in *Stevens,* California has tried to make violent-speech regulation look like obscenity regulation by appending a saving clause required for the latter. That does not suffice. Our cases have been clear that the obscenity exception to the First Amendment does not cover whatever a legislature finds shocking, but only depictions of "sexual conduct," *Miller, supra,* at 24. See also *Cohen v. California,* 403 U.S. 15, 20 (1971); *Roth, supra,* at 487, and n. 20.

Stevens was not the first time we have encountered and rejected a State's attempt to shoehorn speech about violence into obscenity. In *Winters,* we considered a New York criminal statute "forbid[ding] the massing of stories of bloodshed and lust in such a way as to incite to crime against the person," 333 U.S., at 514. The New York Court of Appeals upheld the provision as a law against obscenity. "[T]here can be no more precise test of written indecency or obscenity," it said, "than the continuing and changeable experience of the community as to what types of books are likely to bring about the corruption of public morals or other analogous

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[1]Justice ALITO distinguishes *Stevens* on several grounds that seem to us ill founded. He suggests, *post,* at ——— (opinion concurring in judgment), that *Stevens* did not apply strict scrutiny. If that is so (and we doubt it), it would make this an *a fortiori* case. He says, *post,* at ——, ——, that the California Act punishes the sale or rental rather than the "creation" or "possession" of violent depictions. That distinction appears nowhere in *Stevens* itself, and for good reason: It would make permissible the prohibition of printing or selling books—though not the writing of them. Whether government regulation applies to creating, distributing, or consuming speech makes no difference. And finally, Justice ALITO points out, *post,* at ——, that *Stevens* "left open the possibility that a more narrowly drawn statute" would be constitutional. True, but entirely irrelevant. *Stevens* said, 559 U.S., at ——, 130 S.Ct., at 1592, that the "crush-video" statute at issue there might pass muster if it were limited to videos of acts of animal cruelty that violated the law where the acts were performed. There is no contention that any of the virtual characters depicted in the imaginative videos at issue here are criminally liable.

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injury to the public order." *Id.,* at 514 (internal quotation marks omitted). That is of course the same expansive view of governmental power to abridge the freedom of speech based on interest-balancing that we rejected in *Stevens*. Our opinion in *Winters,* which concluded that the New York statute failed a heightened vagueness standard applicable to restrictions upon speech entitled to First Amendment protection, 333 U.S., at 517–519, made clear that violence is not part of the obscenity that the Constitution permits to be regulated. The speech reached by the statute contained "no indecency or obscenity in any sense heretofore known to the law." *Id.,* at 519.

Because speech about violence is not obscene, it is of no consequence that California's statute mimics the New York statute regulating obscenity-for-minors that we upheld in *Ginsberg v. New York,* 390 U.S. 629 (1968). That case approved a prohibition on the sale to minors of *sexual* material that would be obscene from the perspective of a child.[2] We held that the legislature could "adjus[t] the definition of obscenity 'to social realities by permitting the appeal of this type of material to be assessed in terms of the sexual interests ...' of ... minors." *Id.,* at 638 (quoting *Mishkin v. New York,* 383 U.S. 502, 509 (1966)). And because "obscenity is not protected expression," the New York statute could be sustained so long as the legislature's judgment that the proscribed materials were harmful to children "was not irrational." 390 U.S., at 641.

The California Act is something else entirely. It does not adjust the boundaries of an existing category of unprotected speech to ensure that a definition designed for adults is not uncritically applied to children. California does not argue that it is empowered to prohibit selling offensively violent works *to adults*—and it is wise not to, since that is but a hair's breadth from the argument rejected in *Stevens*. Instead, it wishes to create a wholly new category of content-based regulation that is permissible only for speech directed at children.

That is unprecedented and mistaken. "[M]inors are entitled to a significant measure of First Amendment protection, and only in relatively narrow and well-defined circumstances may government bar public dissemination of protected materials to them." *Erznoznik v. Jacksonville,* 422 U.S. 205, 212–213 (1975) (citation omitted). No doubt a State possesses legitimate power to protect children from harm, *Ginsberg, supra,* at 640–641; *Prince v. Massachusetts,* 321 U.S. 158, 165 (1944), but that does not include a free-floating power to restrict the ideas to which children may be exposed. "Speech that is neither obscene as to youths nor subject to some other

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[2]The statute in *Ginsberg* restricted the sale of certain depictions of "nudity, sexual conduct, sexual excitement, or sado-masochistic abuse," that were " '[h]armful to minors.' " A depiction was harmful to minors if it:

> "(i) predominantly appeals to the prurient, shameful or morbid interests of minors, and
>
> "(ii) is patently offensive to prevailing standards in the adult community as a whole with respect to what is suitable material for minors, and
>
> "(iii) is utterly without redeeming social importance for minors." 390 U.S., at 646 (Appendix A to opinion of the Court) (quoting N.Y. Penal Law § 484–h(1)(f)).

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legitimate proscription cannot be suppressed solely to protect the young from ideas or images that a legislative body thinks unsuitable for them." *Erznoznik, supra,* at 213–214.[3]

California's argument would fare better if there were a longstanding tradition in this country of specially restricting children's access to depictions of violence, but there is none. Certainly the *books* we give children to read—or read to them when they are younger—contain no shortage of gore. Grimm's Fairy Tales, for example, are grim indeed. As her just deserts for trying to poison Snow White, the wicked queen is made to dance in red hot slippers "till she fell dead on the floor, a sad example of envy and jealousy." The Complete Brothers Grimm Fairy Tales 198 (2006 ed.). Cinderella's evil stepsisters have their eyes pecked out by doves. *Id.,* at 95. And Hansel and Gretel (children!) kill their captor by baking her in an oven. *Id.,* at 54.

High-school reading lists are full of similar fare. Homer's Odysseus blinds Polyphemus the Cyclops by grinding out his eye with a heated stake. The Odyssey of Homer, Book IX, p. 125 (S. Butcher & A. Lang transls. 1909) ("Even so did we seize the fiery-pointed brand and whirled it round in his eye, and the blood flowed about the heated bar. And the breath of the flame singed his eyelids and brows all about, as the ball of the eye burnt away, and the roots thereof crackled in the flame"). In the Inferno, Dante and Virgil watch corrupt politicians struggle to stay submerged beneath a lake of boiling pitch, lest they be skewered by devils above the surface. Canto XXI, pp. 187–189 (A. Mandelbaum transl. Bantam Classic ed.1982). And Golding's Lord of the Flies recounts how a schoolboy called Piggy is savagely murdered *by other children* while marooned on an island. W. Golding, Lord of the Flies 208–209 (1997 ed.).[4]

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[3]Justice THOMAS ignores the holding of *Erznoznik,* and denies that persons under 18 have any constitutional right to speak or be spoken to without their parents' consent. He cites no case, state or federal, supporting this view, and to our knowledge there is none. Most of his dissent is devoted to the proposition that parents have traditionally had the power to control what their children hear and say. This is true enough. And it perhaps follows from this that the state has the power to *enforce* parental prohibitions—to require, for example, that the promoters of a rock concert exclude those minors whose parents have advised the promoters that their children are forbidden to attend. But it does not follow that the state has the power to prevent children from hearing or saying anything *without their parents' prior consent*. The latter would mean, for example, that it could be made criminal to admit persons under 18 to a political rally without their parents' prior written consent—even a political rally in support of laws against corporal punishment of children, or laws in favor of greater rights for minors. And what is good for First Amendment rights of speech must be good for First Amendment rights of religion as well: It could be made criminal to admit a person under 18 to church, or to give a person under 18 a religious tract, without his parents' prior consent. Our point is not, as Justice THOMAS believes, *post,* at ——, n. 2, merely that such laws are "undesirable." They are obviously an infringement upon the religious freedom of young people and those who wish to proselytize young people. Such laws do not enforce *parental* authority over children's speech and religion; they impose *governmental* authority, subject only to a parental veto. In the absence of any precedent for state control, uninvited by the parents, over a child's speech and religion (Justice THOMAS cites none), and in the absence of any justification for such control that would satisfy strict scrutiny, those laws must be unconstitutional. This argument is not, as Justice THOMAS asserts, "circular," *ibid.* It is the absence of any historical warrant or compelling justification for such restrictions, not our *ipse dixit,* that renders them invalid.

[4]Justice ALITO accuses us of pronouncing that playing violent video games "is not different in 'kind' " from reading violent literature. *Post,* at ——. Well of course it is different in kind, but not in a way that causes the provision and viewing of violent video games, unlike the provision and reading of books, not to be expressive activity and hence not to enjoy First Amendment protection. Reading Dante is unquestionably more cultured and

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This is not to say that minors' consumption of violent entertainment has never encountered resistance. In the 1800's, dime novels depicting crime and "penny dreadfuls" (named for their price and content) were blamed in some quarters for juvenile delinquency. See Brief for Cato Institute as *Amicus Curiae* 6–7. When motion pictures came along, they became the villains instead. "The days when the police looked upon dime novels as the most dangerous of textbooks in the school for crime are drawing to a close. . . . They say that the moving picture machine ... tends even more than did the dime novel to turn the thoughts of the easily influenced to paths which sometimes lead to prison." Moving Pictures as Helps to Crime, N.Y. Times, Feb. 21, 1909, quoted in Brief for Cato Institute, at 8. For a time, our Court did permit broad censorship of movies because of their capacity to be "used for evil," see *Mutual Film Corp. v. Industrial Comm'n of Ohio,* 236 U.S. 230, 242 (1915), but we eventually reversed course, *Joseph Burstyn, Inc.,* 343 U.S., at 502; see also *Erznoznik, supra,* at 212–214 (invalidating a drive-in movies restriction designed to protect children). Radio dramas were next, and then came comic books. Brief for Cato Institute, at 10–11. Many in the late 1940's and early 1950's blamed comic books for fostering a "preoccupation with violence and horror" among the young, leading to a rising juvenile crime rate. See Note, Regulation of Comic Books, 68 Harv. L. Rev. 489, 490 (1955). But efforts to convince Congress to restrict comic books failed. Brief for Comic Book Legal Defense Fund as *Amicus Curiae* 11–15.[5] And, of course, after comic books came television and music lyrics.

California claims that video games present special problems because they are "interactive," in that the player participates in the violent action on screen and determines its outcome. The latter feature is nothing new: Since at least the publication of The Adventures of You: Sugarcane Island in 1969, young readers of choose-your-own-adventure stories have been able to make decisions that determine the plot by following instructions about which page to turn to. Cf. *Interactive Digital Software Assn. v. St. Louis County,* 329 F.3d 954, 957–958 (C.A.8 2003). As for the argument that video games enable participation in the violent action, that seems to us more a matter of degree than of kind. As Judge Posner has observed, all literature is interactive. "[T]he better it is, the more interactive. Literature when it is successful draws the reader into the story, makes him identify with the characters, invites him to judge them and

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intellectually edifying than playing Mortal Kombat. But these cultural and intellectual differences are not *constitutional* ones. Crudely violent video games, tawdry TV shows, and cheap novels and magazines are no less forms of speech than The Divine Comedy, and restrictions upon them must survive strict scrutiny—a question to which we devote our attention in Part III, *infra.* Even if we can see in them "nothing of any possible value to society ..., they are as much entitled to the protection of free speech as the best of literature." *Winters v. New York,* 333 U.S. 507, 510 (1948).

[5]The crusade against comic books was led by a psychiatrist, Frederic Wertham, who told the Senate Judiciary Committee that "as long as the crime comic books industry exists in its present forms there are no secure homes." Juvenile Delinquency (Comic Books): Hearings before the Subcommittee to Investigate Juvenile Delinquency, 83d Cong., 2d Sess., 84 (1954). Wertham's objections extended even to Superman comics, which he described as "particularly injurious to the ethical development of children." *Id.,* at 86. Wertham's crusade did convince the New York Legislature to pass a ban on the sale of certain comic books to minors, but it was vetoed by Governor Thomas Dewey on the ground that it was unconstitutional given our opinion in *Winters, supra.* See *People v. Bookcase, Inc.,* 14 N.Y.2d 409, 412–413, 252 N.Y.S.2d 433, 201 N.E.2d 14, 15–16 (1964).

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quarrel with them, to experience their joys and sufferings as the reader's own." *American Amusement Machine Assn. v. Kendrick,* 244 F.3d 572, 577 (C.A.7 2001) (striking down a similar restriction on violent video games).

Justice ALITO has done considerable independent research to identify, see *post,* at ——– ——, nn. 13–18, video games in which "the violence is astounding," *post,* at ——. "Victims are dismembered, decapitated, disemboweled, set on fire, and chopped into little pieces.... Blood gushes, splatters, and pools." *Ibid.* Justice ALITO recounts all these disgusting video games in order to disgust us—but disgust is not a valid basis for restricting expression. And the same is true of Justice ALITO's description, *post,* at —— – ——, of those video games he has discovered that have a racial or ethnic motive for their violence—" 'ethnic cleansing' [of] ... African Americans, Latinos, or Jews." To what end does he relate this? Does it somehow increase the "aggressiveness" that California wishes to suppress? Who knows? But it does arouse the reader's ire, and the reader's desire to put an end to this horrible message. Thus, ironically, Justice ALITO's argument highlights the precise danger posed by the California Act: that the *ideas* expressed by speech—whether it be violence, or gore, or racism—and not its objective effects, may be the real reason for governmental proscription.

III

Because the Act imposes a restriction on the content of protected speech, it is invalid unless California can demonstrate that it passes strict scrutiny—that is, unless it is justified by a compelling government interest and is narrowly drawn to serve that interest. *R.A.V.,* 505 U.S., at 395, 112 S.Ct. 2538. The State must specifically identify an "actual problem" in need of solving, *Playboy,* 529 U.S., at 822–823, 120 S.Ct. 1878, and the curtailment of free speech must be actually necessary to the solution, see *R.A.V., supra,* at 395, 112 S.Ct. 2538. That is a demanding standard. "It is rare that a regulation restricting speech because of its content will ever be permissible." *Playboy, supra,* at 818, 120 S.Ct. 1878.

California cannot meet that standard. At the outset, it acknowledges that it cannot show a direct causal link between violent video games and harm to minors. Rather, relying upon our decision in *Turner Broadcasting System, Inc. v. FCC,* 512 U.S. 622 (1994), the State claims that it need not produce such proof because the legislature can make a predictive judgment that such a link exists, based on competing psychological studies. But reliance on *Turner Broadcasting* is misplaced. That decision applied *intermediate scrutiny* to a content-neutral regulation. *Id.,* at 661–662. California's burden is much higher, and because it bears the risk of uncertainty, see *Playboy, supra,* at 816–817, ambiguous proof will not suffice.

The State's evidence is not compelling. California relies primarily on the research of Dr. Craig Anderson and a few other research psychologists whose studies purport to show a connection between exposure to violent video games and harmful effects on children. These studies have been rejected by every court to consider them, and with good reason: They do not prove that violent video games *cause* minors to *act* aggressively (which would at least be a beginning). Instead, "[n]early all of the research is based on correlation, not evidence of

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causation, and most of the studies suffer from significant, admitted flaws in methodology." *Video Software Dealers Assn.* 556 F.3d, at 964. They show at best some correlation between exposure to violent entertainment and minuscule real-world effects, such as children's feeling more aggressive or making louder noises in the few minutes after playing a violent game than after playing a nonviolent game.[6]

Even taking for granted Dr. Anderson's conclusions that violent video games produce some effect on children's feelings of aggression, those effects are both small and indistinguishable from effects produced by other media. In his testimony in a similar lawsuit, Dr. Anderson admitted that the "effect sizes" of children's exposure to violent video games are "about the same" as that produced by their exposure to violence on television. App. 1263. And he admits that the *same* effects have been found when children watch cartoons starring Bugs Bunny or the Road Runner, *id.,* at 1304, or when they play video games like Sonic the Hedgehog that are rated "E" (appropriate for all ages), *id.,* at 1270, or even when they "vie[w] a picture of a gun," *id.,* at 1315–1316.[7]

Of course, California has (wisely) declined to restrict Saturday morning cartoons, the sale of games rated for young children, or the distribution of pictures of guns. The consequence is that its regulation is wildly underinclusive when judged against its asserted justification, which in our view is alone enough to defeat it. Underinclusiveness raises serious doubts about whether the government is in fact pursuing the interest it invokes, rather than disfavoring a particular speaker or viewpoint. See *City of Ladue v. Gilleo,* 512 U.S. 43, 51 (1994); *Florida Star v. B.J.F.,* 491

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[6]One study, for example, found that children who had just finished playing violent video games were more likely to fill in the blank letter in "explo_e" with a "d" (so that it reads "explode") than with an "r" ("explore"). App. 496, 506 (internal quotation marks omitted). The prevention of this phenomenon, which might have been anticipated with common sense, is not a compelling state interest.

[7]Justice ALITO is mistaken in thinking that we fail to take account of "new and rapidly evolving technology," *post,* at ——. The studies in question pertain to that new and rapidly evolving technology, and fail to show, with the degree of certitude that strict scrutiny requires, that this subject-matter restriction on speech is justified. Nor is Justice ALITO correct in attributing to us the view that "violent video games really present no serious problem." *Post,* at ——. Perhaps they do present a problem, and perhaps none of us would allow our own children to play them. But there are all sorts of "problems"—some of them surely more serious than this one—that cannot be addressed by governmental restriction of free expression: for example, the problem of encouraging anti-Semitism *National Socialist Party of America v. Skokie,* 432 U.S. 43 (1977) *(per curiam)*), the problem of spreading a political philosophy hostile to the Constitution *Noto v. United States,* 367 U.S. 290 (1961)), or the problem of encouraging disrespect for the Nation's flag *Texas v. Johnson,* 491 U.S. 397 (1989)).

Justice BREYER would hold that California has satisfied strict scrutiny based upon his own research into the issue of the harmfulness of violent video games. See *post,* at —— – —— (Appendixes to dissenting opinion) (listing competing academic articles discussing the harmfulness *vel non* of violent video games). The vast preponderance of this research is outside the record—and in any event we do not see how it could lead to Justice BREYER's conclusion, since he admits he cannot say whether the studies on his side are right or wrong. *Post,* at ——. Similarly, Justice ALITO says he is not "sure" whether there are any constitutionally dispositive differences between video games and other media. *Post,* at ——. If that is so, then strict scrutiny plainly has not been satisfied.

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U.S. 524, 540 (1989). Here, California has singled out the purveyors of video games for disfavored treatment—at least when compared to booksellers, cartoonists, and movie producers—and has given no persuasive reason why.

The Act is also seriously underinclusive in another respect—and a respect that renders irrelevant the contentions of the concurrence and the dissents that video games are qualitatively different from other portrayals of violence. The California Legislature is perfectly willing to leave this dangerous, mind-altering material in the hands of children so long as one parent (or even an aunt or uncle) says it's OK. And there are not even any requirements as to how this parental or avuncular relationship is to be verified; apparently the child's or putative parent's, aunt's, or uncle's say-so suffices. That is not how one addresses a serious social problem.

California claims that the Act is justified in aid of parental authority: By requiring that the purchase of violent video games can be made only by adults, the Act ensures that parents can decide what games are appropriate. At the outset, we note our doubts that punishing third parties for conveying protected speech to children *just in case* their parents disapprove of that speech is a proper governmental means of aiding parental authority. Accepting that position would largely vitiate the rule that "only in relatively narrow and well-defined circumstances may government bar public dissemination of protected materials to [minors]." *Erznoznik,* 422 U.S., at 212–213.

But leaving that aside, California cannot show that the Act's restrictions meet a substantial need of parents who wish to restrict their children's access to violent video games but cannot do so. The video-game industry has in place a voluntary rating system designed to inform consumers about the content of games. The system, implemented by the Entertainment Software Rating Board (ESRB), assigns age-specific ratings to each video game submitted: EC (Early Childhood); E (Everyone); E10+ (Everyone 10 and older); T (Teens); M (17 and older); and AO (Adults Only—18 and older). App. 86. The Video Software Dealers Association encourages retailers to prominently display information about the ESRB system in their stores; to refrain from renting or selling adults-only games to minors; and to rent or sell "M" rated games to minors only with parental consent. *Id.,* at 47. In 2009, the Federal Trade Commission (FTC) found that, as a result of this system, "the video game industry outpaces the movie and music industries" in "(1) restricting target-marketing of mature-rated products to children; (2) clearly and prominently disclosing rating information; and (3) restricting children's access to mature-rated products at retail." FTC, Report to Congress, Marketing Violent Entertainment to Children 30 (Dec.2009), online at http:// www.ftc.gov/os/2009/12/P994511violententertainment.pdf (as visited June 24, 2011, and available in Clerk of Court's case file) (FTC Report). This system does much to ensure that minors cannot purchase seriously violent games on their own, and that parents who care about the matter can readily evaluate the games their children bring home. Filling the remaining modest gap in concerned-parents' control can hardly be a compelling state interest.[8]

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[8]Justice BREYER concludes that the remaining gap is compelling because, according to the FTC's report, some "20% of those under 17 are still able to buy M-rated games." *Post,* at —— (citing FTC Report 28). But some gap in compliance is unavoidable. The sale of alcohol to minors, for example, has long been illegal, but a 2005 study suggests that about 18% of retailers still sell alcohol to those under the drinking age. Brief for State of Rhode Island

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And finally, the Act's purported aid to parental authority is vastly overinclusive. Not all of the children who are forbidden to purchase violent video games on their own have parents who *care* whether they purchase violent video games. While some of the legislation's effect may indeed be in support of what some parents of the restricted children actually want, its entire effect is only in support of what the State thinks parents *ought* to want. This is not the narrow tailoring to "assisting parents" that restriction of First Amendment rights requires.

* * *

***10** California's effort to regulate violent video games is the latest episode in a long series of failed attempts to censor violent entertainment for minors. While we have pointed out above that some of the evidence brought forward to support the harmfulness of video games is unpersuasive, we do not mean to demean or disparage the concerns that underlie the attempt to regulate them — concerns that may and doubtless do prompt a good deal of parental oversight. We have no business passing judgment on the view of the California Legislature that violent video games (or, for that matter, any other forms of speech) corrupt the young or harm their moral development. Our task is only to say whether or not such works constitute a "well-defined and narrowly limited clas[s] of speech, the prevention and punishment of which have never been thought to raise any Constitutional problem," *Chaplinsky,* 315 U.S., at 571–572 (the answer plainly is no); and if not, whether the regulation of such works is justified by that high degree of necessity we have described as a compelling state interest (it is not). Even where the protection of children is the object, the constitutional limits on governmental action apply.

California's legislation straddles the fence between (1) addressing a serious social problem and (2) helping concerned parents control their children. Both ends are legitimate, but when they affect First Amendment rights they must be pursued by means that are neither seriously underinclusive nor seriously overinclusive. See *Church of Lukumi Babalu Aye, Inc. v. Hialeah,* 508 U.S. 520, 546 (1993). As a means of protecting children from portrayals of violence, the legislation is seriously underinclusive, not only because it excludes portrayals other than video games, but also because it permits a parental or avuncular veto. And as a means of assisting concerned parents it is seriously overinclusive because it abridges the First Amendment rights of young people whose parents (and aunts and uncles) think violent video games are a harmless pastime. And the overbreadth in achieving one goal is not cured by the underbreadth in achieving the other. Legislation such as this, which is neither fish nor fowl, cannot survive strict scrutiny.

We affirm the judgment below.

It is so ordered.

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et al. as *Amici Curiae* 18. Even if the sale of violent video games to minors could be deterred further by increasing regulation, the government does not have a compelling interest in each marginal percentage point by which its goals are advanced.

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[C] Content Regulation

Read *FCC v. Pacifica Foundation* (pages 1374-1388).

[D] Content-Neutral Regulation

WARD v. ROCK AGAINST RACISM
491 U.S. 781 (1989)

KENNEDY, J.

In the southeast portion of New York City's Central Park, about 10 blocks upward from the park's beginning point at 59th Street, there is an amphitheater and stage structure known as the Naumberg Acoustic Bandshell. The bandshell faces west across the remaining width of the park. In close proximity to the bandshell, and lying within the directional path of its sound, is a grassy open area called the Sheep Meadow. The city has designated the Sheep Meadow as a quiet area for passive recreations like reclining, walking, and reading. Just beyond the park, and also within the potential sound range of the bandshell, are the apartments and residences of Central Park West.

This case arises from the city's attempt to regulate the volume of amplified music at the bandshell so the performances are satisfactory to the audience without intruding upon those who use the Sheep Meadow or live on Central Park West and in its vicinity.

The city's regulation requires bandshell performers to use sound-amplification equipment and a sound technician provided by the city. The challenge to this volume control technique comes from the sponsor of a rock concert. The trial court sustained the noise control measures, but the Court of Appeals for the Second Circuit reversed. We granted certiorari to resolve the important First Amendment issues presented by the case.

I

Rock Against Racism, respondent in this case, is an unincorporated association which, in its own words, is “dedicated to the espousal and promotion of antiracist views.” App. to Pet. for Cert. 3. Each year from 1979 through 1986, RAR has sponsored a program of speeches and rock music at the bandshell. RAR has furnished the sound equipment and sound technician used by the various performing groups at these annual events.

Over the years, the city received numerous complaints about excessive sound amplification at respondent's concerts from park users and residents of areas adjacent to the park.

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On some occasions RAR was less than cooperative when city officials asked that the volume be reduced; at one concert, police felt compelled to cut off the power to the sound system, an action that caused the audience to become unruly and hostile. App. 127-131, 140-141, 212-214, 345-347.

Before the 1984 concert, city officials met with RAR representatives to discuss the problem of excessive noise. It was decided that the city would monitor sound levels at the edge of the concert ground, and would revoke respondent's event permit if specific volume limits were exceeded. Sound levels at the concert did exceed acceptable levels for sustained periods of time, despite repeated warnings and requests that the volume be lowered. Two citations for excessive volume were issued to respondent during the concert. When the power was eventually shut off, the audience became abusive and disruptive.

The following year, when respondent sought permission to hold its upcoming concert at the bandshell, the city declined to grant an event permit, citing its problems with noise and crowd control at RAR's previous concerts. The city suggested some other city-owned facilities as alternative sites for the concert. RAR declined the invitation and filed suit in United States District Court against the city, its mayor, and various police and parks department officials, seeking an injunction directing issuance of an event permit. After respondent agreed to abide by all applicable regulations, the parties reached agreement and a permit was issued.

The city then undertook to develop comprehensive New York City Parks Department Use Guidelines for the Naumberg Bandshell. A principal problem to be addressed by the guidelines was controlling the volume of amplified sound at bandshell events. A major concern was that at some bandshell performances the event sponsors had been unable to "provide the amplification levels required and 'crowds unhappy with the sound became disappointed or unruly.' " Brief for Petitioners 9. The city found that this problem had several causes, including inadequate sound equipment, sound technicians who were either unskilled at mixing sound outdoors or unfamiliar with the acoustics of the bandshell and its surroundings, and the like. Because some performers compensated for poor sound mix by raising volume, these factors tended to exacerbate the problem of excess noise.[9] App. 30, 189, 218-219.

The city considered various solutions to the sound-amplification problem. The idea of a fixed decibel limit for all performers using the bandshell was rejected because the impact on

[9]The amplified sound heard at a rock concert consists of two components, volume and mix. Sound produced by the various instruments and performers on stage is picked up by microphones and fed into a central mixing board, where it is combined into one signal and then amplified through speakers to the audience. A sound technician is at the mixing board to select the appropriate mix, or balance, of the various sounds produced on stage, and to add other effects as desired by the performers. In addition to controlling the sound mix, the sound technician also controls the overall volume of sound reaching the audience. During the course of a performance, the sound technician is continually manipulating various controls on the mixing board to provide the desired sound mix and volume. The sound technician thus plays an important role in determining the quality of the amplified sound that reaches the audience.

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listeners of a single decibel level is not constant, but varies in response to changes in air temperature, foliage, audience size, and like factors. *Id.,* at 31, 220, 285-286. The city also rejected the possibility of employing a sound technician to operate the equipment provided by the various sponsors of bandshell events, because the city's technician might have had difficulty satisfying the needs of sponsors while operating unfamiliar, and perhaps inadequate, sound equipment. *Id.,* at 220. Instead, the city concluded that the most effective way to achieve adequate but not excessive sound amplification would be for the city to furnish high quality sound equipment and retain an independent, experienced sound technician for all performances at the bandshell. After an extensive search the city hired a private sound company capable of meeting the needs of all the varied users of the bandshell.

The Use Guidelines were promulgated on March 21, 1986.[10] After learning that it would be expected to comply with the guidelines at its upcoming annual concert in May 1986, respondent returned to the District Court and filed a motion for an injunction against the enforcement of certain aspects of the guidelines. The District Court preliminarily enjoined enforcement of the sound-amplification rule on May 1, 1986. See 636 F.Supp. 178 (S.D.N.Y.1986). Under the protection of the injunction, and alone among users of the bandshell in the 1986 season, RAR was permitted to use its own sound equipment and technician, just as it had done in prior years. RAR's 1986 concert again generated complaints about excessive noise from park users and nearby residents. App. 127, 138.

After the concert, respondent amended its complaint to seek damages and a declaratory judgment striking down the guidelines as facially invalid. After hearing five days of testimony about various aspects of the guidelines, the District Court issued its decision upholding the sound-amplification guideline. The court found that the city had been "motivated by a desire to obtain top-flight sound equipment and experienced operators" in selecting an independent contractor to provide the equipment and technician for bandshell events, and that the performers

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[10]In pertinent part, the Use Guidelines provide:

"SOUND AMPLIFICATION

"To provide the best sound for all events Department of Parks and Recreation has leased a sound amplification system designed for the specific demands of the Central Park Bandshell. To insure appropriate sound quality balanced with respect for nearby residential neighbors and the mayorally decreed quiet zone of Sheep Meadow, all sponsors may use only the Department of Parks and Recreation sound system. DEPARTMENT OF PARKS AND RECREATION IS TO BE THE SOLE AND ONLY PROVIDER OF SOUND AMPLIFICATION, INCLUDING THOUGH NOT LIMITED TO AMPLIFIERS, SPEAKERS, MONITORS, MICROPHONES, AND PROCESSORS.

"Clarity of sound results from a combination of amplification equipment and a sound technician's familiarity and proficiency with that system. Department of Parks and Recreation will employ a professional sound technician [who] will be fully versed in sound bounce patterns, daily air currents, and sound skipping within the Park. The sound technician must also consider the Bandshell's proximity to Sheep Meadow, activities at Bethesda Terrace, and the New York City Department of Environmental Protection recommendations." App. 375-376.

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who did use the city's sound system in the 1986 season, in performances "which ran the full cultural gamut from grand opera to salsa to reggae," were uniformly pleased with the quality of the sound provided. 658 F. Supp. 1346, 1352 (S.D.N.Y.1987).

Although the city's sound technician controlled both sound volume and sound mix by virtue of his position at the mixing board, the court found that "[t]he City's practice for events at the Bandshell is to give the sponsor autonomy with respect to the sound mix: balancing treble with bass, highlighting a particular instrument or voice, and the like," and that the city's sound technician "does all he can to accommodate the sponsor's desires in those regards." *Ibid.* Even with respect to volume control, the city's practice was to confer with the sponsor before making any decision to turn the volume down. *Ibid.* In some instances, as with a New York Grand Opera performance, the sound technician accommodated the performers' unique needs by integrating special microphones with the city's equipment. The court specifically found that "[t]he City's implementation of the Bandshell guidelines provides for a sound amplification system capable of meeting RAR's technical needs and leaves control of the sound 'mix' in the hands of RAR." *Id.,* at 1353. Applying this Court's three-part test for judging the constitutionality of government regulation of the time, place, or manner of protected speech, the court found the city's regulation valid.

The Court of Appeals reversed. 848 F.2d 367 (C.A.2 1988). After recognizing that "[c]ontent neutral time, place and manner regulations are permissible so long as they are narrowly tailored to serve a substantial government interest and do not unreasonably limit alternative avenues of expression," the court added the proviso that "the method and extent of such regulation must be reasonable, that is, it must be the least intrusive upon the freedom of expression as is reasonably necessary to achieve a legitimate purpose of the regulation." *Id.,* at 370 (citing *United States v. O'Brien,* 391 U.S. 367, 377 (1968)). . . .

We granted certiorari, 488 U.S. 816 (1988), to clarify the legal standard applicable to governmental regulation of the time, place, or manner of protected speech. Because the Court of Appeals erred in requiring the city to prove that its regulation was the least intrusive means of furthering its legitimate governmental interests, and because the ordinance is valid on its face, we now reverse.

II

Music is one of the oldest forms of human expression. From Plato's discourse in the Republic to the totalitarian state in our own times, rulers have known its capacity to appeal to the intellect and to the emotions, and have censored musical compositions to serve the needs of the state. See 2 Dialogues of Plato, Republic, bk. 3, pp. 231, 245-248 (B. Jowett transl., 4th ed. 1953) ("Our poets must sing in another and a nobler strain"); Musical Freedom and Why Dictators Fear It, N.Y. Times, Aug. 23, 1981, section 2, p. 1, col. 5; Soviet Schizophrenia toward Stravinsky, N.Y. Times, June 26, 1982, section 1, p. 25, col. 2; Symphonic Voice from China Is Heard Again, N.Y. Times, Oct. 11, 1987, section 2, p. 27, col. 1. The Constitution prohibits any like attempts in our own legal order. Music, as a form of expression and communication, is

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protected under the First Amendment. In the case before us the performances apparently consisted of remarks by speakers, as well as rock music, but the case has been presented as one in which the constitutional challenge is to the city's regulation of the musical aspects of the concert; and, based on the principle we have stated, the city's guideline must meet the demands of the First Amendment. The parties do not appear to dispute that proposition.

We need not here discuss whether a municipality which owns a bandstand or stage facility may exercise, in some circumstances, a proprietary right to select performances and control their quality. See *Southeastern Promotions, Ltd. v. Conrad,* 420 U.S. 546, 570-574 (1975) (REHNQUIST, J., dissenting). Though it did demonstrate its own interest in the effort to insure high quality performances by providing the equipment in question, the city justifies its guideline as a regulatory measure to limit and control noise. Here the bandshell was open, apparently, to all performers; and we the case as one in which the bandshell is a public forum for performances in which the government's right to regulate expression is subject to the protections of the First Amendment. *United States v. Grace,* 461 U.S. 171, 177 (1983); see *Frisby v. Schultz,* 487 U.S. 474, 481 (1988); *Perry Education Assn. v. Perry Local Educators' Assn.,* 460 U.S. 37, 45 (1983). Our cases make clear, however, that even in a public forum the government may impose reasonable restrictions on the time, place, or manner of protected speech, provided the restrictions "are justified without reference to the content of the regulated speech, that they are narrowly tailored to serve a significant governmental interest, and that they leave open ample alternative channels for communication of the information." *Clark v. Community for Creative Non-Violence,* 468 U.S. 288, 293 (1984); see *Heffron v. International Society for Krishna Consciousness, Inc.,* 452 U.S. 640, 648 (1981) (quoting *Pharmacy Bd. v. Virginia Citizens Consumer Council, Inc.,* 425 U.S. 748, 771 (1976)). We consider these requirements in turn.

A

The principal inquiry in determining content neutrality, in speech cases generally and in time, place, or manner cases in particular, is whether the government has adopted a regulation of speech because of disagreement with the message it conveys. *Community for Creative Non-Violence, supra,* 468 U.S., at 295. The government's purpose is the controlling consideration. A regulation that serves purposes unrelated to the content of expression is deemed neutral, even if it has an incidental effect on some speakers or messages but not others. See *Renton v. Playtime Theatres, Inc.,* 475 U.S. 41, 47-48 (1986). Government regulation of expressive activity is content neutral so long as it is "*justified* without reference to the content of the regulated speech." *Community for Creative Non-Violence, supra,* 468 U.S., at 293 (emphasis added). . . .

The principal justification for the sound-amplification guideline is the city's desire to control noise levels at bandshell events, in order to retain the character of the Sheep Meadow and its more sedate activities, and to avoid undue intrusion into residential areas and other areas of the park. This justification for the guideline "ha[s] nothing to do with content," *Boos v. Barry, supra,* at 320, 108 S.Ct., at 1163, and it satisfies the requirement that time, place, or manner regulations be content neutral.

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The only other justification offered below was the city's interest in "ensur [ing] the quality of sound at Bandshell events." 658 F. Supp., at 1352; see 848 F.2d, at 370, n. 3. Respondent urges that this justification is not content neutral because it is based upon the quality, and thus the content, of the speech being regulated. In respondent's view, the city is seeking to assert artistic control over performers at the bandshell by enforcing a bureaucratically determined, value-laden conception of good sound. That all performers who have used the city's sound equipment have been completely satisfied is of no moment, respondent argues, because "[t]he First Amendment does not permit and cannot tolerate state control of artistic expression merely because the State claims that [its] efforts will lead to 'top-quality' results." Brief for Respondent 19.

While respondent's arguments that the government may not interfere with artistic judgment may have much force in other contexts, they are inapplicable to the facts of this case. The city has disclaimed in express terms any interest in imposing its own view of appropriate sound mix on performers. To the contrary, as the District Court found, the city requires its sound technician to defer to the wishes of event sponsors concerning sound mix. 658 F. Supp., at 1352-1353. On this record, the city's concern with sound quality extends only to the clearly content-neutral goals of ensuring adequate sound amplification and avoiding the volume problems associated with inadequate sound mix.[11] Any governmental attempt to serve purely esthetic goals by imposing subjective standards of acceptable sound mix on performers would raise serious First Amendment concerns, but this case provides us with no opportunity to address those questions. As related above, the District Court found that the city's equipment and its sound technician could meet all of the standards requested by the performers, including RAR.

Respondent argues further that the guideline, even if not content based in explicit terms, is nonetheless invalid on its face because it places unbridled discretion in the hands of city officials charged with enforcing it. See *Lakewood v. Plain Dealer Publishing Co.,* 486 U.S. 750, 769-772 (1988) (4-to-3 decision); *Heffron v. International Society for Krishna Consciousness, Inc., supra,* 452 U.S., at 649; *Freedman v. Maryland,* 380 U.S. 51, 56 (1965); *Thornhill v. Alabama,* 310 U.S. 88, 97 (1940). According to respondent, there is nothing in the language of the guideline to prevent city officials from selecting wholly inadequate sound equipment or technicians, or even from varying the volume and quality of sound based on the message being conveyed by the performers.

As a threshold matter, it is far from clear that respondent should be permitted to bring a facial challenge to this aspect of the regulation. Our cases permitting facial challenges to regulations that allegedly grant officials unconstrained authority to regulate speech have generally involved licensing schemes that "ves[t] unbridled discretion in a government official over whether to permit or deny expressive activity." *Plain Dealer, supra,* 486 U.S., at 755. The

[11]As noted above, there is evidence to suggest that volume control and sound mix are interrelated to a degree, in that performers unfamiliar with the acoustics of the bandshell sometimes attempt to compensate for poor sound mix by increasing volume. App. 218, 290-291. By providing adequate sound equipment and professional sound mixing, the city avoids this problem.

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grant of discretion that seeks to challenge here is of an entirely different, and lesser, order of magnitude, because respondent does not suggest that city officials enjoy unfettered discretion to deny bandshell permits altogether. Rather, respondent contends only that the city, by exercising what is concededly its right to regulate amplified sound, could choose to provide inadequate sound for performers based on the content of their speech. Since respondent does not claim that city officials enjoy unguided discretion to deny the right to speak altogether, it is open to question whether respondent's claim falls within the narrow class of permissible facial challenges to allegedly unconstrained grants of regulatory authority. . . .

We need not decide, however, whether the "extraordinary doctrine" that permits facial challenges to some regulations of expression, see *id.,* at 772 (WHITE, J., dissenting), should be extended to the circumstances of this case, for respondent's facial challenge fails on its merits. The city's guideline states that its goals are to "provide the best sound for all events" and to "insure appropriate sound quality balanced with respect for nearby residential neighbors and the mayorally decreed quiet zone of [the] Sheep Meadow." App. 375. While these standards are undoubtedly flexible, and the officials implementing them will exercise considerable discretion, perfect clarity and precise guidance have never been required even of regulations that restrict expressive activity. . . . The guideline is not vulnerable to respondent's facial challenge. . . .

B

The city's regulation is also "narrowly tailored to serve a significant governmental interest." *Community for Creative Non-Violence,* 468 U.S., at 293. Despite respondent's protestations to the contrary, it can no longer be doubted that government "ha[s] a substantial interest in protecting its citizens from unwelcome noise." *City Council of Los Angeles v. Taxpayers for Vincent,* 466 U.S. 789, 806 (1984) (citing *Kovacs v. Cooper, supra*); see *Grayned, supra,* 408 U.S., at 116. This interest is perhaps at its greatest when government seeks to protect " 'the well-being, tranquility, and privacy of the home,' " *Frisby v. Schultz,* 487 U.S., at 484 (quoting *Carey v. Brown,* 447 U.S. 455, 471 (1980)), but it is by no means limited to that context, for the government may act to protect even such traditional public forums as city streets and parks from excessive noise. *Kovacs v. Cooper,* 336 U.S., at 86-87 (opinion of Reed, J.); *id.,* at 96-97 (Frankfurter, J., concurring); at 97 (Jackson, J., concurring); see *Community for Creative Non-Violence, supra,* 468 U.S., at 296 (recognizing the government's "substantial interest in maintaining the parks ... in an attractive and intact condition, readily available to the millions of people who wish to see and enjoy them").

We think it also apparent that the city's interest in ensuring the sufficiency of sound amplification at bandshell events is a substantial one. The record indicates that inadequate sound amplification has had an adverse effect on the ability of some audiences to hear and enjoy performances at the bandshell. The city enjoys a substantial interest in ensuring the ability of its citizens to enjoy whatever benefits the city parks have to offer, from amplified music to silent meditation. See *Community for Creative Non-Violence, supra,* at 296.

The Court of Appeals recognized the city's substantial interest in limiting the sound

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emanating from the bandshell. See 848 F.2d, at 370. The court concluded, however, that the city's sound-amplification guideline was not narrowly tailored to further this interest, because "it has not [been] shown ... that the requirement of the use of the city's sound system and technician was the *least intrusive means* of regulating the volume." *Id.,* at 371 (emphasis added). In the court's judgment, there were several alternative methods of achieving the desired end that would have been less restrictive of respondent's First Amendment rights.

The Court of Appeals erred in sifting through all the available or imagined alternative means of regulating sound volume in order to determine whether the city's solution was "the least intrusive means" of achieving the desired end. This "less-restrictive-alternative analysis ... has never been a part of the inquiry into the validity of a time, place, and manner regulation." *Regan v. Time, Inc.,* 468 U.S. 641, 657 (1984) (opinion of WHITE, J.). Instead, our cases quite clearly hold that restrictions on the time, place, or manner of protected speech are not invalid "simply because there is some imaginable alternative that might be less burdensome on speech." *United States v. Albertini,* 472 U.S. 675, 689 (1985). . . .

Lest any confusion on the point remain, we reaffirm today that a regulation of the time, place, or manner of protected speech must be narrowly tailored to serve the government's legitimate, content-neutral interests but that it need not be the least restrictive or least intrusive means of doing so. Rather, the requirement of narrow tailoring is satisfied "so long as the ... regulation promotes a substantial government interest that would be achieved less effectively absent the regulation." *United States v. Albertini,* 472 U.S. 675, 689 (1985); see also *Community for Creative Non-Violence, supra,* 468 U.S., at 297. To be sure, this standard does not mean that a time, place, or manner regulation may burden substantially more speech than is necessary to further the government's legitimate interests. Government may not regulate expression in such a manner that a substantial portion of the burden on speech does not serve to advance its goals. See *Frisby v. Schultz,* 487 U.S., at 485 ("A complete ban can be narrowly tailored but only if each activity within the proscription's scope is an appropriately targeted evil"). So long as the means chosen are not substantially broader than necessary to achieve the government's interest, however, the regulation will not be invalid simply because a court concludes that the government's interest could be adequately served by some less-speech-restrictive alternative. "The validity of [time, place, or manner] regulations does not turn on a judge's agreement with the responsible decisionmaker concerning the most appropriate method for promoting significant government interests" or the degree to which those interests should be promoted. *United States v. Albertini,* 472 U.S., at 689; see *Community for Creative Non-Violence, supra,* 468 U.S., at 299.

It is undeniable that the city's substantial interest in limiting sound volume is served in a direct and effective way by the requirement that the city's sound technician control the mixing board during performances. Absent this requirement, the city's interest would have been served less well, as is evidenced by the complaints about excessive volume generated by respondent's past concerts. The alternative regulatory methods hypothesized by the Court of Appeals reflect nothing more than a disagreement with the city over how much control of volume is appropriate or how that level of control is to be achieved. See *Community for Creative Non-Violence, supra,*

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at 299. The Court of Appeals erred in failing to defer to the city's reasonable determination that its interest in controlling volume would be best served by requiring bandshell performers to utilize the city's sound technician.

The city's second content-neutral justification for the guideline, that of ensuring "that the sound amplification [is] sufficient to reach all listeners within the defined concertground," 658 F. Supp., at 1352, also supports the city's choice of regulatory methods. By providing competent sound technicians and adequate amplification equipment, the city eliminated the problems of inexperienced technicians and insufficient sound volume that had plagued some bandshell performers in the past. No doubt this concern is not applicable to respondent's concerts, which apparently were characterized by more-than-adequate sound amplification. But that fact is beside the point, for the validity of the regulation depends on the relation it bears to the overall problem the government seeks to correct, not on the extent to which it furthers the government's interests in an individual case. Here, the regulation's effectiveness must be judged by considering all the varied groups that use the bandshell, and it is valid so long as the city could reasonably have determined that its interests overall would be served less effectively without the sound-amplification guideline than with it. *United States v. Albertini, supra,* 472 U.S., at 688-689; *Community for Creative Non-Violence,* 468 U.S., at 296-297. Considering these proffered justifications together, therefore, it is apparent that the guideline directly furthers the city's legitimate governmental interests and that those interests would have been less well served in the absence of the sound-amplification guideline.

Respondent nonetheless argues that the sound-amplification guideline is not narrowly tailored because, by placing control of sound mix in the hands of the city's technician, the guideline sweeps far more broadly than is necessary to further the city's legitimate concern with sound volume. According to respondent, the guideline "targets ... more than the exact source of the 'evil' it seeks to remedy." *Frisby v. Schultz, supra,* 487 U.S., at 485.

If the city's regulatory scheme had a substantial deleterious effect on the ability of bandshell performers to achieve the quality of sound they desired, respondent's concerns would have considerable force. The District Court found, however, that pursuant to city policy, the city's sound technician "give[s] the sponsor autonomy with respect to the sound mix ... [and] does all that he can to accommodate the sponsor's desires in those regards." 658 F. Supp., at 1352. The court squarely rejected respondent's claim that the city's "technician is not able properly to implement a sponsor's instructions as to sound quality or mix," finding that "[n]o evidence to that effect was offered at trial; as noted, the evidence is to the contrary." App. to Pet. for Cert. 89. In view of these findings, which were not disturbed by the Court of Appeals, we must conclude that the city's guideline has no material impact on any performer's ability to exercise complete artistic control over sound quality. Since the guideline allows the city to control volume without interfering with the performer's desired sound mix, it is not "substantially broader than necessary" to achieve the city's legitimate ends, *City Council of Los Angeles v. Taxpayers for Vincent,* 466 U.S., at 808, and thus it satisfies the requirement of narrow tailoring.

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C

The final requirement, that the guideline leave open ample alternative channels of communication, is easily met. Indeed, in this respect the guideline is far less restrictive than regulations we have upheld in other cases, for it does not attempt to ban any particular manner or type of expression at a given place or time. Cf. *Frisby, supra,* 487 U.S., at 482-484; *Community for Creative Non-Violence, supra,* 468 U.S., at 295; *Renton v. Playtime Theatres, Inc.,* 475 U.S., at 53-54. Rather, the guideline continues to permit expressive activity in the bandshell, and has no effect on the quantity or content of that expression beyond regulating the extent of amplification. That the city's limitations on volume may reduce to some degree the potential audience for respondent's speech is of no consequence, for there has been no showing that the remaining avenues of communication are inadequate. See *Taxpayers for Vincent, supra,* 466 U.S., at 803 and n. 23, 812 and n. 30; *Kovacs,* 336 U.S., at 88-89 (opinion of Reed, J.).

III

The city's sound-amplification guideline is narrowly tailored to serve the substantial and content-neutral governmental interests of avoiding excessive sound volume and providing sufficient amplification within the bandshell concert ground, and the guideline leaves open ample channels of communication. Accordingly, it is valid under the First Amendment as a reasonable regulation of the place and manner of expression. The judgment of the Court of Appeals is

Reversed.

§ 1.04 Artist and Representatives: Representing Talent

[B] Managers

USAGE: On page 91, ADD the following case after *Raden v. Laurie*:

MARATHON ENTERTAINMENT, INC. v. BLASI
42 Cal.4th 974, 70 Cal. Rptr. 3d 727 (2008)

WERDEGAR, J.

In Hollywood, talent-the actors, directors, and writers, the Jimmy Stewarts, Frank Capras, and Billy Wilders who enrich our daily cultural lives-is represented by two groups of people: agents and managers. Agents procure roles; they put artists on the screen, on the stage, behind the camera; indeed, by law, only they may do so. Managers coordinate everything else; they counsel and advise, take care of business arrangements, and chart the course of an artist's career.

This division largely exists only in theory. The reality is not nearly so neat. The line

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dividing the functions of agents, who must be licensed, and of managers, who need not be, is often blurred and sometimes crossed. Agents sometimes counsel and advise; managers sometimes procure work. Indeed, the occasional procurement of employment opportunities may be standard operating procedure for many managers and an understood goal when not-yet-established talents, lacking access to the few licensed agents in Hollywood, hire managers to promote their careers.[12]

We must decide what legal consequences befall a manager who steps across the line and solicits or procures employment without a talent agency license. We hold that (1) contrary to the arguments of personal manager Marathon Entertainment, Inc. (Marathon), the strictures of the Talent Agencies Act (Lab.Code, § 1700 et seq.) (Act) apply to managers as well as agents; (2) contrary to the arguments of actress Rosa Blasi (Blasi), while the Labor Commissioner has the authority to void manager-talent contracts *ab initio* for unlawful procurement, she also has discretion to apply the doctrine of severability to partially enforce these contracts; and (3) in this case, a genuine dispute of material fact exists over whether severability might apply to allow partial enforcement of the parties' contract. Accordingly, we affirm the Court of Appeal.

FACTUAL AND PROCEDURAL BACKGROUND

In 1998, Marathon and Blasi entered into an oral contract for Marathon to serve as Blasi's personal manager. Marathon was to counsel Blasi and promote her career; in exchange, Blasi was to pay Marathon 15 percent of her earnings from entertainment employment obtained during the course of the contract. During the ensuing three years, Blasi's professional appearances included a role in a film, Noriega: God's Favorite (Industry Entertainment 2000), and a lead role as Dr. Luisa Delgado on the television series *Strong Medicine.*

According to Marathon, Blasi reneged on her agreement to pay Marathon its 15 percent commission from her *Strong Medicine* employment contract. In the summer of 2001, she unilaterally reduced payments to 10 percent. Later that year, she ceased payment altogether and terminated her Marathon contract, stating that her licensed talent agent, John Kelly, who had served as her agent throughout the term of the management contract with Marathon, was going to become her new personal manager.

Marathon sued Blasi for breach of oral contract, quantum meruit, false promise, and unfair business practices, seeking to recover unpaid *Strong Medicine* commissions. Marathon

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[12]See Zelenski, *Talent Agents, Personal Managers, and Their Conflicts in the New Hollywood* (2003) 76 So.Cal. L.Rev. 979, 993-998 (hereafter *Conflicts in the New Hollywood*); Comment, *The Talent Agencies Act: Reconciling the Controversies Surrounding Lawyers, Managers, and Agents Participating in California's Entertainment Industry* (2001) 28 Pepperdine L.Rev. 381, 386 (hereafter *Talent Agencies Act*); Comment, *Regulation of Attorneys Using California's Talent Agencies Act: A Tautological Approach to Protecting Artists* (1992) 80 Cal. L.Rev. 471, 481-484 (hereafter *Regulation of Attorneys*). Additionally, in connection with the petition for review in this case, this court has received dozens of letters from personal managers working in the entertainment industry who suggest they owe a fiduciary duty to their clients to procure employment.

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alleged that it had provided Blasi with lawful personal manager services by providing the downpayment on her home, paying the salary of her business manager, providing her with professional and personal advice, and paying her travel expenses.

After obtaining a stay of the action, Blasi filed a petition with the Labor Commissioner alleging that Marathon had violated the Act by soliciting and procuring employment for Blasi without a talent agency license.[13] The Labor Commissioner agreed. The Commissioner found Marathon had procured various engagements for Blasi, including a role in the television series *Strong Medicine.* Concluding that one or more acts of solicitation and procurement by Marathon violated the Act, the Commissioner voided the parties' contract *ab initio* and barred Marathon from recovery.

Marathon appealed the Labor Commissioner's ruling to the superior court for a trial de novo. (See § 1700.44, subd. (a); *Buchwald v. Katz* (1972) 8 Cal.3d 493, 500-501, 105 Cal.Rptr. 368, 503 P.2d 1376.) It also amended its complaint to include declaratory relief claims challenging the constitutionality of the Act. Marathon alleged that the Act's enforcement mechanisms, including the sanction of invalidating the contracts of personal managers that solicit or procure employment for artists without a talent agency license, violated the managers' rights under the due process, equal protection, and free speech guarantees of the state and federal Constitutions.

Blasi moved for summary judgment on the theory that Marathon's licensing violation had invalidated the entire personal management contract. Blasi submitted excerpts from the Labor Commissioner hearing transcript as evidence that Marathon had violated the Act by soliciting or procuring employment for her without a talent agency license. Blasi did not specifically argue or produce evidence that Marathon had illegally procured the *Strong Medicine* employment contract.

The trial court granted Blasi's motion for summary judgment and invalidated Marathon's personal management contract as an illegal contract for unlicensed talent agency services in violation of the Act, denied Marathon's motion for summary adjudication of the Act's constitutionality, and entered judgment for Blasi.

The Court of Appeal reversed in part. It agreed with the trial court that the Act applied to personal managers. However, it concluded that under the law of severability of contracts (Civ.Code, § 1599), because the parties' agreement had the lawful purpose of providing personal management services that are unregulated by the Act, and because Blasi had not established that her *Strong Medicine* employment contract was procured illegally, the possibility existed that Blasi's obligation to pay Marathon a commission on that contract could be severed from any

[13]The Labor Commissioner has original and exclusive jurisdiction over issues arising under the Act. (*Styne v. Stevens* (2001) 26 Cal.4th 42, 54-56, 109 Cal.Rptr.2d 14, 26 P.3d 343; Lab.Code, § 1700.44, subd. (a).) All further undesignated statutory references are to the Labor Code.

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unlawful parts of the parties' management agreement. In reaching this conclusion, the Court of Appeal distinguished prior cases that had voided management contracts in their entirety (*Yoo v. Robi* (2005) 126 Cal.App.4th 1089, 24 Cal.Rptr.3d 740; *Waisbren v. Peppercorn Productions, Inc.* (1995) 41 Cal.App.4th 246, 48 Cal.Rptr.2d 437) and in some cases expressly refused to sever the contracts (*Yoo,* at pp. 1104-1105, 24 Cal.Rptr.3d 740).

We granted review to address the applicability of the Act to personal managers and the availability of severance under the Act.

DISCUSSION

I. *Background*

A. *Agents and Managers*

In Hollywood, talent agents act as intermediaries between the buyers and sellers of talent. (*Regulation of Attorneys, supra,* 80 Cal. L.Rev. at p. 479.) While formally artists are agents' clients, in practice a talent agent's livelihood depends on cultivating valuable connections on both sides of the artistic labor market. (Birdthistle, *A Contested Ascendancy: Problems with Personal Managers Acting as Producers* (2000) 20 Loyola L.A. Ent. L.J. 493, 502-503 (hereafter *Contested Ascendancy*); *Regulation of Attorneys,* at p. 479.) Generally speaking, an agent's focus is on the deal: on negotiating numerous short-term, project-specific engagements between buyers and sellers. (*Conflicts in the New Hollywood, supra,* 76 So.Cal. L.Rev. at p. 981.)

Agents are effectively subject to regulation by the various guilds that cover most of the talent available in the industry: most notably, the Screen Actors Guild, American Federation of Television and Radio Artists, Directors Guild of America, Writers Guild of America, and American Federation of Musicians. (*Regulation of Attorneys, supra,* 80 Cal. L.Rev. at p. 487.) Artists may informally agree to use only agents who have been "franchised" by their respective guilds; in turn, as a condition of franchising, the guilds may require agents to agree to a code of conduct and restrictions on terms included in agent-talent contracts. (*Conflicts in the New Hollywood, supra,* 76 So.Cal. L.Rev. at pp. 989-990; *Contested Ascendancy, supra,* 20 Loyola L.A. Ent. L.J. at p. 520.) Most significantly, those restrictions typically include a cap on the commission charged (generally 10 percent), a cap on contract duration, and a bar on producing one's client's work and obtaining a producer's fee. (Screen Actors Guild, Codified Agency Regs., rule 16(g); American Federation of Television and Radio Artists, Regs. Governing Agents, rule 12-C; *Matthau v. Superior Court* (2007) 151 Cal.App.4th 593, 596-597, 60 Cal.Rptr.3d 93; *Conflicts in the New Hollywood,* at pp. 989-990; *Contested Ascendancy,*at pp. 520-521.) These restrictions create incentives to establish a high volume clientele, offer more limited services, and focus on those lower risk artists with established track records who can more readily be marketed to talent buyers. (*Conflicts in the New Hollywood,* at p. 981; *Contested Ascendancy,*at p. 503.)

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Personal managers, in contrast, are not franchised by the guilds. (*Conflicts in the New Hollywood, supra,* 76 So.Cal. L.Rev. at p. 991; *Contested Ascendancy, supra,* 20 Loyola L.A. Ent. L.J. at p. 522.) They typically accept a higher risk clientele and offer a much broader range of services, focusing on advising and counseling each artist with an eye to making the artist as marketable and attractive to talent buyers as possible, as well as managing the artist's personal and professional life in a way that allows the artist to focus on creative productivity. (*Waisbren v. Peppercorn Productions, Inc., supra,* 41 Cal.App.4th at pp. 252-253, 48 Cal.Rptr.2d 437; Cal. Entertainment Com., Rep. (Dec. 2, 1985) p. 9 (hereafter Entertainment Commission Report); *Regulation of Attorneys, supra,* 80 Cal. L.Rev. at pp. 482-483.) "Personal managers primarily advise, counsel, direct, and coordinate the development of the artist's career. They advise in both business and personal matters, frequently lend money to young artists, and serve as spokespersons for the artists." (*Park v. Deftones* (1999) 71 Cal.App.4th 1465, 1469-1470, 84 Cal.Rptr.2d 616.) Given this greater degree of involvement and risk, managers typically have a smaller client base and charge higher commissions than agents (as they may, in the absence of guild price caps); managers may also produce their clients' work and thus receive compensation in that fashion. (*Conflicts in the New Hollywood,* at p. 992; *Talent Agencies Act, supra,* 28 Pepperdine L.Rev. at p. 383; *Contested Ascendancy,* at pp. 508, 526-527; *Regulation of Attorneys,* at p. 483.)

B. *The Talent Agencies Act*

Aside from guild regulation, the representation of artists is principally governed by the Act. (§§ 1700-1700.47.) The Act's roots extend back to 1913, when the Legislature passed the Private Employment Agencies Law and imposed the first licensing requirements for employment agents. (*Buchwald v. Superior Court* (1967) 254 Cal.App.2d 347, 357, 62 Cal.Rptr. 364; *Talent Agencies Act, supra,* 28 Pepperdine L.Rev. at p. 387; *Regulation of Attorneys, supra,* 80 Cal. L.Rev. at p. 493.) From an early time, the Legislature was concerned that those representing aspiring artists might take advantage of them, whether by concealing conflicts of interest when agents split fees with the venues where they booked their clients, or by sending clients to houses of ill-repute under the guise of providing "employment opportunities." (See Stats.1913, ch. 282, § 14, pp. 519-520 [prohibiting agents from fee-splitting, sending artists to "house[s] of ill fame" or saloons, or allowing "persons of bad character" to frequent their establishments]; *Talent Agencies Act,* at pp. 386-387; *Regulation of Attorneys,* at p. 493.) Exploitation of artists by representatives has remained the Act's central concern through subsequent incarnations to the present day. (See *Styne v. Stevens, supra,* 26 Cal.4th at p. 50, 109 Cal.Rptr.2d 14, 26 P.3d 343.)

In 1978, the Legislature considered establishing a separate licensing scheme for personal managers. (See Assem. Bill No. 2535 (1977-1978 Reg. Sess.) as amended May 1, 1978, § 41; Assem. Com. on Labor, Employment & Consumer Affairs, Analysis of Assem. Bill No. 2535 (1977-1978 Reg. Sess.) as amended May 1, 1978, pp. 1-4; Entertainment Com. Rep., *supra,* at p. 8.) Unable to reach agreement, the Legislature eventually abandoned separate licensing of personal managers and settled for minor changes in the statutory regime, shifting regulation of

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musician booking agents to the Labor Commissioner and renaming the Artists' Managers Act the Talent Agencies Act. (Stats.1978, ch. 1382, pp. 4575-4583.)

In 1982, the Legislature provisionally amended the Act to impose a one-year statute of limitations, eliminate criminal sanctions for violations of the Act, and establish a "safe harbor" for managers to procure employment if they did so in conjunction with a licensed agent. (Former § 1700.44, as enacted by Stats.1982, ch. 682, § 3, p. 2815; Entertainment Com. Rep., *supra,* at pp. 8, 38-39.) It subjected these changes to a sunset provision and established the 10-person California Entertainment Commission (Entertainment Commission), consisting of agents, managers, artists, and the Labor Commissioner, to evaluate the Act and "recommend to the Legislature a model bill." (Former §§ 1701-1704, added by Stats.1982, ch. 682, § 6, p. 2816, repealed by its own terms, Jan. 1, 1986.) In 1986, after receiving the Entertainment Commission Report, the Legislature adopted its recommendations, which included making the 1982 changes permanent and enacting a modest series of other changes. (Stats.1986, ch. 488, pp. 1804-1808; Entertainment Com. Rep., at pp. 22-34; Sen. Com. on Industrial Relations, Analysis of Assem. Bill No. 3649 (1985-1986 Reg. Sess.) as amended Apr. 15, 1986, p. 5 [bill would implement Entertainment Commission's recommendations "in full"].) So the Act has stood, with minor modifications, for the last 20 years.

In its present incarnation, the Act requires anyone who solicits or procures artistic employment or engagements for artists[14] to obtain a talent agency license. (§§ 1700.4, 1700.5.) In turn, the Act establishes detailed requirements for how licensed talent agencies conduct their business, including a code of conduct, submission of contracts and fee schedules to the state, maintenance of a client trust account, posting of a bond, and prohibitions against discrimination, kickbacks, and certain conflicts of interest. (§§ 1700.23-1700.47.) No separate analogous licensing or regulatory scheme extends to personal managers. (*Waisbren v. Peppercorn Productions, Inc., supra,* 41 Cal.App.4th at p. 252, 48 Cal.Rptr.2d 437.)

With this background in mind, we turn to two questions not previously addressed by this court: whether the Act in fact applies to personal managers, as the Courts of Appeal and Labor Commissioner have long assumed, and if so, how.

II. ***The Scope of the Talent Agencies Act: Application to Managers***

Marathon contends that personal managers are categorically exempt from regulation under the Act. We disagree; as we shall explain, the text of the Act and persuasive interpretations of it by the Courts of Appeal and the Labor Commissioner demonstrate otherwise.

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[14] "'Artists' means actors and actresses rendering services on the legitimate stage and in the production of motion pictures, radio artists, musical artists, musical organizations, directors of legitimate stage, motion picture and radio productions, musical directors, writers, cinematographers, composers, lyricists, arrangers, models, and other artists and persons rendering professional services in motion picture, theatrical, radio, television and other entertainment enterprises."(§ 1700.4, subd. (b).).

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We begin with the language of the Act. (*Elsner v. Uveges* (2004) 34 Cal.4th 915, 927, 22 Cal.Rptr.3d 530, 102 P.3d 915.) Section 1700.5 provides in relevant part: "No *person* shall engage in or carry on the occupation of a *talent agency* without first procuring a license therefor from the Labor Commissioner." (Italics added.) In turn, "person" is expressly defined to include "any individual, company, society, firm, partnership, association, corporation, limited liability company, *manager,* or their agents or employees" (§ 1700, italics added), and "'[t]alent agency' means a person or corporation who engages in the occupation of procuring, offering, promising, or attempting to procure employment or engagements for an artist or artists" other than recording contracts (§ 1700.4, subd. (a)).

The Act establishes its scope through a functional, not a titular, definition. It regulates *conduct,* not labels; it is the act of procuring (or soliciting), not the title of one's business, that qualifies one as a talent agency and subjects one to the Act's licensure and related requirements. (§ 1700.4, subd. (a).) Any person who procures employment-any individual, any corporation, any manager-is a talent agency subject to regulation. (§§ 1700, 1700.4, subd. (a).) Consequently, as the Courts of Appeal have unanimously held, a personal manager who solicits or procures employment for his artist-client is subject to and must abide by the Act. (*Park v. Deftones, supra,* 71 Cal.App.4th at pp. 1470-1471, 84 Cal.Rptr.2d 616; *Waisbren v. Peppercorn Productions, Inc., supra,* 41 Cal.App.4th at p. 253, 48 Cal.Rptr.2d 437; see also *Buchwald v. Superior Court, supra,* 254 Cal.App.2d at pp. 354-355, 62 Cal.Rptr. 364 [deciding same issue under the Act's predecessor, the Artists' Managers Act].)[15] The Labor Commissioner, whose interpretations of the Act we may look to for guidance (see *Styne v. Stevens, supra,* 26 Cal.4th at p. 53, 109 Cal.Rptr.2d 14, 26 P.3d 343; *Yamaha Corp. of America v. State Bd. of Equalization* (1998) 19 Cal.4th 1, 7-8, 78 Cal.Rptr.2d 1, 960 P.2d 1031), has similarly uniformly applied the Act to personal managers. (See, e.g., *Sheridan v. Yoches, Inc.* (Cal.Lab.Com., Sept. 4, 2007) TAC No. 21-06, pp. 2, 13-20; *Jones v. La Roda Group* (Cal.Lab.Com., Dec. 30, 2005) TAC No. 35-04, pp. 9-11; *Hall v. X Management, Inc.* (Cal.Lab.Com., Apr. 24, 1992) TAC No. 19-90, pp. 28-35.)[16]

As to the further question whether even a single act of procurement suffices to bring a

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[15]The Legislature clearly agreed with this understanding of the Act. In 1978, it considered but ultimately rejected a special exemption that would have specifically authorized personal managers to procure employment for artists already represented by licensed talent agencies. (See Assem. Bill No. 2535 (1977-1978 Reg. Sess.) as amended May 10, 1978 [deleting proposal to enact new § 1708, which would have codified special exemption].) In 1986, it made permanent section 1700.44, subdivision (d), which creates a safe harbor for an unlicensed person or entity to "act in conjunction with, and at the request of, a licensed talent agency in the negotiation of an employment contract." Both the originally contemplated exemption and the ultimately adopted safe harbor provision would have been largely superfluous if unlicensed entities were already free to procure employment, so long as they did not label themselves as talent agencies. (See *Waisbren v. Peppercorn Productions, Inc., supra,* 41 Cal.App.4th at p. 259, 48 Cal.Rptr.2d 437.)

[16]While we do not place great weight on legislative inaction, we note as well that the Legislature in 1982 considered but ultimately rejected an amendment to the Act that would have expressly exempted a particular class of personal managers-an amendment that would have been wholly superfluous if, as Marathon argues, they were already exempt. (Compare Assem. Bill No. 997 (1981-1982 Reg. Sess.) as amended Aug. 17, 1982 [including exemption] with Assem. Bill No. 997 (1981-1982 Reg. Sess.) as amended Aug. 26, 1982 [deleting exemption].)

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manager under the Act, we note that the Act references the "occupation" of procuring employment and serving as a talent agency. (§§ 1700.4, subd. (a), 1700.5.) Considering this in isolation, one might interpret the statute as applying only to those who regularly, and not merely occasionally, procure employment. (See *Wachs v. Curry* (1993) 13 Cal.App.4th 616, 628, 16 Cal.Rptr.2d 496 [Act applies only when "the agent's employment procurement function constitutes a significant part of the agent's business as a whole"].) However, as we have previously acknowledged in dicta, "[t]he weight of authority is that even the incidental or occasional provision of such services requires licensure." (*Styne v. Stevens, supra,* 26 Cal.4th at p. 51, 109 Cal.Rptr.2d 14, 26 P.3d 343, citing *Park v. Deftones, supra,* 71 Cal.App.4th 1465, 84 Cal.Rptr.2d 616, and *Waisbren v. Peppercorn Productions, Inc., supra,* 41 Cal.App.4th 246, 48 Cal.Rptr.2d 437.)[17] In agreement with these decisions, the Labor Commissioner has uniformly interpreted the Act as extending to incidental procurement. (See, e.g., *Gittelman v. Karolat* (Cal.Lab.Com., July 19, 2004) TAC No. 24-02, p. 14; *Kilcher v. Vainshtein* (Cal.Lab.Com., May 30, 2001) TAC No. 02-99, pp. 20-21; *Damon v. Emler* (Cal.Lab.Com., Jan. 12, 1982) TAC No. 36-79, p. 4.) The Labor Commissioner's views are entitled to substantial weight if not clearly erroneous (*Styne v. Stevens,* at p. 53, 109 Cal.Rptr.2d 14, 26 P.3d 343); accordingly, we likewise conclude the Act extends to individual incidents of procurement.

Marathon offers two main arguments against the conclusion that it is subject to the Act whenever it solicits or procures employment. First, it objects that the Act's title and contents reference only talent agencies and thus only talent agencies may be regulated under the Act. (See Cal. Const., art. IV, § 9; *Brunson v. City of Santa Monica* (1915) 27 Cal.App. 89, 92-93, 148 P. 950 [act whose title limits its scope to public *officer* liability may not constitutionally be interpreted to alter public *municipal corporation* liability].) Article IV, section 9 sets out this state's single-subject rule and, as relevant here, requires: "A statute shall embrace but one subject, which shall be expressed in its title. If a statute embraces a subject not in its title, only the part not expressed is void." From this, Marathon reasons that (1) the Act's title omits reference to regulation of personal managers, and (2) to the extent it purports to regulate personal managers, it is thus void.

This is a misreading of the constitutional provision and the 1978 legislation. The single-subject rule is intended to prevent "log-rolling by the Legislature, i.e., combining several proposals in a single bill so that legislators, by combining their votes, obtain a majority for a measure which would not have been approved if divided into separate bills." (*Harbor v. Deukmejian* (1987) 43 Cal.3d 1078, 1096, 240 Cal.Rptr. 569, 742 P.2d 1290.) In turn, "the requirement that the single subject of a bill shall be expressed in its title is to prevent misleading or inaccurate titles so that legislators and the public are afforded reasonable notice of the

[17] Post-*Styne,* the Courts of Appeal have arrived at unanimity on this question. In *Yoo v. Robi, supra,* 126 Cal.App.4th 1089, 24 Cal.Rptr.3d 740, the same court that had issued *Wachs v. Curry, supra,* 13 Cal.App.4th 616, 16 Cal.Rptr.2d 496, effectively repudiated its prior interpretation, noting with approval that courts have "unanimously denied ... recovery to personal managers even when the majority of the managers' activities did not require a talent agency license and the activities which did require a license were minimal and incidental." (*Yoo,* at p. 1104, 24 Cal.Rptr.3d 740, fn. omitted.)

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contents of a statute." (*Ibid.;* see also *Homan v. Gomez* (1995) 37 Cal.App.4th 597, 600, 43 Cal.Rptr.2d 647 [rule intended to prevent unrelated provisions from sliding through "unnoticed and unchallenged"]; *Planned Parenthood Affiliates v. Swoap* (1985) 173 Cal.App.3d 1187, 1196, 219 Cal.Rptr. 664 [rule intended to " 'prevent legislators and the public from being entrapped by misleading titles to bills whereby legislation relating to one subject might be obtained under the title of another' "].)

However, the single-subject rule "is to be liberally construed to uphold proper legislation and not used to invalidate legitimate legislation." (*San Joaquin Helicopters v. Department of Forestry* (2003) 110 Cal.App.4th 1549, 1556, 3 Cal.Rptr.3d 246; accord, *Harbor v. Deukmejian, supra,* 43 Cal.3d at pp. 1097-1098, 240 Cal.Rptr. 569, 742 P.2d 1290; *Metropolitan Water Dist. v. Marquardt* (1963) 59 Cal.2d 159, 172-173, 28 Cal.Rptr. 724, 379 P.2d 28; *Evans v. Superior Court* (1932) 215 Cal. 58, 62, 8 P.2d 467.) The Legislature may combine in a single act numerous provisions " 'governing projects so related and interdependent as to constitute a single scheme,' " and provisions auxiliary to the scheme's execution may be adopted as part of that single package. (*Harbor,* at p. 1097, 240 Cal.Rptr. 569, 742 P.2d 1290, quoting *Evans,* at p. 62, 8 P.2d 467.) The act's title "need not contain either an index or an abstract of its provisions. The constitutional mandate [citation] is satisfied if the provisions themselves are cognate and germane to the subject matter designated by the title, and if the title intelligently refers the reader to the subject to which the act applies, and suggests the field of legislation which the text includes." (*Powers Farms, Inc. v. Consolidated Irr. Dist.* (1941) 19 Cal.2d 123, 130, 119 P.2d 717; see also *City of Whittier v. Dixon* (1944) 24 Cal.2d 664, 666, 151 P.2d 5 [to satisfy the Constitution, title need only " contain [ ] a reasonably intelligible reference to the subject to which the legislation is addressed"]; *Lyons v. Municipal Court* (1977) 75 Cal.App.3d 829, 841, 142 Cal.Rptr. 449.)

Here, the 1978 legislation and its title satisfy the California Constitution. The legislation's provisions pertain to a single subject, the comprehensive regulation of persons and entities that provide talent agency services. The title, quoted in full in the margin, identifies that subject and specifically references the existing comprehensive regulations that are to be modified.[18] The legislation defines talent agencies as those that engage in particular conduct; thus, to the extent personal managers engage in that conduct, they fit within the legislation's title and subject matter and may be regulated by its provisions.

Second, Marathon correctly notes that in 1978, after much deliberation, the Legislature

[18]The title of the legislation is: "An act to amend Section 9914 of, to repeal Section 9902.8 of, and to repeal Chapter 21.5 (commencing with Section 9999) of Division 3 of, the Business and Professions Code, and to amend the heading of Chapter 4 (commencing with Section 1700) of Part 6 of Division 2 of, to amend Sections 1700.2, 1700.3, 1700.4, 1700.5, 1700.6, 1700.7, 1700.9, 1700.11, 1700.12, 1700.13, 1700.15, 1700.16, 1700.17, 1700.19, 1700.20a, 1700.20b, 1700.23, 1700.24, 1700.25, 1700.26, 1700.27, 1700.28, 1700.30, 1700.31, 1700.32, 1700.33, 1700.34, 1700.35, 1700.36, 1700.37, 1700.38, 1700.39, 1700.40, 1700.41, 1700.43, and 1700.45 of, to add Section 1700.47 of, and to repeal and add Section 1700.10 of, the Labor Code, *relating to talent agencies.*" (Stats.1978, ch. 1382, p. 4575, italics added.)

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decided not to add separate licensing and regulation of personal managers to the legislation. (See Assem. Bill No. 2535 (1977-1978 Reg. Sess.) as amended May 10, 1978, pp. 16-18 [deleting new licensure provisions].) The consequence of this conscious omission is not, as Marathon contends, that personal managers are therefore exempt from regulation. Rather, they remain exempt from regulation insofar as they do those things that personal managers do, but they are regulated under the Act to the extent they stray into doing the things that make one a talent agency under the Act.[19]

III. ***Sanctions for Solicitation and Procurement Under the Act***

A. *Marathon's Procurement*

We note we are not called on to decide, and do not decide, what precisely constitutes "procurement" under the Act. The Act contains no definition, and the Labor Commissioner has struggled over time to better delineate which actions involve mere general assistance to an artist's career and which stray across the line to illicit procurement. Here, however, the Labor Commissioner concluded Marathon had engaged in various instances of procurement, the trial court concluded there was no material dispute that Marathon had done so, and Marathon has not further challenged that conclusion. We thus take it as a given that Marathon has engaged in one or more acts of procurement and that (as the parties also agree) Marathon has no talent agency license to do so.

We also take as a given, at least at this stage, that Marathon's unlicensed procurement did not include the procurement specifically of Blasi's *Strong Medicine* role. Blasi takes issue with this point, correctly pointing out that the Labor Commissioner found to the contrary, but (1) under the Act's statutorily guaranteed trial de novo procedure, the Labor Commissioner's findings carry no weight (*Buchwald v. Katz, supra,* 8 Cal.3d at p. 501, 105 Cal.Rptr. 368, 503 P.2d 1376), and (2) neither Blasi's separate statement of undisputed material facts nor the evidence supporting it establish that Marathon procured the *Strong Medicine* role. Thus, for present purposes we presume Marathon did not procure that role for Blasi.

Finally, although Marathon argued below that it fell within section 1700.44, subdivision (d)'s "safe harbor" for procurement done in conjunction with a licensed talent agency, it has not preserved that argument here. Accordingly, we assume for present purposes that the safe harbor provision does not apply.

B. *The Applicability of the Doctrine of Severability to Manager-Talent Contracts*

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[19]The Entertainment Commission articulated precisely this rationale in concluding there was no need to separately license personal managers: "It is not a person who is being licensed [under] the [Act;] rather, it is the activity of procuring employment. Whoever performs that activity is legally defined as a talent agent and [must be] licensed, as such. Therefore, the licensing of a personal manager-or anyone else who undertakes to procure employment for an artist-with the [Act] already in place would be a needless duplication of licensure activity." (Entertainment Com. Rep., *supra,* at pp. 20-21.)

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We turn to the key question in Blasi's appeal: What is the artist's remedy for a violation of the Act? In particular, when a manager has engaged in unlawful procurement, is the manager always barred from any recovery of outstanding fees from the artist or may the court or Labor Commissioner apply the doctrine of severability (Civ.Code, § 1599) to allow partial recovery of fees owed for legally provided services?

Again, we begin with the language of the Act. On this question, it offers no assistance. The Act is silent-completely silent-on the subject of the proper remedy for illegal procurement.

On the other hand, the text of Civil Code section 1599 is clear. Adopted in 1872, it codifies the common law doctrine of severability of contracts: "Where a contract has several distinct objects, of which one at least is lawful, and one at least is unlawful, in whole or in part, the contract is void as to the latter and valid as to the rest." (*Ibid.*) By its terms, it applies even-indeed, only-when the parties have contracted, in part, for something illegal. Notwithstanding any such illegality, it preserves and enforces any lawful portion of a parties' contract that feasibly may be severed.[20]

Under ordinary rules of interpretation, we must read Civil Code section 1599 and the Act so as to, to the extent possible, give effect to both. (See *Department of Alcoholic Beverage Control v. Alcoholic Beverage Control Appeals Bd.* (2006) 40 Cal.4th 1, 15, fn. 11, 50 Cal.Rptr.3d 585, 145 P.3d 462; *People v. Garcia* (1999) 21 Cal.4th 1, 6, 87 Cal.Rptr.2d 114, 980 P.2d 829.)The two are not in conflict. The Act defines conduct, and hence contractual arrangements, that are illegal: An unlicensed talent agency may not contract with talent to provide procurement services. (Lab.Code, §§ 1700.4, subd. (a), 1700.5.) The Act provides no remedy for its violation, but neither does it repudiate the generally applicable and long-standing rule of severability. Hence, that rule applies absent other persuasive evidence that the Legislature intended to reject the rule in disputes under the Act.

The conclusion that the rule applies is consistent with those of the Labor Commissioner's decisions that recognize severability principles may apply to disputes under the Act. In *Almendarez v. Unico Talent Management, Inc.* (Cal.Lab.Com., Aug. 26, 1999) TAC No. 55-97, a radio personality sought a determination that his personal manager had acted as an unlicensed talent agency. The Labor Commissioner concluded the manager had engaged in unlawful procurement-indeed, that procuring employment was the manager's primary role (*id.* at pp. 2, 14)-but stopped short of voiding all agreements between the parties in their entirety. Citing and applying Civil Code section 1599, the Labor Commissioner concluded that a 1997 agreement between the parties had both a lawful purpose (repayment of personal expenses the manager had fronted for Almendarez) and an unlawful purpose (payment of commissions for unlawful

[20]Civil Code section 1598 codifies the companion principle for when severability is infeasible: "Where a contract has but a single object, and such object is unlawful, whether in whole or in part ..., the entire contract is void."

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procurement services) and should be partially enforced. (*Almendarez,* at pp. 18-21.) On numerous other occasions, the Labor Commissioner has severed contracts and allowed managers to *992 retain or seek commissions based on severability principles without expressly citing Civil Code section 1599.[21]

Until two years ago, Court of Appeal decisions under the Act had neither accepted nor repudiated the general applicability of the severability doctrine.[22] In 2005, in *Yoo v. Robi, supra,* 126 Cal.App.4th 1089, 24 Cal.Rptr.3d 740, however, the Court of Appeal considered whether to apply Civil Code section 1599 to allow a personal manager to seek commissions for lawfully provided services. It noted, correctly, that severance is not mandatory and its application in an individual case must be informed by equitable considerations. (*Yoo,* at p. 1105, 24 Cal.Rptr.3d 740.) Civil Code section 1599 grants courts the power, not the duty, to sever contracts in order to avoid an inequitable windfall or preserve a contractual relationship where doing so would not condone illegality. (*Armendariz v. Foundation Health Psychcare Services, Inc.* (2000) 24 Cal.4th 83, 123-124, 99 Cal.Rptr.2d 745, 6 P.3d 669.) The *Yoo* Court of Appeal concluded the windfall for the artist, Robi, was not so great as to warrant severance.

In *Chiba v. Greenwald* (2007) 156 Cal.App.4th 71, 67 Cal.Rptr.3d 86, the Court of Appeal also considered whether severance was available for an unlicensed manager/agent who in that case alleged she had had a *Marvin* agreement[23] with her deceased musician client/partner. Acknowledging she had acted without a license, the manager relinquished any claim to commissions, and the Court of Appeal thus was not presented with the question whether severance might apply to any management services that required no license. In light of the facts as pleaded, the Court of Appeal concluded equity did not require severance of any lawful portions of the *Marvin* agreement from the unlawful agreement to provide unlicensed talent

[21]See, e.g., *Danielewski v. Agon Investment Co.* (Cal.Lab.Com., Oct. 28, 2005) TAC No. 41-03, pages 24-27 (partially enforcing agreement to the extent it involved loan repayment and invalidating it to the extent it involved payment of commissions for unlawful services); *Gittelman v. Karolat, supra,*TAC No. 24-02 pages 14-16 (where manager engaged in unlawful procurement before 1997 but not thereafter, holding agreement unenforceable through 1997, but allowing manager to seek commissions earned thereafter); *Cuomo v. Atlas/Third Rail Management, Inc.* (Cal.Lab.Com., Jan. 3, 2003) TAC No. 21-01, pages 13-14 (voiding contract only for the period of time after manager commenced acting as an unlicensed talent agency and denying disgorgement of commissions for earlier lawful services); *Anderson v. D'Avola* (Cal.Lab.Com., Feb. 24, 1995) TAC No. 63-93, pages 11-12 (where manager acted as an unlicensed talent agency in procuring role, denying right to recover commissions for that role, but preserving right to recover commissions for personal manager services in connection with later role lawfully procured by Anderson's licensed talent agency); *Bank of America Nat. Trust & Sav. Assn. v. Fleming* (Cal.Lab.Com., Jan. 14, 1982) No. 1098 ASC MP-432, page 16 (ordering return of 20 percent of compensation based on a determination respondent spent 20 percent of time acting as an unlicensed talent agency). More recent Labor Commissioner decisions appear to take a more stringent view toward the availability of severance. We address these decisions *post* at page 24.

[22]The same is true of our own decisions. In *Styne v. Stevens, supra,* 26 Cal.4th at page 51, 109 Cal.Rptr.2d 14, 26 P.3d 343, we correctly noted in dicta that “an unlicensed person's contract with an artist to provide the services of a talent agency is illegal and void.” We did not address whether severance could ever apply to contracts with artists to provide personal management services.

[23]*Marvin v. Marvin* (1976) 18 Cal.3d 660, 134 Cal.Rptr. 815, 557 P.2d 106.

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agency services. (*Chiba,* at pp. 81-82, 67 Cal.Rptr.3d 86.)

Neither *Chiba* nor *Yoo v. Robi, supra,* 126 Cal.App.4th 1089, 24 Cal.Rptr.3d 740, stands for the proposition that severance is never available under the Act. In contrast, the Court of Appeal here expressly concluded, as we do, that it is available.

More generally, the conclusion that severance is available is consistent with a wide range of cases that have applied the doctrine to partially enforce contracts involving unlicensed services. Thus, for example, in *Birbrower, Montalbano, Condon & Frank v. Superior Court* (1998) 17 Cal.4th 119, 70 Cal.Rptr.2d 304, 949 P.2d 1(*Birbrower*), a law firm licensed in New York, but not California, provided legal services in both states. The trial court and Court of Appeal invalidated the entire attorney fee agreement, but we reversed in part, explaining that under the doctrine of severability the firm might be able to recover the fees it had lawfully earned by providing services in New York, notwithstanding its unlicensed provision of services in California. (*Id.* at pp. 138-139, 70 Cal.Rptr.2d 304, 949 P.2d 1.)[24] Likewise, in *Lindenstadt v. Staff Builders, Inc.* (1997) 55 Cal.App.4th 882, 64 Cal.Rptr.2d 484, an individual assisted a company in finding home health care businesses to acquire. The individual may have acted only as a finder with regard to some businesses, but may have crossed the line into providing broker services without a real estate broker license in other instances. The Court of Appeal explained that the provision of unlicensed services did not bar all relief; on remand, the unlicensed individual could still recover for those services that did not require a broker's license. (*Id.* at p. 894, 64 Cal.Rptr.2d 484; see also *Levison v. Boas* (1907) 150 Cal. 185, 194, 88 P. 825 [severance doctrine applies to contract with unlicensed pawnbroker]; *Broffman v. Newman* (1989) 213 Cal.App.3d 252, 261-262, 261 Cal.Rptr. 532 [unlicensed real estate broker may defend entitlement to compensation for services for which no license is required]; *Southfield v. Barrett* (1970) 13 Cal.App.3d 290, 294, 91 Cal.Rptr. 514 [under equitable principles, unlicensed commission merchant entitled to partial recovery under contract].)

Blasi contends that even if severability may generally apply to disputes under the Act, we should announce a rule categorically precluding its use to recover for artist advice and counseling services. She relies on three sources in support of this rule: the legislative history, case law interpreting the Act, and decisions of the Labor Commissioner. None persuades us that the Legislature intended to foreclose the application of severability, as codified in Civil Code sections 1598 and 1599, to manager-talent contracts that involve illegal procurement, either

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[24]Blasi distinguishes *Birbrower* on the ground that there the basis for differentiating services for which recovery could be had from those for which it could not was jurisdictional. This is a distinction without a difference. We recognized in *Birbrower* a point equally applicable here: In the absence of an express contrary legislative determination, the equitable principles of severability may be applied to contracts where some portion of the services provided was unlicensed and hence unlawful. (*Birbrower, supra,* 17 Cal.4th at pp. 138-139, 70 Cal.Rptr.2d 304, 949 P.2d 1; cf. *Lewis & Queen v. N.M. Ball Sons* (1957) 48 Cal.2d 141, 151, 308 P.2d 713 [Bus. & Prof.Code, § 7031"represents a legislative determination that the importance of deterring unlicensed persons from engaging in the contracting business outweighs any harshness between the parties" and forecloses severance of those contracts to which it applies].)

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generally or with regard to recovery specifically for personal manager services.

For legislative history, Blasi relies on a portion of the Entertainment Commission's 1985 report to the Legislature. Addressing whether criminal sanctions for violations of the Act, temporarily suspended in 1982, should be reinstated, the Entertainment Commission said: "The majority of the Commission believes that existing civil remedies, which are available by legal action in the civil courts, to anyone who has been injured by breach of the Act, are sufficient to serve the purposes of deterring violations of the Act and punishing breaches. These remedies include actions for breach of contract, fraud and misrepresentation, breach of fiduciary duty, interference with business opportunity, defamation, infliction of emotional distress, and the like. *Perhaps the most effective weapon for assuring compliance with the Act is the power of the Labor Commissioner, at a hearing on a Petition to Determine Controversy, to find that a personal manager or anyone has acted as an unlicensed talent agent and, having so found, declare any contract entered into between the parties void from the inception and order the restitution to the artist, for the period of the statute of limitations, of all fees paid by the artist and the forfeiture of all expenses advanced to the artist. If no fees have been paid, the Labor Commissioner is empowered to declare that no fees are due and owing, regardless of the services which the unlicensed talent agent may have performed on behalf of the artist.* [¶] These civil and administrative remedies for violation of the Act continue to be available and should serve adequately to assure compliance with the Act."(Entertainment Com. Rep., *supra,* at pp. 17-18.) According to Blasi, this passage demonstrates the Entertainment Commission endorsed voiding of contracts in all instances, and the Legislature necessarily embraced this view because it adopted all of the commission's proposals when it amended the Act in 1986.

We are not persuaded. The passage acknowledges what all parties recognize-that the Labor Commissioner has the "power" to void contracts, that she is "empowered" to deny all recovery for services where the Act has been violated, and that these remedies are "available." But the *power* to so rule does not suggest a *duty* to do so in all instances. The Labor Commissioner is empowered to void contracts in their entirety, but nothing in the Entertainment Commission's description of the available remedies suggests she is obligated to do so, or that the Labor Commissioner's power is untempered by the ability to apply equitable doctrines such as severance to achieve a more measured and appropriate remedy where the facts so warrant. Thus, we need not consider at length Blasi's further contention that these two paragraphs in the Entertainment Commission Report accurately reflect the views of the Legislature as a whole. Even if so, they do not connote an intent that managers in proceedings under the Act be deprived of the opportunity even to raise severability.

Second, Blasi relies on those Court of Appeal decisions that have voided manager-talent contracts in their entirety. (E.g., *Chiba v. Greenwald, supra,* 156 Cal.App.4th 71, 67 Cal.Rptr.3d 86; *Yoo v. Robi, supra,* 126 Cal.App.4th 1089, 24 Cal.Rptr.3d 740; *Park v. Deftones, supra,* 71 Cal.App.4th 1465, 84 Cal.Rptr.2d 616; *Waisbren v. Peppercorn Productions, Inc., supra,* 41 Cal.App.4th 246, 48 Cal.Rptr.2d 437.) With the exception of *Chiba* and *Yoo,* discussed above, however, the decisions do not touch on when or whether the doctrine of severability should apply

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under the Act; as such, they offer no persuasive arguments in favor of reading the Act as precluding application of Civil Code section 1599.[25]

Finally, Blasi relies on a long line of Labor Commissioner decisions that have denied personal managers any right to recover commissions where they engaged in unlicensed solicitation or procurement. (See, e.g., *Cher v. Sammeth* (Cal.Lab.Com., July 17, 2000) TAC No. 17-99, pp. 12-13; *Sevano v. Artistic Productions, Inc.* (Cal.Lab.Com., Mar. 20, 1997) TAC No. 8-93, pp. 23-25.) But the fact this remedy is often, or even *almost* always, appropriate, does not support the position that it is *always* proper. The Labor Commissioner decisions cited above (see *ante,* at pp. 17-18) suggest the Labor Commissioner historically has recognized she has the authority to allow partial recovery in appropriate circumstances.

We recognize, however, that in more recent decisions, the Labor Commissioner has expressly adopted the position Blasi advocates: severance is never available to permit partial recovery of commissions for managerial services that required no talent agency license. (*Smith v. Harris* (Cal.Lab.Com., Aug. 27, 2007) TAC No. 53-05, pp. 16-17; *Cham v. Spencer/Cowings Entertainment, LLC* (Cal.Lab.Com., July 30, 2007) TAC No. 19-05, pp. 17-18.) The weight accorded agency adjudicatory rulings such as these varies according to the validity of their reasoning and their overall persuasive force. (*Yamaha Corp. of America v. State Bd. of Equalization, supra,* 19 Cal.4th at pp. 12-15, 78 Cal.Rptr.2d 1, 960 P.2d 1031.) Here, the Labor Commissioner's views rest in part on a reading of the legislative history as suggesting such a rule, in part on a reading of past Court of Appeal decisions as announcing such a rule, and perhaps in part on a policy judgment that voiding contracts in their entirety is necessary to enforce the Act effectively. With due respect, the Labor Commissioner's assessment of the legislative history and case law is mistaken; as we have explained, neither requires the rule she proposes. And any view that it would be better policy if the Act stripped the Labor Commissioner (and the superior courts in subsequent trials de novo) of the power to apply equitable doctrines such as severance would be squarely at odds with the Act's text, which contains no such limitation. Neither we nor the Labor Commissioner are authorized to engraft onto the Act such a limitation neither express nor implicit in its terms. We are thus unpersuaded and decline to follow the Labor Commissioner's interpretation.

In sum, the Legislature has not seen fit to specify the remedy for violations of the Act. Ordinary rules of interpretation suggest Civil Code section 1599 applies fully to disputes under the Act; nothing in the Act's text, its history, or the decisions interpreting it justifies the opposite conclusion. We conclude the full voiding of the parties' contract is available, but not mandatory; likewise, severance is available, but not mandatory.

C. *Application of the Severability Doctrine*

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[25]For this same reason, we see no basis for concluding the Legislature has acquiesced in an interpretation of the Act under which severability is precluded. Until 2005, the issue had never been discussed in the Courts of Appeal.

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Finally, we turn to application of the severability doctrine to the facts of this case, insofar as those facts are established by the summary judgment record. Given the procedural posture, our inquiry is narrow: On this record, has Blasi established as a matter of law that there is no basis for severance?

In deciding whether severance is available, we have explained "[t]he overarching inquiry is whether ' "the interests of justice ... would be furthered" ' by severance." (*Armendariz v. Foundation Health Psychcare Services, Inc., supra,* 24 Cal.4th at p. 124, 99 Cal.Rptr.2d 745, 6 P.3d 669.) "Courts are to look to the various purposes of the contract. If the central purpose of the contract is tainted with illegality, then the contract as a whole cannot be enforced. If the illegality is collateral to the main purpose of the contract, and the illegal provision can be extirpated from the contract by means of severance or restriction, then such severance and restriction are appropriate." (*Ibid.;* accord, *Little v. Auto Stiegler, Inc.* (2003) 29 Cal.4th 1064, 1074, 130 Cal.Rptr.2d 892, 63 P.3d 979.)

Blasi does not contend that particular evidence in the record unique to this contract establishes severance cannot apply. Instead, she offers two arguments applicable to this contract and to manager-talent contracts in general.

First, Blasi points to the nature of the compensation. In the Marathon-Blasi contract, as with most such contracts, there is no match between services and compensation. That is, a personal manager provides an undifferentiated range of services; in exchange, he receives an undifferentiated right to a certain percentage of the client's income stream.

This compensation scheme is essentially analogous to a contingency fee arrangement, in which an attorney provides an undifferentiated set of services and is compensated not for each service but as a percentage of the ultimate recovery her efforts yield for her client. In *Birbrower,* we dealt with both fixed fee and contingency fee arrangements, and nothing in the nature of the latter stood as an obstacle to application of severability. We directed the trial court to determine on remand, if it determined a partially valid agreement existed, what value should be attributed to legally provided services and what to illegally provided services. (*Birbrower, supra,* 17 Cal.4th at pp. 139-140, 70 Cal.Rptr.2d 304, 949 P.2d 1.) While an undifferentiated compensation scheme may in some instances preclude severance (see Civ.Code, § 1608; *Hyon v. Selten* (2007) 152 Cal.App.4th 463, 471, 60 Cal.Rptr.3d 896), *Birbrower* demonstrates that it does not represent a categorical obstacle to application of the doctrine.[26] Accordingly, we may not affirm summary judgment on this basis.

[26]Other courts have likewise recognized that severability may apply, so long as the service provider contributes lawful consideration wholly independent of the illegal services, without regard to whether payment was allocated in advance between the lawful and unlawful services. (E.g., *Whorton v. Dillingham* (1988) 202 Cal.App.3d 447, 452-454, 248 Cal.Rptr. 405 [applying severance where the plaintiff alleged a *Marvin* agreement based on both sexual services and chauffeur, bodyguard, secretarial, and business services].)

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Second, Blasi argues that once a personal manager solicits or procures employment, all his services-advice, counseling, and the like-become those of an unlicensed talent agency and are thus uncompensable. We are not persuaded. In this regard, the conduct-driven definitions of the Act cut both ways. A personal manager who spends 99 percent of his time engaged in counseling a client and organizing the client's affairs is not insulated from the Act's strictures if he spends 1 percent of his time procuring or soliciting; conversely, however, the 1 percent of the time he spends soliciting and procuring does not thereby render illegal the 99 percent of the time spent in conduct that requires no license and that may involve a level of personal service and attention far beyond what a talent agency might have time to provide. Courts are empowered under the severability doctrine to consider the central purposes of a contract; if they determine in a given instance that the parties intended for the representative to function as an unlicensed talent agency or that the representative engaged in substantial procurement activities that are inseparable from managerial services, they may void the entire contract. For the personal manager who truly acts as a personal manager, however, an isolated instance of procurement does not automatically bar recovery for services that could lawfully be provided without a license. (See *Lindenstadt v. Staff Builders, Inc., supra,* 55 Cal.App.4th at p. 894, 64 Cal.Rptr.2d 484.)

Inevitably, no verbal formulation can precisely capture the full contours of the range of cases in which severability properly should be applied, or rejected. The doctrine is equitable and fact specific, and its application is appropriately directed to the sound discretion of the Labor Commissioner and trial courts in the first instance. As the Legislature has not seen fit to preclude categorically this case-by-case consideration of the doctrine in disputes under the Act, we may not do so either.

In closing, we note one final point apparent from the briefing and oral argument. Letters and briefs submitted by personal managers indicate a uniform dissatisfaction with the Act's application. At oral argument, counsel for Blasi likewise agreed that the Legislature might profitably consider revisiting the Act. The Legislature has in the past expressed dissatisfaction with the Act's enforcement scheme. (See Sen. Rules Com., Off. of Sen. Floor Analyses, 3d reading analysis of Sen. Bill No. 1359 (1989-1990 Reg. Sess.) as amended May 1, 1989, p. 2 [decrying absence of effective regulatory and enforcement mechanisms in the wake of the Entertainment Commission's inability to devise an "equitable civil or criminal penalty system"].) Adopted with the best of intentions, the Act and guild regulations aimed at protecting artists evidently have resulted in a limited pool of licensed talent agencies and, in combination with high demand for talent agency services, created the right conditions for a black market for unlicensed talent agency services. (See Assem. Labor and Employment Com., Republican Analysis of Sen. Bill No. 1359 (1989-1990 Reg. Sess.) as amended May 1, 1989 [Labor Commissioner believes unlicensed talent agencies outstrip licensed talent agencies two to one].) In the event of any abuses by unlicensed talent agencies, the principal recourse for talent is to raise unlawful procurement as a defense against collection of commissions, but this is a blunt and unwieldy instrument. It is of little use to unestablished artists, who it appears may legitimately fear blacklisting (*Talent Agencies Act, supra,* 28 Pepperdine L.Rev. at p. 402; *Contested Ascendancy, supra,* 20 Loyola L.A. Ent. L.J. at p. 517), and may well punish most severely those

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managers who work hardest and advocate most successfully for their clients, allowing the clients to establish themselves, make themselves marketable to licensed talent agencies, and be in a position to turn and renege on commissions (e.g., *Kilcher v. Vainshtein, supra,* TAC No. 02-99; *Contested Ascendancy,*at p. 517).

We, of course, have no authority to rewrite the regulatory scheme. In the end, whether the present state of affairs is satisfactory is for the Legislature to decide, and we leave that question to the Legislature's considered judgment.

DISPOSITION

For the foregoing reasons, we affirm the Court of Appeal's judgment and remand this case for further proceedings consistent with this opinion.

RHODES v. HERZ

920 N.Y.S.2d 11 (App. Div. 2011)

ROMÁN, J.

The issue before us is whether article 11 of the General Business Law, by its terms, provides an express private right of action and whether, in the absence of such an express right, one is nevertheless implied. We hold, and indeed not for the first time, that article 11 does not provide either an express or an implied private right of action against licensed or unlicensed employment agencies or their agents. Accordingly, plaintiff's first, fifth, sixth and seventh causes of action, premised on violations of article 11, were properly dismissed.

According to the complaint, plaintiff, a nationally syndicated radio talk show host, entered into a Comprehensive Employment Agent and Managerial Contract with defendant IF Management, Inc. Prior to the contract's execution, defendant Steven Edward Herz, an employee of IF Management, Inc., represented that he was an employment agent and that IF Management, Inc. could act as plaintiff's employment agent, manager and law firm. Carol Perry was also employed by IF Management, Inc. and, along with the other defendants, acted as plaintiff's employment agent. During the contract's term, defendants discussed and explored employment opportunities for plaintiff. In particular, defendants attempted to negotiate a publishing contract on plaintiff's behalf with Miramax, negotiated a salary increase with Air America Radio, and sought to obtain plaintiff employment with Westwood One, a radio network, and Sirius, a satellite radio network. Since defendants failed to perform their obligations under the contract, plaintiff timely sought to terminate it. Defendants, however, refused to accept the termination.

Plaintiff asserts several causes of action, but only four are relevant to this appeal. Plaintiff's first cause of action seeks to void the contract between her and the defendants and seeks to recover all monies paid by plaintiff to defendants during the contract's term. Plaintiff

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premises this relief on the ground that defendants acted as her employment agents without a license, thereby violating General Business Law § 172, and that by simultaneously acting as her employment agents, managers and attorneys, defendants also violated General Business Law § 187(8). Plaintiff's fifth cause of action seeks monetary damages on the ground that in failing to disclose that they were not licensed to act as her employment agents and in unlawfully engaging in prohibited employment procurement activities, defendants breached their fiduciary duty. . . .

Article 11 applies to all employment agencies within the state (General Business Law § 170), and defines an employment agency as any person, who, for a fee, procures or attempts to procure employment for persons seeking employment or engagements (General Business Law § 171[2][a][1]). The statute imposes a licensing requirement and as such, no person may "maintain, own, operate or carry on any employment agency" (General Business Law § 172) without a license obtained from the state's Commissioner of Labor, or if within New York City, the Commissioner of the Department of Consumer Affairs (*id.*). Additionally, anyone operating an employment agency is required to file a bond in the sum of five thousand dollars (General Business Law § 177 [1]), payable to the people of the State of New York or the City of New York (General Business Law § 177[2]), and the bond

> "shall be conditioned that the person applying for the [employment agency] license will comply with this article, and shall pay all damages occasioned to any person by reason of any misstatement, misrepresentation, fraud or deceit, or any unlawful act or omission of any licensed person ... committed or omitted in the business conducted under such license or caused by any other violation of this article ..." (*id.*).

Claims or suits upon the bond "may be brought in the name of the person damaged" and "[t]he commissioner may institute a suit against the bond on behalf of any person damaged" (General Business Law § 178). Fees chargeable by an employment agency are limited to those within article 11 (General Business Law § 185), and an employment agency which collects fees in contravention of the article's provisions is required to return the excess portions thereof within seven days after a demand is made (General Business Law § 186).

Enforcement of article 11 is statutorily delegated to the State Commissioner of Labor, except that in New York City, it is enforced by the Commissioner of Consumer Affairs (General Business Law § 189[1]). Commensurate with his enforcement powers, the Commissioner, upon reasonable grounds to believe that an employment agency is violating article 11, has the authority to subpoena the records of the employment agency, subpoena witnesses, and conduct an investigation (General Business Law § 189[2]). As against a licensed person, complaints shall be made orally or in writing to the commissioner, who may then investigate, hold a hearing, take testimony, subpoena witnesses and direct production of documents (General Business Law § 189[4]). If after a hearing it is determined that the licensed agency has violated article 11, the commissioner may suspend or revoke the agency or person's license and/or levy a fine (General Business Law § 189[5]). Additionally, most violations of article 11, including the operation of

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an employment agency without a license, are misdemeanors, punishable by a fine of up to one thousand dollars and by imprisonment not to exceed one year (General Business Law § 190). Other violations, such as the failure to conspicuously post certain sections of article 11 (General Business Law § 188), are punishable by a fine of no more than one hundred dollars or imprisonment not to exceed thirty days (General Business Law § 190). The Commissioner in New York City is also vested with additional powers, authorizing him to bring proceedings against anyone operating a business without a license where the same is required (Administrative Code of the City of New York § 20–105). Pursuant to the Administrative Code, it is unlawful to engage in the unlicensed operation of any business requiring a license and such conduct is punishable by imposition of a one hundred dollar fine for each day the person operates without a license (*id.*). The Commissioner can also order that an unlicensed person cease operation of any business for which a license is required, can order the sealing of the premises where such unlicensed business is taking place, and can order the removal of any items utilized in connection with the unlicensed business (*id.*).

As will be discussed in detail below, plaintiff's first, fifth, sixth and seventh causes of action, premised upon defendants' violation of article 11, were properly dismissed.

Preliminarily, we affirm because we have previously determined that article 11 provides no private right of action[27] *Morin v. Curtis Assoc. Personnel,* 56 A.D.2d 817, 817 [1977]; *Greater N.Y. Mut. Ins. Co. v. Wehinger Serv.,* N.Y.L.J., May 14, 1974, at 2, col. 2, [Sup Ct., N.Y. County, May 7, 1974, Frank, J.], *affd.* 47 A.D.2d 604, 365 N.Y.S.2d 994 [1975], *lv. denied* 36 N.Y.2d 643, 368 N.Y.S.2d 1026, 329 N.E.2d 677 [1975]). . . .

In order to determine whether article 11 contains an express private right of action, we begin with a review of the statute itself. Contrary to plaintiff's assertions, the holding of the motion court and the holding in *Shelton v. Elite Model Mgt., Inc.,* 11 Misc.3d 345, 812 N.Y.S.2d 745 [2005], we again conclude that article 11 does not promulgate an express right of action. While General Business Law § 177 requires a bond conditioned on compliance with article 11 and requiring payment for "all damages occasioned to any person by reason of any misstatement, misrepresentation, fraud or deceit, or any unlawful act or omission" and General Business Law § 178 states that claims or suits may be brought in the name of the person damaged upon the bond, the latter section delegates the initiation of an action upon the bond to the commissioner who "may institute a suit against the bond on behalf of any person damaged". Thus, it is only the commissioner who can institute an action upon the bond and against the licensed employment agency and not the individual sustaining injury or damages. The fact that the commissioner's

[27] Plaintiff cites to several cases which she purports evince this state's long standing history of allowing private actions for violations of article 11. Plaintiff's contention is without merit. . . . Lower court cases such as *Friedkin v. Harry Walker, Inc.,* 90 Misc.2d 680, 395 N.Y.S.2d 611 [1977], which, in any event, never addressed the issue of the existence of a private right of action, should not be followed. For similar reasons and because in the absence of a private right of action there can exist no affirmative defense pursuant to such right . . ., where the issue of the existence of a private right of action was not raised and where the court dismissed an action upon an affirmative defense premised on a violation of article 11, should also not be followed.

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power to initiate an action upon the bond is not compulsory under this section is not, as some might argue, an indication of an express limited private right of action. Instead, the discretion afforded to the commissioner under General Business Law § 178 is merely a recognition that the initiation of a claim or suit on an employee's behalf will not always be required because General Business Law § 189(2) vests the commissioner with broad investigatory powers such that a suit might be obviated.

Logically, if article 11 promulgated an express private right, we would expect to find it in General Business Law § 189, the article's enforcement section. Accordingly, the absence of such an express right in General Business Law § 189, which instead, vests all enforcement powers of the article in the Commissioner is quite telling (*accord. Columbia Artists Mgt., LLC v. Swenson & Burnakus, Inc.,* 2008 WL 4387808, 2008 U.S. Dist LEXIS 74377 [S.D.N.Y.2008]; *Masters v. Wilhelmina Model Agency, Inc.,* 2003 WL 145556, 2003 U.S. Dist LEXIS 698 [S.D.N.Y.2003]). General Business Law § 190, the article's penalties provision, where we would also expect to find an express private right of action, is similarly bereft of any language promulgating such right. Instead, this section, the only section addressing penalties and remedies against an unlicensed agency, states that such transgression can solely be redressed through the initiation of criminal proceedings (General Business Law § 190). Any assertion that General Business Law § 186 provides an express private right of action against unlicensed employment agencies, as the court held in *Shelton,* is meritless. While General Business Law § 186 requires the return of fees upon demand, enforcement for noncompliance, is governed by General Business Law §§ 189 and 190, which again, contain no express right of action. . . .

Since article 11 provides no express private right of action, our inquiry must then turn to whether the article may nevertheless fairly be read to imply a private right of action.

Where a statute fails to expressly prescribe a private right of action, one can nevertheless be implied, provided that it is consistent with the legislative intent, (*Uhr v. East Greenbush Cent. School Dist.,* 94 N.Y.2d 32, 38, 698 N.Y.S.2d 609, 720 N.E.2d 886 [1999]; *Brian Hoxie's Painting Co., Inc. v. Casto–Meridian Cent. School Dist.,* 76 N.Y.2d 207, 211, 557 N.Y.S.2d 280, 556 N.E.2d 1087 [1990]; *Sheehy v. Big Flats Community Day,* 73 N.Y.2d 629, 633, 543 N.Y.S.2d 18, 541 N.E.2d 18 [1989]; *Burns Jackson Miller Summit & Spitzer v. Lindner,* 59 N.Y.2d 314, 325, 464 N.Y.S.2d 712, 451 N.E.2d 459 [1983]). A private right of action will be implied if (1) the plaintiff is a member of the class for whose benefit the statute was enacted; (2) the recognition of such right promotes the legislative purpose which undergirds the statute; and (3) the creation of such right is consistent with the legislative scheme for the statute (*Sheehy* at 633, 543 N.Y.S.2d 18, 541 N.E.2d 18). Legislative intent is thus the linchpin in any case where a private right of action is to be implied. . . .

Based on the foregoing we conclude that an implied private right of action for a violation of article 11 is at odds with the legislative intent, inasmuch as it is inconsistent with the legislative scheme. Certainly, plaintiff, who alleges to have contracted with defendants for the procurement of employment is within the class article 11 was enacted to benefit. To the extent

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that a private action would deter future unlawful behavior by defendants and other employment agencies and agents, an implied private right of action would wholly promote the legislative purpose. This is particularly true since private actions would expose employment agencies and agents to much broader liability because the potential damages could exceed the size of the bond and in the case of unlicensed employment agencies, the fines they are subject to pursuant to General Business Law § 190.

However, a private right of action would be wholly inconsistent with the legislative scheme. Article 11 has a potent enforcement mechanism (*Uhr* at 40–41, 698 N.Y.S.2d 609, 720 N.E.2d 886) which, as per the 1958 and 1975 amendments, eroded and ultimately eliminate the private right of action once prescribed and delegate all enforcement to the Commissioner. While an enforcement mechanism can always be made more potent, article 11's enforcement mechanism vesting the commissioner with broad investigatory, adjudication, and sanctioning power is quite extensive (General Business Law § 189), even exposing violators to imprisonment for up to one year (General Business Law § 190). The 1975 amendment itself is perhaps the most compelling evidence that the Legislature intended that the sole recourse for article 11's violation would be that enumerated therein. With the 1975 amendment, the Legislature not only delegated to the commissioner the power to initiate the previously prescribed private action against a licensed employment agency, but also declined to promulgate any express private right of action, despite the fact that we had recently declined to find such right in *Greater N.Y.* (*Sheehy* at 635, 543 N.Y.S.2d 18, 541 N.E.2d 18 [no private right of action could be implied for defendant's violation of General Obligations Law § 11–101, because the Legislature's failure to expressly provide such right, despite case law precluding such right in a nearly identical statute evinced intent to preclude such right]; *Uhr* at 41, 698 N.Y.S.2d 609, 720 N.E.2d 886 [Legislature's failure to prescribe an express right of action for violation of Employment Law § 905(2), despite case law declining to imply such right was evidence of intent to preclude a private right of action]). The Legislature is presumed to know that before it amended article 11 in 1975, we found that article 11 provided no private right of action, and could have, but chose not to, express that right in the subsequent amendment.

Accordingly, the order of the Supreme Court, New York County (Michael D. Stallman, J.), entered March 5, 2010, which granted defendants' motion to dismiss plaintiff's first, fifth, sixth, and seventh causes of action, premised on violations of General Business Law article 11, should be affirmed, with costs.

§ 1.05 Artist and Publisher/Distributor/Marketer: The Obligation to Exploit

USAGE: On page 136, ADD the following cases after *Mellencamp v. Riva Music Ltd.*:

RATHER v. CBS CORP.
68 A.D.3d 49, 886 N.Y.S.2d 121 (N.Y. App. Div. 2009)

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CATTERSON, J.

This action asserting breach of contract and related tort claims arises out of a September 8, 2004 broadcast that plaintiff Dan Rather narrated on the CBS 60 Minutes II television program about then President George W. Bush's service in the Texas Air National Guard. Rather alleges that CBS disavowed the broadcast after it was attacked by Bush supporters, and fraudulently induced him to apologize personally for the broadcast on national television as well as to remain silent as to his belief that the broadcast was true. Rather alleges that, following President Bush's re-election, CBS informed him that he would be removed as anchor of the CBS Evening News. Rather claims that although his employment agreement required that, in the event he was removed as anchor, CBS would make him a regular correspondent on 60 Minutes or immediately pay all amounts due under the agreement and release him to work elsewhere, CBS kept him on the payroll while denying him the opportunity to cover important news stories until May 2006 when it terminated his contract, effective June 2006.

Rather commenced this action against CBS Corporation, Viacom Inc., and individual defendants Leslie Moonves, Sumner Redstone and Andrew Heyward in September 2007. He asserted, inter alia, claims of breach of contract and breach of fiduciary duty against CBS; claims of fraud against CBS and the individual defendants and a claim of tortious inducement of breach of contract against Viacom and the individual defendants.

Now, Rather appeals and defendants CBS Corporation and Viacom Inc. cross-appeal from orders entered by Supreme Court on April 11, 2008 and September 25, 2008, which granted defendants' motion to dismiss the claims for fraud, breach of the implied covenant of good faith and fair dealing and tortious interference with contract, and denied defendants' motion to dismiss the claims for breach of contract and breach of fiduciary duty.

For the reasons set forth below, this Court finds that the motion court erred in denying the defendants' motion to dismiss the claims for breach of contract and breach of fiduciary duty, and therefore we find the complaint must be dismissed in its entirety. . . .

At the outset, we find that Supreme Court erred in declining to dismiss Rather's breach of contract claim against CBS. Rather alleges that he delivered his last broadcast as anchor of the CBS Evening News on March 9, 2005, and that, since he was only nominally assigned to 60 Minutes II and then 60 Minutes, he should have received the remainder of his compensation under the agreement in March 2005. Rather claims that, in effect, CBS "warehoused" him, and that, when he was finally terminated and paid in June 2006, CBS did not compensate him for the 15 months "when he could have worked elsewhere." This claim attempts to gloss over the fact that Rather continued to be compensated at his normal CBS salary of approximately $6 million a year until June 2006 when the compensation was accelerated upon termination, consistent with his contract.

Contractually, CBS was under no obligation to "use [Rather's] services or to broadcast

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any program" so long as it continued to pay him the applicable compensation. This "pay or play" provision of the original 1979 employment agreement was specifically reaffirmed in the 2002 Amendment to the employment agreement.

That Amendment also provided, in subparagraph 1(g), that if CBS removed Rather as anchor or co-anchor of the CBS Evening News and failed to assign him as a correspondent on 60 Minutes II or another mutually agreed upon position, the agreement would be terminated, Rather would be free to seek employment elsewhere, and CBS would pay him immediately the remainder of his weekly compensation through November 25, 2006.

We agree that subparagraph 1(g) must be read together with the subparagraph 1(f), which provided that if CBS removed Rather from the CBS Evening News, it would assign him to 60 Minutes II "as a full-time Correspondent," and if 60 Minutes II were canceled, it would assign him to 60 Minutes as a correspondent "to perform services on a regular basis." However, this construction does not render any language of the agreement inoperative, since, consistent with the "pay or play" clause, neither subparagraph 1(g) nor 1(f) requires that CBS actually *use* Rather's services or broadcast any programs on which he appears, but simply retains the option of accelerating the payment of his compensation under the agreement if he is not *assigned* to either program.

It is clear that subparagraph 1(g) applies only to a situation where CBS removed Rather as anchor of CBS Evening News and then failed to assign him "as a Correspondent on 60 Minutes II." The amended complaint alleges that when Rather no longer performed anchor duties at CBS, he was assigned to 60 Minutes II. Thus, Rather implicitly concedes that CBS fully complied with subparagraph 1(g).

Supreme Court erred in finding that subparagraph 1(g) modified the "pay or play" provision when it ignored the initial prefatory clause to the rest of that subparagraph, which states "[e]xcept as otherwise specified in this Agreement." As the defendants correctly assert, the seven words are crucial because they require subparagraph 1(g) to be read together with the "pay or play" provision, and thus, subparagraph 1(g) cannot modify the "pay or play" provision to mean that CBS must utilize Rather in accordance with some specific standard by featuring him in a sufficient number or types of broadcasts. As the defendants aptly observed, "the notion that a network would cede to a reporter editorial authority to decide what stories will be aired is absurd."

Rather's claim for lost business opportunities due to CBS's failure to release him to seek other employment is insufficiently supported. Since, according to Rather's own allegations, an immediate result of the September 8, 2004 broadcast was criticism that he was biased against Bush, it would be speculative to conclude that any action taken by CBS would have alone substantially affected his market value at that time. Rather's claim for damages for loss of reputation arising from the alleged breach of contract is not actionable. Dember Constr. Corp. v. Staten Is. Mall, 56 A.D.2d 768, 392 N.Y.S.2d 299 (1st Dept.1977).

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Rather's cause of action for breach of fiduciary duty must also be dismissed. Supreme Court held that the issue of "whether a fiduciary duty has been created in the course of the long relationship between Rather and CBS is really a question of fact." Previously, the court determined that "the length of [Rather's] contractual relationship with [CBS], and the nature of the service that [Rather] performed under his contracts" created an issue of fact that could not be resolved on motion. This was error.

Rather claims that his "four-decade history" with CBS constituted a "special relationship that imposed fiduciary duties upon CBS toward [Rather]." The law in this Department, and indeed enunciated in every reported appellate-division-level case, is that employment relationships do not create fiduciary relationships. Simply put, "[the employer] did not owe plaintiff, as employee, a fiduciary duty." Angel v. Bank of Tokyo-Mitsubishi, Ltd., 39 A .D.3d 368, 370, 835 N.Y.S.2d 57, 60 (1st Dept.2007), *citing Weintraub v. Phillips, Nizer, Benjamin, Krim & Ballon,* 172 A.D.2d 254, 568 N.Y.S.2d 84 (1st Dept.1991); see Schenkman v. New York Coll. Of Health Professionals, 29 A.D.3d 671, 672, 815 N.Y.S.2d 159, 161 (2d Dept.2006) ("[employees] failed to plead any facts demonstrating how the arm's-length, employer-employee relationship [...] gave rise to any fiduciary duty."); Cuomo v. Mahopac Natl. Bank, 5 A.D.3d 621, 622, 774 N.Y.S.2d 779, 780 (2d Dept.2004), *lv. denied,* 3 N.Y.3d 607, 785 N.Y.S.2d 25, 818 N.E.2d 667 (2004).

The length of Rather's tenure at CBS is irrelevant to, and does not support, this claim of a fiduciary relationship (see e.g., Michnick v. Parkell Prods., 215 A.D.2d 462, 626 N.Y.S.2d 265 (2d Dept.1995)), nor does Rather's status as "the public face of CBS News after Walter Cronkite retired [...]." See e.g. Maas v. Cornell Univ., 245 A.D.2d 728, 666 N.Y.S.2d 743 (3d Dept.1997).

Supreme Court's reliance on *Apple Records v. Capitol Records* (137 A.D.2d 50, 529 N.Y.S.2d 279 (1st Dept.1988)) and *Wiener v. Lazard Freres & Co.* (241 A.D.2d 114, 672 N.Y.S.2d 8 (1st Dept.1998)), was also error. Unlike in *Apple Records,* where fledgling musicians ultimately became a worldwide music phenomenon known as the Beatles, Rather was an established correspondent represented by a leading talent agent, who negotiated a contract that was extensively amended several times, that paid Rather a lucrative salary, and that detailed, in 50 pages, everything from his assignments and on-air work at CBS Evening News to requirements that he attend rehearsals and join the union. See Faulkner v. Arista Records LLC, 602 F.Supp.2d 470, 484 (S.D.N.Y.2009) ("there are no facts here to suggest that the dealings between the Rollers and Arista were anything other or more than garden-variety arm's length transactions").

The *Apple Records* court also made plain that the defendant was not only the exclusive distributor of and manufacturer of the Beatles' recordings but also that the Beatles "entrusted their musical talents" to the defendant over a period of many years commencing when the Beatles were "still unacclaimed." Apple Records, supra, 137 A.D.2d at 57, 529 N.Y.S.2d at 283.

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No such exclusive distributor relationship exists in the instant case. (See e.g. Zimmer-Masiello, Inc. v. Zimmer, Inc., 159 A.D.2d 363, 552 N.Y.S.2d 935 (1st Dept.1990)), nor can Rather argue that he "entrusted" his particular talents to CBS. Indeed, it may well be that *Apple Records* will remain a singular holding because of its application to a phenomenon (unacclaimed artists who were also unsophisticated businessmen thrust to the pinnacle of success at warp speed) that's not likely to be seen again, not even on American Idol.

Similarly, Supreme Court improperly relied on *Wiener,* where we found that the plaintiff specifically alleged that employees of the defendant acted on the plaintiff's behalf in conducting negotiations with a bank, and that they relied on the defendant's "expertise and reputation" as well as certain connections inside the management of the bank. 241 A.D.2d at 123, 672 N.Y.S.2d at 15. It simply cannot be argued that CBS acted as Rather's agent when Rather employed his own agent to negotiate with CBS for Rather's benefit. Any claim to the contrary is belied by both the evidence and common sense.

We affirm dismissal of Rather's fraud claims against CBS and the individual defendants although we find that Supreme Court erred in its rationale for the dismissal as it also erred in rejecting the defendants' other challenges to the fraud claim.

We take judicial notice of Rather's second amended complaint (hereinafter referred to as "SAC") filed by leave of Supreme Court on July 27, 2009, and by separate order, as a matter of discretion in the interest of judicial economy, we deny Rather's motion to withdraw that portion of his appeal relating to the dismissal of his fraud claim.

The SAC repleads the fraud claim in an attempt to remedy the defects to which Supreme Court pointed in its dismissal of the claim in its September 25, 2008 order. However, Supreme Court erred in its rationale for the dismissal in holding that Rather "failed to allege [...] that his financial compensation at HDNet [...] is less than he would have received had his contract been renewed." Thus, the mere inclusion of Rather's actual annual compensation at HDNet is not helpful to his case, and would not be helpful to his case before this Court at any future date.

Rather alleges that various misrepresentations (e.g., promises to publicly defend his reputation and to conduct an independent investigation into the 2004 broadcast, and assurances that CBS intended to use his talents fully and to extend his contract, which was due to expire on November 25, 2006) induced him to remain silent about his role in the broadcast and to remain with CBS, where he was allegedly "warehoused" until the completion of his contract. As a result, he alleges he suffered money and reputation damages. Relying on Rather's well-footnoted appellate brief, this Court was already cognizant of his argument that, following the completion of his CBS contract, his compensation at HDNet was less than the $4 million a year established as an approximate market rate for comparable journalists. However, for reasons set forth here, this information was not required for our analysis, and the lack of it was not the reason for affirming dismissal.

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It is hornbook law that,

> "In an action to recover damages for fraud, the plaintiff must prove a misrepresentation or a material omission of fact which was false and known to be false by defendant, made for the purpose of inducing the other party to reply upon it, justifiable reliance of the other party on the misrepresentation or material omission, and injury."

Lama Holding Co. v. Smith Barney, 88 N.Y.2d 413, 421, 646 N.Y.S.2d 76, 80, 668 N.E.2d 1370, 1373 (1996), *citing Channel Master Corp v. Aluminum Ltd. Sales,* 4 N.Y.2d 403, 176 N.Y.S.2d 259, 151 N.E.2d 833 (1958). Supreme Court properly dismissed Rather's fraud claims for failure to allege pecuniary loss. "The true measure of damage is indemnity for the actual pecuniary loss sustained as the direct result of the wrong or what is known as the out-of-pocket rule. Under this rule, the loss is computed by ascertaining the difference between the value of the bargain which a plaintiff was induced by fraud to make and the amount or value of the consideration exacted as the price of the bargain. Damages are to be calculated to compensate plaintiffs for what they lost because of the fraud, not to compensate them for what they might have gained. Under the out-of-pocket rule, there can be no recovery of profits which would have been realized in the absence of fraud." Lama, 88 N.Y.2d at 421, 646 N.Y.S.2d at 80 (internal quotation marks and citations omitted).

Thus, under *Lama Holding Co.* and its progeny, Rather was required to plead that he had something of value, was defrauded by CBS into relinquishing it for something of lesser value, and that the difference between the two constituted Rather's pecuniary loss.

Rather's claim that, but for CBS' fraud, he could have had more remunerative employment than that which he ultimately obtained at HDNet is unavailing. "[T]he loss of an alternative contractual bargain [...] cannot serve as a basis for fraud or misrepresentation damages because the loss of the bargain was 'undeterminable and speculative.' " Lama, 88 N.Y.2d at 422, 646 N.Y.S.2d at 80, *quoting Dress Shirt Sales v. Hotel Martinique Assoc.,* 12 N.Y.2d 339, 344, 239 N.Y.S.2d 660, 664, 190 N.E.2d 10, 13 (1963); see Geary v. Hunton & Williams, 257 A.D.2d 482, 684 N .Y.S.2d 207 (1st Dept.1999).

Rather claims, based on his value and the value of similar professionals in the industry, that he would have been paid $4 million annually from 2005 through 2010. However, while claiming that he had an "agreement-in-principle" with CBS in the summer of 2004 to extend his contract, he alleges in the amended complaint that he had an unwritten "proposal" that "contemplated" a contract extension, and the terms of the proposal were compensation of $4 million for the first 19 months and $2 million annually thereafter. Rather admits that, the broadcast and its aftermath aside, CBS was already contemplating that he would step down from the anchor position in 2006 and assume a reduced role.

As to lost opportunities in the trade, while Rather has shown his own track record of

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earnings and the earnings of other trade professionals, his future earnings are speculative, because there is no basis to conclude that his employment status would not have changed, regardless of CBS's actions, once he determined to make the broadcast. Rather never identified a single opportunity with specified terms that was actually available to him and which he declined to accept because of CBS' actions. . . .

WOLF v. SUPERIOR COURT (I)
107 Cal. App. 4th 25, 130 Cal. Rptr. 2d 860 (2003)

PERLUSS, P.J.

Petitioners Gary K. Wolf and his company Cry Wolf!, Inc. (hereinafter referred to collectively as Wolf) seek a writ of mandate to compel the trial court to vacate its order sustaining, without leave to amend, the demurrer of real party in interest, Walt Disney Pictures and Television (Disney), to Wolf's cause of action for breach of fiduciary duty. At issue is whether one contracting party's right to contingent compensation in the form of a percentage of future revenues in the control of the other contracting party creates a fiduciary relationship in an otherwise arm's length business transaction. Because a contingent entitlement to future compensation within the exclusive control of one party does not make that party a fiduciary in the absence of other indicia of a confidential relationship, we deny the request for a writ of mandate.

FACTUAL AND PROCEDURAL BACKGROUND

The operative second amended complaint[28] alleges that Gary Wolf is the author of the novel entitled *Who Censored Roger Rabbit?* In or about August 1983, Wolf entered into a written agreement with Disney (the 1983 Agreement)[29] in which Wolf assigned to Disney the rights to the novel and the Roger Rabbit characters.[30] In exchange for acquiring the rights, Disney agreed to pay Wolf a stated, fixed compensation upon execution of the agreement; a percentage of the "net profits," as defined by the parties, from a motion picture based on the novel[31]; and additional, contingent compensation in the amount of five percent of any future gross receipts Disney earned from merchandising or other exploitation of the Roger Rabbit characters. The 1983 Agreement provided that Disney was not "under any obligation to exercise any of the rights" granted to it and could assign or license any and all rights granted under the 1983 Agreement as Disney "s[aw] fit."

[28]Disney's demurrers to the breach of fiduciary duty claim in the original and first amended complaints were sustained with leave to amend.

[29]Disney notes the parties first entered into an option agreement in 1981. Because the complaint does not refer to the 1981 agreement, our analysis is limited to the 1983 Agreement and subsequent agreements identified in the operative second amended complaint.

[30]Certain limited publishing rights, which are not at issue in the underlying litigation, were exempted from the assignment.

[31]Payments under this provision are not at issue in this litigation.

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Disney then developed and co-produced, along with Steven Spielberg's Amblin Entertainment, a motion picture entitled *Who Framed Roger Rabbit* based upon Wolf's novel and its characters. After a dispute arose between Wolf and Disney regarding certain terms contained in the 1983 Agreement, the parties entered into a 1989 agreement that confirmed Wolf's entitlement to the contingent compensation set forth in the 1983 Agreement. In addition, the 1989 agreement granted Wolf certain audit rights.[32]

According to the complaint, each time Wolf attempted to exercise its audit rights, Disney failed to provide access to pertinent records. In addition, Disney allegedly underreported revenues it received in connection with the Roger Rabbit characters and failed to disclose the nature of its third-party agreements concerning the characters and the compensation received. Wolf alleges such conduct not only constitutes a breach of contract but also amounts to a breach of fiduciary duty. Wolf claims that Disney is a fiduciary because Disney enjoyed "exclusive control over the books, records and information concerning the exploitation [of the Roger Rabbit characters] and the revenue and Gross Receipts Royalties derived therefrom."

The trial court sustained the demurrer to the fiduciary duty claim in the second amended complaint without leave to amend on the ground that "the contract between [Wolf] and [Disney] d[id] not create a fiduciary relationship" as a matter of law.[33] After Wolf petitioned this court for a writ of mandate compelling the trial court to vacate its order sustaining without leave to amend the demurrer to the breach of fiduciary claim, we issued an order to show cause why the requested relief should not be granted.

CONTENTIONS

Wolf contends its contingent entitlement to future compensation in the form of a percentage of revenues from Disney's exploitation of the Roger Rabbit characters, together with Disney's exclusive control over the information pertaining to such revenues, necessarily creates a fiduciary relationship.

DISCUSSION

* * * * *

2. *The Trial Court Did Not Err in Sustaining Without Leave to Amend the Demurrer to the Breach of Fiduciary Duty Cause of Action*

A fiduciary relationship is " 'any relation existing between parties to a transaction wherein one of the parties is in duty bound to act with the utmost good faith for the benefit of the other party. Such a relation ordinarily arises where a confidence is reposed by one person in the

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[32]Like the previous agreement, the 1989 agreement included a provision that stated that "[n]othing herein contained shall be deemed to create a third party beneficiary agreement, nor a partnership or joint venture between [Disney] and [Wolf] ... nor create a relationship between [Disney] and [Wolf] other than creditor-debtor."

[33]Wolf's breach of contract cause of action based upon Disney's alleged withholding of pertinent records and underreporting of gross receipts is still pending in the trial court.

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integrity of another, and in such a relation the party in whom the confidence is reposed, if he voluntarily accepts or assumes to accept the confidence, can take no advantage from his acts relating to the interest of the other party without the latter's knowledge or consent....' " (Herbert v. Lankershim (1937) 9 Cal.2d 409, 483, 71 P.2d 220; In re Marriage of Varner (1997) 55 Cal.App.4th 128, 141, 63 Cal.Rptr.2d 894; see also Rickel v. Schwinn Bicycle Co. (1983) 144 Cal.App.3d 648, 654, 192 Cal.Rptr. 732 [" 'A "fiduciary relation" in law is ordinarily synonymous with a "confidential relation." It is . . . founded upon the trust or confidence reposed by one person in the integrity and fidelity of another, and likewise precludes the idea of profit or advantage resulting from the dealings of the parties and the person in whom the confidence is reposed.' "].)

Traditional examples of fiduciary relationships in the commercial context include trustee/beneficiary, directors and majority shareholders of a corporation, business partners, joint adventurers, and agent/principal. (See, e.g., Evangelho v. Presoto (1998) 67 Cal.App.4th 615, 621, 79 Cal.Rptr.2d 146 [trustee and beneficiary]; Jones v. H.F. Ahmanson & Co. (1969) 1 Cal.3d 93, 108-109, 81 Cal.Rptr. 592, 460 P.2d 464 [controlling shareholder of corporation]; April Enterprises, Inc. v. KTTV (1983) 147 Cal.App.3d 805, 818-819, 195 Cal.Rptr. 421 [joint adventurers]; Michelson v. Hamada (1994) 29 Cal.App.4th 1566, 1580, 36 Cal.Rptr.2d 343 [agent/principal].)

Inherent in each of these relationships is the duty of undivided loyalty the fiduciary owes to its beneficiary, imposing on the fiduciary obligations far more stringent than those required of ordinary contractors. As Justice Cardozo observed, "Many forms of conduct permissible in a workaday world for those acting at arm's length, are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive is then the standard of behavior." (Meinhard v. Salmon (1928) 249 N.Y. 458, 164 N.E. 545, 546.)

Wolf concedes the complaint is devoid of allegations showing an agency, trust, joint venture, partnership or other "traditionally recognized" fiduciary relationship and further admits that the complaint cannot be amended to state facts alleging such a relationship. Nonetheless, he argues that the absence of a "traditionally recognized" fiduciary relationship is not dispositive on the question whether a fiduciary duty exists. Because Wolf's contractual right to contingent compensation necessarily required Wolf to repose "trust and confidence" in Disney to account for the revenues received, and because such revenues and their sources are in the exclusive knowledge and control of Disney, Wolf claims the relationship is "confidential" in nature and necessarily imposes a fiduciary duty upon Disney, at least with respect to accounting to Wolf for the gross revenues received.

a. A Contingent Entitlement to Future Compensation Does Not, Alone, Give Rise to a Fiduciary Relationship.

Contrary to Wolf's contention, the contractual right to contingent compensation in the

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control of another has never, by itself, been sufficient to create a fiduciary relationship where one would not otherwise exist. (See, e.g., Downey v. Humphreys (1951) 102 Cal.App.2d 323, 332, 227 P.2d484 [the obligation to pay money is a debt; "A debt is not a trust" and does not create a fiduciary relationship, "whether [debtor's] liability is certain or contingent"]; Wiltsee v. California Emp. Com. (1945) 69 Cal.App.2d 120, 125, 128, 158 P.2d 612 [employment contract entitling employee to 25 percent of future profits neither created a joint venture nor gave rise to a fiduciary relationship]; *New v. New* (1957) 148 Cal.App.2d 372, 381-382, 306 P.2d 987 [defendant's contractual obligation to pay former spouse a percentage of future monies received from stock holdings, if any, was no different than obligation to pay fixed monthly sum; though an implied duty of good faith and fair dealing existed in the contract, neither the contingent nature of the debt nor the debtor's exclusive control of monies received created a fiduciary relationship].)

Equally without merit is Wolf's contention that a fiduciary relationship exists because he necessarily reposed "trust and confidence" in Disney to perform its contractual obligation--that is, to account for and pay Wolf the contingent compensation agreed upon in the contract. Every contract requires one party to repose an element of trust and confidence in the other to perform. For this reason, every contract contains an implied covenant of good faith and fair dealing, obligating the contracting parties to refrain from " 'doing anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract....' " (Nelson v. Abraham (1947) 29 Cal.2d 745, 751, 177 P.2d 931 (Nelson); New v. New, supra, 148 Cal.App.2d at pp. 382-383, 306 P.2d 987.) "Being of universal prevalence, [the implied covenant] cannot create a fiduciary relationship; it affords basis for redress for breach of contract and that is all." (New v. New, supra, 148 Cal.App.2d at pp. 382-383, 306 P.2d 987.)

b. The Profit-Sharing Aspect of an Agreement Alone Does Not Give Rise To a Fiduciary Relationship.

Wolf cites a number of cases for the proposition that profit- or revenue-sharing agreements are inherently fiduciary in nature. None of them, however, supports its claim. For example, in *Nelson, supra,* 29 Cal.2d 745, 177 P.2d 931, the Court addressed whether an agreement to share the profits of the operation of the business, though without an equity interest in the business, gave rise to a fiduciary obligation in the absence of a partnership. Distinguishing an agreement to share profits that "is merely to provide a measure of compensation for services or the use of money" from one that "extends beyond and bestows ownership and interest in the profits themselves" (id. at p. 750, 177 P.2d 931), the Court held that it was the plaintiff's "effort, skill, management and tact" that was "pertinent in determining the nature of the relationship of the parties and in defining the correlative rights and duties flowing from a contract which gave to the plaintiff a share in the net profits from operation." (Id. at p. 752, 177 P.2d 931.) In rejecting the defendant's claim that plaintiff was not entitled to profits because no partnership had been formed, and finding instead an obligation to share and to account for profits, the Court held that it was "unnecessary to place a precise legal designation on the relationship" because the respective obligations imposed on the parties in the contract showed at least a joint venture

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giving rise to a fiduciary obligation. (Id. at p. 750, 177 P.2d 931.)

Stevens v. Marco (1956) 147 Cal.App.2d 357, 305 P.2d 669 (Stevens), also cited by Wolf, is similarly unavailing. In *Stevens,* the plaintiff agreed to assign his invention to the defendant, who in turn, agreed to secure patent protection and to give the plaintiff a percentage of the net revenues from the product's sales. (Id. at p. 363, 305 P.2d 669.) Their agreement further provided that the plaintiff would continue to work on improvements and assign any interest in such improvements to the defendant, and in turn, would receive a percentage of the revenues from any improvement made by either party. Reversing a nonsuit and explaining that the plaintiff had stated facts potentially establishing a fiduciary relationship thereby shifting the burden of proof, the court observed, "Where an inventor entrusts his secret idea or device to another under an arrangement whereby the other party agrees to develop, patent and commercially exploit the idea in return for royalties to be paid the inventor, there arises a confidential or fiduciary relationship. [Citations.] Indeed, it would be difficult to postulate a relationship more confidential than one in which a secret is imparted to a person professing to have the ability and facilities to develop, patent and exploit it upon his promise to give the inventor a return in the form of royalties." (Id. at p. 373, 305 P.2d 669.) At a minimum, the court explained, there were sufficient facts for a jury to find that "the parties were allied in an enterprise *similar* to that of joint venturers for mutual gain. The royalty agreements between the parties [were] not . . . merely 'a contract of assignment and sale[,' but] plainly indicated that [defendant] was to exploit and develop the use of the patents for their *joint profit* and that any subsequent improvements made by either would accrue to their *mutual benefit.*" (Id. at p. 374, 305 P.2d 669, italics added.)

In contrast to the facts in *Nelson* and *Stevens,* there are no allegations in the instant complaint of the formation of a joint venture or a relationship "akin" to a joint enterprise. To the contrary, the agreement created a debtor/creditor relationship, expressly providing that in exchange for compensation, both certain and contingent, Disney, as the new owner of the rights, could exploit those rights or not exploit them as it saw fit. Disney was under no obligation to maximize profits from the enterprise or obtain Wolf's approval for its contracts. (Cf. Kirke La Shelle Co. v. Paul Armstrong Co. (1933) 263 N.Y. 79, 82, 188 N.E. 163 [agreement gave plaintiff not only right to percentage of proceeds but also approval rights over every subcontract "affecting" plaintiff's rights].) Instead, in authorizing Disney to use those rights as it saw fit, the contract plainly allowed an opportunity for non-mutual profit that is absent in fiduciary relationships. (See Rickel v. Schwinn Bicycle Co., supra, 144 Cal.App.3d at pp. 653-655, 192 Cal.Rptr. 732 [bicycle dealer who had agreement with manufacturer to share proceeds from sales of manufacturer's product was not a fiduciary, where bicycle dealer not obligated to sell manufacturer's products and was free under the agreement to recommend sale of competitor's brands].)

Trying to fit its complaint within the principles articulated in *Nelson* and *Stevens,* Wolf argues that a fiduciary duty exists because Disney's exploitation of the characters, if profitable, would inure to the parties' joint benefit. Yet even distribution agreements, negotiated at arm's

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length, do not create a fiduciary relationship between the product's owner and the distributor even though both parties stand to benefit from the distributor's sales of the product. (Rickel v. Schwinn Bicycle Co., supra, 144 Cal.App.3d at pp. 653-655, 192 Cal.Rptr. 732; Recorded Picture Company Productions Ltd. v. Nelson Entertainment, Inc. (1997) 53 Cal.App.4th 350, 370, 61 Cal.Rptr.2d 742; Waverly Productions, Inc. v. RKO General, Inc. (1963) 217 Cal.App.2d 721, 732-734, 32 Cal.Rptr. 73 (Waverly).) If those agreements, where no ownership rights over property are transferred, do not create a fiduciary relationship, neither do contracts, such as the one between Wolf and Disney, involving the sale of all rights to the new owner to exploit as it sees fit. (See Rickel, at pp. 653-655, 192 Cal.Rptr. 732.)

c. Wolf's Contractual Right to an Accounting Does Not Create a Fiduciary Relationship.

Relying on *Waverly,* Wolf alternatively argues that fiduciary duties exist with respect to Disney's obligation to provide an accounting even though the relationship itself is not otherwise fiduciary in character. In *Waverly,* a distribution company (RKO) entered into an agreement with a producer to distribute two of the producer's motion pictures. The distributor then entered into sublicensing agreements with foreign distributors. The producer sued RKO, claiming RKO breached its fiduciary duty by subcontracting the distribution duties to foreign distributors who made little or no effort to distribute the films. Rejecting the producer's claim that the distributor was a fiduciary, the court held, "The [distribution] contract is an elaborate one which undertakes to define the respective rights and duties of the parties.... A mere contract or a debt does not constitute a trust or create a fiduciary relationship." (Waverly, supra, 217 Cal.App.2d at pp. 731-732, 32 Cal.Rptr. 73.) Noting that the trial court had correctly held that although not a fiduciary, RKO did have an obligation to account to the producer for rentals received from its sublicensees (id. at p. 731, 32 Cal.Rptr. 73), the court also stated its holding in the following language: "We think it clear that RKO was not a fiduciary with respect to the performance of the terms of this contract (except as to accounting for rentals received) and that arguments predicated on the assumption that it was are directed to a false issue." (Id. at p. 734, 32 Cal.Rptr. 73.)

Seizing on the court's parenthetical reference to RKO's obligation to provide an accounting, Wolf argues that *Waverly* acknowledged the existence of a fiduciary relationship between the distributor and the producer with respect to the accounting that applies equally to issues surrounding Disney's contractual obligation to account to Wolf, even if their contract does not otherwise create a fiduciary relationship. Wolf misapprehends the import of the *Waverly* court's recognition of the producer's right to an accounting of proceeds received from subdistributors. Either a relationship is fiduciary in character or it is not. Whether the parties are fiduciaries is governed by the nature of the relationship, not by the remedy sought. *Waverly* recognized simply that RKO had a duty to account, not that RKO was a fiduciary with respect to its accounting obligation.[34]

[34]Similarly the holding in *Schaake v. Eagle etc. Can Co.* (1902) 135 Cal. 472, 485, 63 P. 1025, upon which Wolf also relies, is simply that a breach of contract claim by an inventor who assigned patents to his corporate employer while reserving an interest in profits "is a proper case for an accounting ...."

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The duty to provide an accounting of profits under the profit-sharing agreement in *Waverly* is appropriately premised on the principle, also expressed in *Nelson,* that a party to a profit-sharing agreement may have a right to an accounting, even absent a fiduciary relationship, when such a right is inherent in the nature of the contract itself. As the Court in *Nelson* observed, the right to obtain equitable relief in the form of an accounting is not confined to partnerships but can exist in contractual relationships requiring payment by one party to another of profits received. That right can be derived not from a fiduciary duty, but simply from the implied covenant of good faith and fair dealing inherent in every contract, because without an accounting, there may be no way " 'by which such [a] party [entitled to a share in profits] could determine whether there were any profits....' " (*Nelson, supra,* 29 Cal.2d at p. 751, 177 P.2d 931 [quoting Kirke La Shelle Co. v. Paul Armstrong Co., supra, 263 N.Y. 79, 188 N.E. 163]; see also Civic Western Corp. v. Zila Industries, Inc. (1977) 66 Cal.App.3d 1, 14, 135 Cal.Rptr. 915 [action for accounting is equitable in nature and may be brought to compel the defendant to account for money where a fiduciary relationship exists, *or* " 'where . . . the accounts are so complicated that an ordinary legal action demanding a fixed sum is impracticable' "].) Here, the parties do not dispute that the contract itself calls for an accounting. That contractual right, however, does not itself convert an arm's length transaction into a fiduciary relationship.

d. The Need to Shift the Burden of Proof in Profit-Sharing Cases Does Not Create a Fiduciary Relationship.

Wolf's final argument for finding a fiduciary relationship based on Disney's contingent obligation to pay future compensation rests on the practical assessment that, without such a finding and the corresponding shift in the burden of proof that such a relationship affords (see, e.g., Rosenfeld, Meyer & Susman v. Cohen (1987) 191 Cal.App.3d 1035, 1051, 237 Cal.Rptr. 14), Wolf will be unable to prove any breach by Disney because all information regarding the proper calculation of contingent compensation is within Disney's exclusive control. Wolf asserts that this total dependence on financial information from Disney demonstrates that it has reposed trust and confidence in the integrity and fidelity of Disney, thereby establishing a fiduciary relationship.

We agree with Wolf that, in contingent compensation and other profit-sharing cases where essential financial records are in the exclusive control of the defendant who would benefit from any incompleteness, public policy is best served by shifting the burden of proof to the defendant, thereby imposing the risk of any incompleteness in the records on the party obligated to maintain them. Ordinarily, "a party has the burden of proof as to each fact the existence or nonexistence of which is essential to the claim for relief or defense that he is asserting," but this rule applies only "[e]xcept as otherwise provided by law." (Evid.Code, § 500.) On occasion courts have held that, " 'Where the evidence necessary to establish a fact essential to a claim lies peculiarly within the knowledge and competence of one of the parties, that party has the burden of going forward with the evidence on the issue although it is not the party asserting the claim.' " (Sanchez v. Unemployment Ins. Appeals Bd. (1977) 20 Cal.3d 55, 71, 141 Cal.Rptr. 146, 569

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P.2d 740.)

"In determining whether the normal allocation of the burden of proof should be altered, the courts consider a number of factors: the knowledge of the parties concerning the particular fact, the availability of the evidence to the parties, the most desirable result in terms of public policy in the absence of proof of the particular fact, and the probability of the existence or nonexistence of the fact. In determining the incidence of the burden of proof, 'the truth is that there is not and cannot be any one general solvent for all cases. It is merely a question of policy and fairness based on experience in the different situations.' " (Cal. Law. Revision Com. com., 29B West's Ann. Evid.Code (1995 ed.) foll. § 500, p. 554; Sanchez v. Unemployment Ins. Appeals Bd., supra, 20 Cal.3d at p. 71, 141 Cal.Rptr. 146, 569 P.2d 740; see also 1 Witkin, Cal. Evidence (4th ed. 2000) Burden of Proof and Presumptions, § 12, p. 165["[B]urden of proof may also be altered [under Evidence Code section 500] where there is a greater or almost exclusive availability of evidence to one party"]; Webster v. Trustees of Cal. State University (1993) 19 Cal.App.4th 1456, 1463, 24 Cal.Rptr.2d 150.)

In cases where the financial records essential to proving the contingent compensation owed are in the exclusive control of the defendant, fundamental fairness, the "lodestar" for analysis under Evidence Code section 500 (Adams v. Murakami (1991) 54 Cal.3d 105, 119, 284 Cal.Rptr. 318, 813 P.2d 1348), requires shifting the burden of proof to the defendant. In such cases, the essential facts as to the contingency and the amount owed lie in the exclusive knowledge and control of the defendant, placing the defendant in a far better position to prove satisfaction of its payment obligation. (See, e.g., Thomas v. Lusk (1994) 27 Cal.App.4th 1709, 1717, 34 Cal.Rptr.2d 265 ["the burden of proving an element of a case is more appropriately borne by the party with greater access to information"].) Imposing the burden of proof on a defendant to prove it has fulfilled its payment obligations to plaintiff in these types of contract cases, moreover, is consistent with the long-standing rule that a debtor defending a lawsuit to recover money under a promissory note bears the burden of proving that its payment obligation has been satisfied. (See, e.g., Roesch v. DeMota (1944) 24 Cal.2d 563, 569, 150 P.2d 422; Pacific States Sav. & L. Co. v. Painter (1940) 37 Cal.App.2d 645, 647, 99 P.2d 1103.)

Although we therefore agree that the burden of proving a plaintiff has been paid contingent compensation in accord with the parties' agreement is properly placed on a defendant in exclusive control of essential financial records (thereby imposing on the defendant the risk of any incompleteness in such records), this determination regarding evidentiary burdens does not alter the contractual nature of the parties' relationship. Considerations of fairness and practicality, while relevant to an analysis under Evidence Code section 500, cannot serve to create a fiduciary relationship where one does not otherwise exist.

DISPOSITION

The petition for writ of mandate is denied. Each party to bear his and its own costs. . . .

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JOHNSON, J., Concurring and Dissenting.

I agree with that portion of section d of the majority opinion suggesting the burden of proof will shift to Disney with respect to whether it accurately reported and paid Wolf the full royalties owed for its exploitation of Wolf's characters. In my view, this holding as a practical matter cures much of Wolf's concern about the difficulty of proving the remainder of his case in the face of possible lost, destroyed, or inadequate records.

I write separately, however, to register my disagreement with the majority opinion affirming the trial court's order sustaining a demurrer to Wolf's breach of fiduciary duty cause of action. This ruling is based on a finding Disney owed no fiduciary duty, *as a matter of law,* to accurately and honestly account to Wolf for his 5 percent share of the gross receipts attributable to the company's exploitation of Wolf's intellectual product. Unavoidable circumstances already have delayed unduly the issuance of our opinion, and also required decision by a partially reconstituted panel in this writ proceeding. I thus will keep this dissent brief, even though it raises some fundamental issues.

I tend to agree with the majority opinion's conclusion *Waverly Productions, Inc. v. RKO General, Inc.*[35] is too slender a reed on which to hang a decision holding Disney had a fiduciary duty to Wolf with respect to its responsibility to provide an honest and accurate accounting. The reference in the *Waverly* opinion is ambiguous and lacks an articulated rationale. I am less persuaded by the attempt to distinguish other authorities tending to support Wolf's position, however.[36]

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[35]Waverly Productions, Inc. v. RKO General, Inc. (1963) 217 Cal.App.2d 721, 32 Cal.Rptr. 73.

[36]For instance, in a modification to its original opinion, the majority opinion characterizes *Schaake v. Eagle* (1902) 135 Cal. 472, 63 P. 1025, as merely holding an employee who assigned his patents to his employer in return for a percentage of the profits is entitled to an accounting. But the Supreme Court went beyond that to declare a fiduciary relationship had been created. "These patents and improvements were assigned to the corporation by the plaintiff, but reserving an interest in certain profits which might be realized by the corporation. The relation thus created was *fiduciary,* and as to plaintiff's share or part of the profits realized the *corporation was a trustee.*" (*Id.* at p. 485, 63 P. 1025, italics added.)

In essence, the Supreme Court ruled the plaintiff inventor had a right to an accounting of net profits earned on his inventions specifically *because* the corporation exploiting those inventions owed him a fiduciary duty. The accounting was merely a remedy flowing from the duty, but not necessarily the only remedy or other consequence flowing from that duty. Admittedly, lesser, non-fiduciary relationships sometimes also can create a right to the remedy of an accounting. But the Supreme Court in *Schaake* expressly founded the right to that remedy on a finding the assignment of the plaintiff's intellectual property to a corporation and giving the corporation the right to exploit that intellectual property in return for a share of the profits imposed a fiduciary duty on the corporation. This fiduciary duty, in turn, made the corporation a trustee of the intellectual property holder's share of the profits. I am not persuaded the relationship between the intellectual property holder here, Wolf, and the corporation contracting to exploit his intellectual property, can be properly distinguished from the relationship found sufficient to create a fiduciary duty in *Schaake,* and furthermore to turn Disney into a trustee of Wolf's share of the proceeds from exploitation of his characters.

Similarly, it is questionable whether the majority opinion successfully distinguishes *Nelson v. Abraham* (1947) 29 Cal.2d 745, 177 P.2d 931 and *Stevens v. Marco* (1956) 147 Cal.App.2d 357, 305 P.2d 669. Wolf is not

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But in any event, there remains the question whether there *is or should be* such a fiduciary duty, and under what circumstances, when two parties enter into a profit-sharing relationship but one of those parties retains full control over the books. This issue, in turn, depends on whether the other party's right to audit the books provides a strong enough incentive to ensure an honest report of those receipts and profits. Or does it require imposition of a fiduciary duty and the threat of the attendant remedies to encourage a proper performance of this critical responsibility?

The majority opinion implies there can be no fiduciary duty to keep honest and accurate books--and none of the traditional remedies enforcing such a duty--unless the relationship between the two parties is a fiduciary relationship for all purposes. (Maj. Opn., 130 Cal.Rptr.2d at p. 867.) The majority argues the relationship defined in this contract falls short of being a joint venture, largely because Disney lacks a contractual duty to exploit any of Wolf's figures or other intellectual property, and thus does not qualify as a fiduciary relationship. Consequently, according to the majority rationale, Disney owes no fiduciary duty to maintain honest accounts even as to the exploitations of Wolf's intellectual property it does choose to undertake. (Maj. Opn. at pp. 865-866.)

I differ with the majority opinion on both counts.

First, in my view, evidence may develop establishing Disney and Wolf were involved in

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suing Disney for failing to exploit Roger Rabbit and his other characters, or for having pushed Mickey Mouse and Donald Duck characters more vigorously than his characters. As a result, such differences as may exist between the relationships described in the *Nelson* and *Stevens* cases and the relationship here seem largely irrelevant as to the fiduciary duty to accurately and honestly report Wolf's share of the earnings on the gross sales from exploitation of his characters. (Incidentally, in neither *Nelson* or *Stevens* did the defendant promise not to contract with other persons or products that might compete with the plaintiff.)

Both *Nelson* and *Stevens* identified a number of factors which can combine to create a fiduciary duty flowing from one party to another. Most of those factors are present here, while some are not. But significantly, some of the factors mentioned in *Stevens* are not present in *Nelson,* and vice versa. Yet each found a relationship sufficient to create a fiduciary duty, including a duty to honestly and accurately account to the plaintiff for his share of the profits.

Notably, contrary to the majority's characterization of these decisions, each of these courts found such a relationship without determining it was limited to a joint venture or even an "enterprise similar to a joint venture." Furthermore, each held these profit-sharing relationships were enough to impose a duty on the party keeping the books to honestly and accurately report and to pay over the other party's share of the proceeds. In *Stevens,* for example, after pointing out all the indicia existed to sustain a finding of a fiduciary relationship without a particular label went on to state: "*Furthermore,* the jury *might also have found,* ... that the parties were allied in an enterprise similar to that of joint venturers for mutual gain." (Stevens v. Marco, supra, 147 Cal.App.2d at p. 374, 305 P.2d 669, italics added.) The opinion then marshals the evidence supporting that alternative finding. But the finding of a joint venture or an enterprise similar to a joint venture was not essential to its holding. "It is, however, unnecessary to place a precise legal designation on the relationship between the parties. The present controversy is between the parties to a contract by which the plaintiff admittedly became entitled to a one-third share of the net profits from the operation without acquiring an interest in the business." That was enough to impose a fiduciary duty to honestly and accurately report the net profits "without the necessity for designating their relationship by a particular label." (Nelson v. Abraham, supra, 29 Cal.2d at p. 750, 177 P.2d 931.)

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a joint venture--at least, a contingent joint venture and one which Disney elected to activate--despite any language in the contract to the contrary. Intellectual property is not the same as "widgets" and cannot be treated as such. Whether a joint venture exists is to be determined from the statements and conduct of the parties, not just the written contract they may have executed as part of the venture.[37] Thus, with rare exceptions, this issue cannot be decided on demurrer based on an interpretation of such a written contract.

Furthermore, no amount of contractual disclaimers avowing this was a debtor-creditor relationship instead of a joint venture can turn it into something it was not. As this court held 20 years ago, "[T]he conduct of the parties may create a joint venture despite an express declaration to the contrary."[38] So if it hops like a rabbit and has big floppy ears like a rabbit and eats carrots like a rabbit, Roger is a rabbit--even if the contract says he is a duck (or a mouse).

This arrangement had some key attributes of a joint venture, at least once Disney elected to make the movie starring "Roger Rabbit," and then to exploit the characters in other ways.[39] Later in the proceeding, evidence may emerge demonstrating that once Disney decided to make the movie and exploit the characters Wolf created, the two of them embarked on a joint venture. If so, Disney would owe a fiduciary duty to its co-adventurer even though the terms of the written contract did not define a joint venture and despite the fact Disney had managed to insert contract language asserting this was only to be a debtor-creditor relationship.

Second, even if the arrangement ultimately fails to qualify as a true joint venture that does not end the matter. Disney does not necessarily escape a fiduciary duty to honestly and accurately account to the author of the intellectual property for the receipts earned from the intellectual property on which that author's compensation is based. Under the terms of this contract, Disney undertook the accounting responsibility for the author as well as itself--a

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[37]April Enterprises, Inc. v. KTTV (1983) 147 Cal.App.3d 805, 819, 195 Cal.Rptr. 421 [neither characterization of holder of intellectual property as "independent contractor" in his contract with a television station nor the integration clause in that contract foreclosed parol evidence of oral statements or conduct from which a trier of fact could infer the existence of a joint venture].

[38]April Enterprises v. KTTV, supra, 147 Cal.App.3d at p. 820, 195 Cal.Rptr. 421, citing Universal Sales Corp. v. California etc. Mfg. Co. (1942) 20 Cal.2d 751, 765, 128 P.2d 665.

[39]The facts of this case, as best we know them at this stage, resemble *April Enterprises v. KTTV, supra,* 147 Cal.App.3d 805, 195 Cal.Rptr. 421. That case involved what this court held could prove to be a contingent joint venture between a television station and the ventriloquist who had created several characters and starred in the station's series based on those characters. The contract provided that if the station managed to exploit the filmed series of television shows via syndication or otherwise the ventriloquist would receive a percentage of the revenues. This court deemed the arrangement could qualify as a joint venture, depending on the evidence produced at trial, despite the absence of a promise or affirmative duty on the part of the station to exploit the ventriloquist's past television shows and even though the ventriloquist was not to share in any losses that might be incurred in the attempt to exploit his shows. Some years after the contract was signed the station negligently or deliberately destroyed the only copies of the filmed programs. The published opinion reversed a judgment on the pleadings and nonsuit the trial court had granted in the station's favor. In a subsequent unpublished opinion, this division upheld a multi-million dollar jury verdict based on the station's breach of the fiduciary duty it owed its joint adventurer, the ventriloquist. Although the facts are not identical to the Wolf-Disney arrangement, the parallels are fairly close.

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responsibility arguably carrying with it a fiduciary duty to accurately and honestly report the true receipts and profits. Accountants, like lawyers, owe a fiduciary duty to their clients.[40] Accountants also owe a duty not to supply negligently or intentionally false information to non-clients whom the accountant knows with substantial certainty will rely on that information in their dealings with the client.[41]

Disney may not be an accounting firm, but it employs the accountants and bookkeepers who perform the accounting function Disney contracted to carry out. In a very real sense, Disney *is* Wolf's accountant with respect to the complete and accurate and honest maintenance of the books as to any transactions involving exploitation of Wolf's characters. That itself may create a fiduciary relationship. (Or, alternatively Disney is simultaneously occupying the roles of both accountant and client. In that case, in its role as accountant it is duty bound not to supply negligently or intentionally false information to Wolf, who obviously is a third person known to be relying on that information in its dealings with Disney in the latter's role as client.)

In either event, contrary to a bank-depositor relationship or many other relationships where one business entity maintains records for another, in this instance Wolf necessarily depended entirely on Disney's accounting department and the other Disney employees providing raw information to that department. He was not able to "reconcile" his checkbook based on his own records, or the equivalent. Nor was Wolf in a position to verify the accuracy and completeness of the raw data--the true gross receipts from exploitation of his characters--purportedly recorded in the reports he received. Even if the contract by its terms is ambiguous on this issue, evidence may well develop during the course of these proceedings demonstrating Disney's promise to perform this function created a fiduciary relationship--in this instance, a fiduciary relationship limited to the accounting aspect of the total relationship between Disney and Wolf.

Certainly, Disney's contractual duty to maintain the books required to accurately record the moneys it receives from exploitation of Wolf's characters possesses many of the attributes that have led the courts to characterize other relationships as fiduciary in nature. As one leading commentator wrote in describing what justifies the imposition of fiduciary duties: "Because fiduciaries manage or have some control over very substantial property interests of others, they have the potential to inflict great losses on those property owners. [The] economic interests of fiduciaries are frequently substantially affected by the discretionary decisions they make on behalf of others ... As a result ... *fiduciaries have unusually great opportunities to cheat without detection and they have unusually great incentives to do so.* Moreover, the relative costs which their cheating may impose on those whose property they manage are frequently much greater than the relative costs that can be imposed without detection or remedy in simpler contractual

[40]See generally, 6 Witkin, Summary of Cal. Law (9th ed. 1988) Torts, § 805, p. 157 ["Like other professionals ..., accountants 'have a duty to exercise the ordinary skill and competence of members of their profession, and a failure to discharge that duty will subject them to liability for negligence.' (Citation omitted.)"].

[41]Bily v. Arthur Young & Co. (1992) 3 Cal.4th 370, 414, 11 Cal.Rptr.2d 51, 834 P.2d 745.

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exchanges. . . .[42]

"Fiduciary duties and conflict of interest regulation both provide standardized terms to minimize transaction costs and impose unwaivable quality requirements which *prevent fiduciaries from taking unfair advantage of the superior bargaining power* resulting from their specialized information and skills."[43]

The opportunity and temptation to cheat is present in the relationship here just as much as it is in the trustee-beneficiary, partnership, or other traditional fiduciary relationships. Wolf must depend entirely on the honesty and accuracy of Disney in the performance of the accounting function Disney is carrying out for both of them. Every sale of a toy "Roger Rabbit" that Disney fails to include in its report of receipts from exploitation of Wolf's characters means less money for Wolf and more profit for Disney. The conflict of interest inherent in this relationship, therefore, is more than apparent. So there appears to be just as great a need to impose a fiduciary duty on the performance of that accounting responsibility in order to discourage Disney "from taking unfair advantage of" its special position as there is for partners who manage a partnership business or for trustees who keep the books for a beneficiary's property interests.

Almost 70 years ago in the midst of a depression and contemplating the ruins of a collapsed economy, the nation's future Chief Justice, Harlan Stone, made a powerful argument for imposing fiduciary duties where one party depends on the honest performance of another who may have a selfish motive for doing otherwise.

"I venture to assert that when the history of the financial era which has just drawn to a close comes to be written, most of its mistakes and its major faults will be ascribed to the failure to observe the fiduciary principle, the precept as old as holy writ, that 'a man cannot serve two masters.' More than a century ago equity gave a hospitable reception to that principle and the common law was not slow to follow in giving it recognition. No thinking man can believe that an economy built upon a business foundation can permanently endure without some loyalty to that principle."[44]

Recent events have made Justice Stone's admonition all the more relevant not only to the current business world, but also to the courts and especially in regard to our decisions whether to impose fiduciary duties on certain business relationships. On the record before our court in this writ proceeding, I am not quite prepared to determine Disney assumed a fiduciary duty to maintain honest and accurate records as to its exploitation of Wolf's characters. But I am close to such a conclusion. More importantly, I am unprepared at this early stage of the proceedings, in the absence of evidence before the trial court, to determine no such fiduciary duty exists as a

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[42]Anderson, Conflicts of Interest: Efficiency, Fairness and Corporate Structure (1978) 25 UCLA L.Rev. 738, 758. Italics supplied.

[43]Anderson, Conflicts of Interest: Efficiency, Fairness and Corporate Structure, supra, 25 UCLA L.Rev. at p. 759. Italics supplied.

[44]Stone, *The Public Influence of the Bar* (1934) 48 Harv. L.Rev. 1, 8-9.

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matter of law. Accordingly, I would issue the writ and reverse the order sustaining the demurrer, thus reserving that question for another day.

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Chapter 2

CONTRACT ISSUES

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§ 2.01 INTRODUCTION

[B] Types of Contracts: Rights, Services & Financing

USAGE: On page 152, ADD the following case after the first incomplete paragraph:

GREAT ENTERTAINMENT MERCHANDISE, INC. v. VN MERCHANDISING, INC.
1996 U.S. Dist. LEXIS 8973 (S.D.N.Y. 1996)

SAND, District Judge.

Plaintiff Great Entertainment Merchandise brings this breach of contract action against performing artist Vince Neil and his loan-out corporation,[45] VN Merchandising, after Neil failed to perform before a guaranteed number of paid attendees at his concerts. Plaintiff alleges that this failure violates the terms of their legal commitments and obligates both Vince Neil and his loan-out corporation to repay the unearned portion of a $1,000,000 advance. Defendant VN Merchandising does not oppose plaintiff's motion for summary judgment. Defendant Vince Neil, however, contests liability, asserting that the language of the contract does not bind him as he is not a guarantor for the debts of his loan-out corporation. In response, plaintiff Great Entertainment Merchandise has moved for summary judgment. Summary judgment is granted as to defendant VN Merchandising, and is denied with respect to Vince Neil.

BACKGROUND

Plaintiff Great Entertainment Merchandise ("GEM") engages in the acquisition and exploitation of merchandising rights to the names and likenesses of performing artists. Defendant Vince Neil ("Neil") is a heavy metal performing artist. In May 1993, plaintiff GEM entered into negotiations with Neil in order to secure a license of Neil's trademark and merchandising rights to manufacture T-shirts for his upcoming concert tour. In anticipation of the agreement with GEM, Neil arranged for the incorporation of a loan-out company. Established for the sole purpose of holding Neil's rights and licensing them to GEM, VN Merchandising ("VN") was incorporated on June 22, 1993. One day later, VN licensed its sole asset, Neil's trademark and merchandising rights, to GEM. The terms of the license are embodied in a contract known to the

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[45]Loan out companies, also known as furnishing companies, are common in the entertainment industry where performing artists offer their services or rights through separate corporations in order to reap tax and retirement benefits, and shield themselves from personal liability.

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parties as the "Agreement".

Once the Agreement was executed, GEM paid VN $1,000,000. According to the contract, this sum was an advance on the royalties VN expected to accrue from GEM's exploitation of VN's merchandising rights. In exchange for the one million dollar outlay, the Agreement provided that VN

> "agrees to cause [Neil] to undertake a concert tour (the 'Tour') . . . before an aggregate of eight hundred thousand (800,000) paid attendees."

Apparently, GEM provided the advance with the expectation that Neil's performances for 800,000 paid attendees would generate sufficient merchandise demand such that GEM could have a realistic opportunity to earn back the advance it paid to VN and make a profit.

In addition to the advance terms, the Agreement provided:

"In the event Grantor fails to perform ... before an aggregate of Eight Hundred Thousand (800,000) paid attendees ... [then] GEM may, by written notice to Grantor, demand that Grantor repay to GEM the full amount of the unrecouped Advances theretofore paid to Grantor by GEM, in which event Grantor shall immediately repay such amount to GEM ..."[46]

The rights and duties of both GEM and VN having been established in the Agreement, the parties turned their attention to documenting the obligations of Neil individually. Therefore, concurrent with the execution of the Agreement, GEM and Neil signed an Inducement Letter. A routine practice in the entertainment industry, the function of an inducement letter is to ensure that the performing artist subscribes to the underlying obligations of the loan out company's contract. Since the purchaser of the service enters into a contract with an often under-capitalized company, whose only asset is the underlying right which is to be purchased, the purchaser needs some assurance that the performer is willing to honor the contract of his furnishing company;[47] lest its only recourse being against a shell corporation. Inducement letters, in effect, allow the loan out company to guarantee the personal services of the individual artist. Therefore, at the same time as GEM entered into the Agreement with VN, Neil signed an Inducement Letter, stipulating his direct commitment to honor the underlying contract.

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[46]At oral argument, (March 7, 1996 Tr. at 6-7), plaintiff's counsel contended that, in this paragraph, Grantor was to be used interchangeably with VN and Neil. We cannot agree. The first paragraph of the Agreement stipulates that Grantor is VN:

> "Agreement made as of the 23rd day of June, 1993 by and between GREAT ENTERTAINMENT MERCHANDISE, INC., at Worldwide Plaza, 825 Eighth Avenue, New York, New York 10019 ("GEM") and VN Merchandising Inc. at c/o Ziffren, Brittenham & Branca, 2121 Avenue of the Stars, Suite 3200, Los Angeles, CA 90067 ("Grantor")."

[47]There are instances where a loan out company furnishes the services of more than one artist. Similarly, there are circumstances where a loan out company will provide several services or rights. In the instant case, however, the loan out company (VN), is a single asset company, furnishing the merchandising rights of Vince Neil and nothing else.

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Incorporated as part of the Agreement, the Inducement Letter provides:

> "I [Neil] have been advised that Grantor [VN] is entering into a written agreement with you [GEM] of even date herewith (the 'Agreement'), pursuant to which [VN] is agreeing to furnish such rights to you. I am familiar with each provision of the Agreement relating to my obligations, which include certain obligations with regard to my performance of live concert tours, and I approve all of such provisions of the Agreement. . . .
>
> In consideration of your executing the Agreement and as further inducement for you to do so (it being to my benefit that you execute the same), I hereby agree as follows:
>
> 1. I confirm, warrant, guarantee and agree that I will duly and to the best of my ability, perform and discharge all of the obligations undertaken by me pursuant to the terms and conditions of my agreement with Grantor so as to fulfill all of the commitments, warranties, and representations contained in the Agreement and in all of the provisions as the same apply to me."

The issue in this case concerns the interpretation of the above language. Plaintiff contends that this paragraph obligates Neil to serve as guarantor for all VN's duties, including VN's financial obligations to repay the unearned portion of the $1,000,000 advance. Defendant contends that the language does not cause him to be the financial guarantor of his loan out company; rather, it merely binds him to use his best efforts to fulfill his personal obligation to perform in front of audiences aggregating 800,000 people.

The controversy arises because by the time Neil's concert tour was completed, he had performed before an aggregate number of 533,032 paid attendees, far short of the 800,000 guaranteed number. By letter dated September 22, 1995, GEM demanded that VN and Neil repay the full amount of the unrecouped $1,000,000 advance paid to VN. Responding that Neil was not liable for the debts of VN, Neil refused to tender payment. As of this date, neither VN nor Neil have paid to GEM the unrecouped advances. GEM, therefore, moves for summary judgment on its breach of contract claims against both VN and Neil.

DISCUSSION

* * * * *

Defendant VN concedes liability on the breach of contract claim and therefore does not oppose the motion. Accordingly, summary judgment is granted as to defendant VN. Defendant Neil, however, contests plaintiff's assertion that he is liable for the payment of the unrecouped $1,000,000 advance. Rather, he argues that neither the language of the Agreement nor the

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Inducement Letter creates such an obligation.

It is important to note what is not at issue in this present motion. Plaintiff has not asked this Court to assess the validity of its alter ego claim for relief. See Tr. at 21-22. Accordingly, this Court leaves the highly relevant issue of piercing the corporate veil for a later day.

Focusing our attention on the breach of contract claim before the Court, both parties have stipulated that New York law governs the contract. It is well settled that New York law requires that the guarantee of an undertaking be in writing. See New York General Obligations Law § 5-701(a)(2); Fort Howard Paper Co. v. William D. Witter, Inc., 787 F.2d 784, 795 (2d Cir.1986); Martin Roofing, Inc., v. Goldstein, 60 N.Y.2d 262, 264-67 (1983), cert. denied, 466 U.S. 905 (1984). Similarly well founded is New York's requirement that the language of guarantee and indemnity agreement shall be strictly construed. Weissman v. Sinorm Deli, 1996 WL 317107, *4 (N.Y.Ct. of App. June 11, 1996); Hooper v. AGS Computers, 74 N.Y.2d 487, 492 (1989) citing Levine v. Shell Oil Co., 28 N.Y.2d 205, 211 (1971); Kurek v. Port Chester Housing Auth., 18 N.Y.2d 450, 456 (1966).

Turning to the language of the Inducement Letter, Neil agreed

> "to perform and discharge all of the obligations undertaken by me pursuant to the terms and conditions of my agreement with Grantor [VN] so as to fulfill all of the commitments, warranties, and representations contained in the Agreement and in all of the provisions as the same apply to me." (emphasis added).

Defendant Neil urges that the paragraph be read according to its plain meaning. Arguing that Neil merely promised to use his best efforts to perform his own obligations, i.e. perform for 800,000 attendees, rather than those of his loan out corporation, defendant raises a convincing argument. Nowhere in the Inducement Letter does Neil appear to unequivocally guaranty VN's financial obligations. Rather, the bold-faced words suggest that Neil is merely guarantying his own musical performance.

Plaintiff argues that the bold-faced language was meant to be more inclusive, embodying not only the obligations of Neil, the individual, but also that of his loan out company. Seeing the obligation to perform and the obligation to repay as a single bundle of rights and obligations, plaintiff urges a broader reading, relying on both the interplay of various contractual paragraphs and the objective intent of the parties when the Agreement was executed.

Assessing the plain language in light of the entire contractual sequence, we are troubled by the apparent lack of wording specifying a financial guarantee. It seems only logical that when GEM entered into contract negotiations with VN, it bargained for some assurance that the $1,000,000 advance could be recoupable against a financially viable party. Indeed GEM repeatedly asserts, and we find it quite believable, that it would never have entered into a contract with a single asset company, incorporated the day before the contract was signed,

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without the protection of a financially responsible guarantor. GEM's intent is plainly manifest; it intended to enter into a contract that would provide it with a viable recourse if defendant Neil was not able to honor the 800,000 attendee agreement.

In contrast, defendant Neil's intent is not as clear. In his deposition on May 29, 1996, it is evident that Neil delegated to his advisors control over his finances and businesses. As he succinctly states, “I'm a performer . . . I'm not an attorney or anything . . . I need to get T-shirts out for fans and my attorneys and managers took care of it.” (Tr. at 32). Neil states that he does not know what a loan out or furnishing corporation is. (Tr. at 20). Similarly, he testifies to being unsure as to what an Inducement Letter is. (Tr. at 35). It is apparent that at the time of contract, Neil did not know that he undertook a commitment to perform in front of a certain fixed number of paid attendees, or for that matter where the advance money was to be paid. (Tr. at 38 and 39). When asked if he agreed to personally indemnify GEM for any liability arising out of the breach of the Agreement, Neil responded, “As far as I know, no.” (Tr. at 53).

Unlike Neil, his attorneys have a clear view of what Neil's intent was at the time of signing the Inducement Letter. In defendant Neil's affidavit of April 1, 1996, he unequivocally denies undertaking the financial obligations of his loan out company. Neil asserts, “I never intended to be personally responsible for repaying any money owed by my loan-out company to the plaintiff.”

This Court is concerned over the discrepancy between Neil's affidavit and deposition testimony. Equally of concern is the dissonance between the language of the Inducement Letter, containing no explicit financial guarantee, and the intent of GEM to assure Neil's personal liability. In light of the New York law that a guarantee must be strictly construed, the Court concludes that summary judgment is not appropriate on the breach of contract issue. Accordingly, summary judgment as to Neil is denied. . . .

§ 2.02 Contract Formation

[A] Oral Agreements

USAGE: On page 160, ADD the following case after *Main Line Pictures, Inc. v. Basinger*:

WEINSTEIN CO. v. SMOKEWOOD ENTERTAINMENT GROUP, LLC
664 F. Supp. 2d 332 (S.D.N.Y. 2009)

NAOMI REICE BUCHWALD, District Judge.

Plaintiff The Weinstein Company, LLC, (“plaintiff” or “TWC”) commenced this action on February 4, 2009, against defendant Smokewood Entertainment Group, LLC (“defendant” or

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"Smokewood"), seeking monetary damages for defendant's alleged breach of an agreement for the licensing and distribution rights to the motion picture *Push: Based on the Novel by Sapphire* (*"Push"*). Pursuant to Fed.R.Civ.P. 12(b)(6), defendant now moves to dismiss plaintiff's claim for failure to state a claim upon which relief can be granted.

For the following reasons, defendant's motion is granted.

BACKGROUND

Defendant is the financier and co-owner of *Push,* a dramatic motion picture based on a novel about a young African-American mother in Harlem in 1987. (Complaint ("Compl.") ¶¶ 1, 8.) The film opened to critical acclaim at the 2009 Sundance Film Festival, which was held in Park City, Utah, and won both the prestigious grand jury prize and audience award in the U.S. dramatic competition (only the third film in the history of the festival to do so). (Id. ¶ 9.)

On January 24, 2009, shortly after the film's screening at Sundance, executives from TWC traveled to Park City to discuss the possibility of purchasing distribution rights to *Push.* (Id. ¶ 11.) Cinetic Media, Inc., John Sloss, and Bart Walker acted as agents of Smokewood during the course of these negotiations. (Id. ¶¶ 5, 12.)

According to the Complaint, Cinetic offered TWC the licensing and distribution rights to *Push* on January 27, 2009, contingent upon TWC's acceptance of "a series of specific terms and demands." (Id. ¶ 13.) Those terms included a minimum fee payable on a fixed schedule, a distribution fee that varied by territory, bonuses for box office performance and awards, and the preservation of editing rights. (Id. ¶ 14.) Later that day, TWC accepted the offer and agreed to all of the terms and demands put forward by Cinetic, which in turn promised to provide TWC with a written agreement memorializing the terms of the deal. (Id. ¶ 15.) TWC promised to execute and return the written agreement. (Id.)

On the evening of January 27th, representatives for the parties engaged in an e-mail exchange that is at the center of the dispute before the Court. At 6:29 p.m., David Glasser of TWC sent a message to Sloss and Walker purporting to confirm a deal reached by the parties:

> Dear John and Bart:
>
> I am pleased to confirm on behalf of the Weinstein Company LLC that we have accepted the terms of your last proposal made by you during our breakfast meeting this morning and our subsequent telephone conversation with respect to the acquisition of the exclusive worldwide distribution rights in and to the feature film presently entitled "Push": based on a novel by Saphire" [sic]. Our attorneys are drafting a customary deal memorandum consistent with the terms we agreed upon and will be forwarding to you shortly.

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> We are pleased to have concluded this deal, as it has been an incredible journey to get here and appreciate all your efforts.

(Pl.'s Mem., Shulman Decl. Ex. A at 2.) Eight minutes later, Walker responded as follows to Glasser's e-mail:

> Gentlemen-Since our last conversation, I have been on a call with the producers and financiers explaining every sentence. I will call you after. Not being at the breakfast, I don't know exactly what was discussed there, but am relaying the contents of our conversation this afternoon. Will call asap. Best, bw

(Id.) At 7:05 p.m., Glasser followed up with another message, once again purporting to confirm a deal:

> Bart:
>
> Thank you for all your hard work on this title. I just got off the phone with Harvey [Weinstein] and I am glad to confirm that we have a deal. Additionally, we will work with you to accommodate your additional needs (i.e. Elephant Eye).[48]
>
> Best regards,

(Id. at 1.) And in what was apparently the last written communication between TWC and Cinetic that evening, Walker responded with the following message at 7:12 p.m.:

> Guys, I'm explaining every detail to the producers and financiers and taking comments and will call you when this conversation is over. Best, bw

(Id.)

Approximately seven hours later, at 2:04 a.m. on January 28, 2009, Glasser wrote to Cinetic to inquire about the status of the written documentation for the deal. Glasser stated that "[e]arlier today, we accepted all of the terms and conditions of your offer, thereby closing a deal

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[48] Plaintiff does not mention Elephant Eye either in its Complaint or its Opposition to Defendant's Motion to Dismiss. Defendant claims, however, that it had a prior agreement with Elephant Eye for the international distribution, sales, and licensing of *Push.* (Defendant's Memorandum of Law in Support of Motion to Dismiss ("Def.'s Mem.") at 2.)

As explained further below, a court deciding a motion to dismiss must assume the veracity of the plaintiff's complaint and draw all reasonable inferences in plaintiff's favor. Consistent with that standard, and because the e-mail communications concerning Elephant Eye are not unambiguous, we assume that there was no deal in place with Elephant Eye that would have barred or otherwise impeded an agreement between the parties for the licensing and distribution of *Push.*

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to acquire the rights to the film entitled 'Push'." (Pl.'s Mem., Shulman Decl. Ex. C at 1.) According to Glasser, TWC had agreed to offer its "assistance" with a "problem" that Smokewood had with Elephant Eye, but Glasser claimed that did not "in any way affect[ ] the existence of the deal we closed." (Id.) Glasser closed by stating that TWC had been "awaiting the written documentation of our deal" and that TWC "fully intend[ed] to enforce the deal ... with or without written documentation." (Id.)

After a follow-up from Glasser (in which he again maintained that TWC would take "whatever action is necessary" to enforce the deal), Sloss and Walker responded at 4:42 a.m. (Id. at 2.) They wrote that there had "been no agreement reached" and claimed that there were several "[e]ssential points [that] had not and have not been agreed, including, without limitation, the division of profits between Weinstein and our client, and whether or not rights in the international territories could be granted." (Id.)[49] Sloss and Walker asserted that "all points under discussion with Weinstein were subject to explanation to and review by our clients and their counsel." (Id.) At 4:50 a.m., Glasser replied that Sloss and Walker's e-mail "constitute[d] a repudiation of the agreement which we definitely did reach." (Id. at 3.)

On February 2, 2009, Smokewood, Cinetic, and Lions Gate Entertainment Corp. ("Lionsgate") announced a deal under which Lionsgate was granted the distribution rights to *Push.* (Compl.¶ 22.) TWC now alleges that Smokewood, by entering into the deal with Lionsgate, breached a contract between the parties that was reached on January 27th.

DISCUSSION

I. Standard for Motion to Dismiss

When deciding a motion to dismiss pursuant to Fed.R.Civ.P. 12(b)(6), the Court must accept as true all well-pleaded facts alleged in the complaint and draw all reasonable inferences in plaintiff's favor. Kassner v. 2nd Ave. Delicatessen, Inc., 496 F.3d 229, 237 (2d Cir.2007). A complaint must include "enough facts to state a claim for relief that is plausible on its face." Bell Atlantic Corp. v. Twombley, 550 U.S. 544, 570 (2007). A motion to dismiss may be granted only where "it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief." Still v. DeBuono, 101 F.3d 888, 891 (2d Cir.1996) (quoting Conley v. Gibson, 355 U.S. 41, 45-46 (1957)).

Nevertheless, "the tenet that a court must accept as true all of the allegations contained in a complaint is inapplicable to legal conclusions." Ashcroft v. Iqbal, --- U.S. ----, 129 S.Ct. 1937, 1949 (2009). "While legal conclusions can provide the framework for a complaint, they must be supported by factual allegations." Id. at 1950.

[49]Sloss and Walker claimed that there was a prior agreement "with an international sales agent for the film"-apparently alluding to Elephant Eye-that they were "unable to harmonize" with TWC's offer to acquire worldwide rights. (Pl.'s Mem., Shulman Decl. Ex. C at 2.) Once again, given the procedural posture of the case, the Court accepts plaintiff's contention that no such deal would have impeded an agreement between the parties.

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In deciding a motion to dismiss, the Court may consider exhibits to the complaint and documents incorporated into the complaint by reference. Police and Fire Ret. Sys. of Detroit v. Safenet, Inc., No. 06 Civ. 5759(PAC), 2009 WL 2391849, at *7 (S.D.N.Y. August 5, 2009) (citing In re Gildan Activewear, Inc. Sec. Litig., No. 08 Civ. 5048(HB), 2009 WL 1919618, at *4 n. 3 (S.D.N.Y. July 1, 2009)).

II. Plaintiff's Theories of Liability

Although plaintiff's Complaint identifies just one cause of action for breach of contract, plaintiff's Opposition to Defendant's Motion to Dismiss proffers three separate theories of contract liability: (1) that plaintiff acquired an exclusive license to distribute *Push* (orally and/or through the January 27th e-mail exchange); (2) that, even if there was no exclusive license, plaintiff nevertheless acquired an implied non exclusive license to distribute *Push;* and (3) that even in the absence of a valid license, defendant breached a binding preliminary commitment to negotiate in good faith with plaintiff over the licensing and distribution rights to the film.

The Court addresses each theory in turn and concludes that, under any of the theories advanced, plaintiff's claim for breach of contract must be dismissed.

A. Breach of an Exclusive License for *Push*

Plaintiff's principal theory of liability is that it acquired an exclusive license to distribute *Push,* the terms of which were violated when defendant subsequently closed its deal with Lionsgate.

Under the Copyright Act, the transfer of an exclusive license, including a license for distribution of a copyrighted work, must be effected through a signed writing from the copyright owner or its agent. The Copyright Act grants copyright owners a number of so-called "exclusive rights," including the right to distribute the work "to the public by sale or other transfer of ownership." 17 U.S.C. § 106(3). A "transfer of copyright ownership" is defined as "an assignment. exclusive license, or any other conveyance ... of a copyright or of any of the exclusive rights comprised in a copyright." Id. § 101(a). A transfer of copyright ownership, however, "is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." Id. § 204(a).

Defendant argues that there is no signed writing that satisfies § 204(a) and that defendant therefore never granted plaintiff an exclusive license to distribute *Push.* Read liberally, and in conjunction with plaintiff's opposition papers, the Complaint suggests two different avenues by which TWC may have acquired an exclusive license. First, plaintiff contends that the license was acquired orally, through negotiations between the parties. Second, plaintiff contends that the license was granted by defendant through the January 27th e-mail exchange.

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1. Oral Agreement to License *Push*

Notably, the Complaint does not allege a written, legally binding agreement for the licensing and distribution rights to *Push.* Rather, the Complaint alleges that there were negotiations between January 24, 2009 and January 27, 2009, resulting in an agreement that was never finalized in writing.

Indeed, plaintiff's Complaint focuses on the *absence* of a written agreement as grounds for its claim for breach of contract. Plaintiff alleges, for instance, that prior to the January 27th e-mail exchange, Cinetic "promised TWC that they would immediately provide TWC with a written licensing and distribution agreement" and that "TWC promised to immediately execute and return such written licensing and distribution agreement." (Compl.¶ 15.) The Complaint goes on to allege that Walker's responses to Glasser's e-mails on January 27th led plaintiff to believe that it would soon receive "immediate written documentation of the deal" but that "no written documentation of the Agreement was ever provided to TWC, on January 27, 2009 or thereafter." (Id. ¶ 19.)

These allegations are consistent with the January 27th e-mails. Writing on behalf of TWC, Glasser's e-mail of 6:29 p.m. states that TWC's "attorneys are drafting a customary deal memorandum with the terms we agreed upon." (Pl.'s Mem., Shulman Decl. Ex. A at 2.) The Complaint does not even allege, however, that TWC itself ever committed the agreement to writing. Later that night, Glasser complained that TWC had been "awaiting the written documentation of our deal" and could not "understand why that documentation has been delayed." (Pl.'s Mem., Shulman Decl. Ex. C at 1.)

To the extent that plaintiff alleges a purely oral agreement for the exclusive licensing and distribution rights to *Push,* that claim clearly fails as a matter of law. Prior to 1978, exclusive licenses could be granted orally or by conduct. See Eden Toys, Inc. v. Florelee Undergarment Co., 697 F.2d 27, 36 (2d Cir.1982); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 10.03 [B][1] (2009). That changed, however, upon the enactment of § 204(a) of the Copyright Act. Today, a legally valid transfer of copyright ownership can occur only "by operation of law" or through "an instrument of conveyance, or a note or memorandum of the transfer, [which] is *in writing* and signed by the owner of the rights conveyed or such owner's duly authorized agent." 17 U.S .C. § 204(a) (emphasis added).

Consistent with this clear statutory directive, courts in this Circuit have repeatedly held that a signed writing is required to effectuate a transfer of copyright ownership. See, e.g., Time, Inc. v. Kastner, 972 F.Supp. 236, 238 (S.D.N.Y.1997); Techniques, Inc. v. Rohn, 592 F.Supp. 1195, 1197 (S.D.N.Y.1984). Thus, any claim on the part of TWC that it acquired an exclusive license without a legally sufficient writing (of some sort) is irretrievably flawed as a matter of

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law and, accordingly, dismissed.[50]

2. Written Agreement to License *Push*

Plaintiff's Opposition to Defendant's Motion to Dismiss advances a more plausible legal argument, one that better accords with the signed writing requirement of § 204(a). According to plaintiff, there is, in fact, a sufficient writing under § 204(a), namely, the January 27th e-mail exchange between the parties.

A writing "evidencing the transfer [of copyright ownership] need not be lengthy or detailed, but it must evidence the transfer with reasonable clarity." Rico Records Distribs. v. Ithier, No. 04 Civ. 9782(JSR), 2006 WL 846488, at *1 (S.D.N.Y. Mar. 30, 2006) (internal citations omitted); accord Papa's-June Music, Inc. v. McLean, 921 F.Supp. 1154, 1159 (S.D.N.Y.1996). The writing requirement "is not unduly burdensome; it necessitates neither protracted negotiations nor substantial expense." Effects Assocs., Inc. v. Cohen, 908 F.2d 555, 557 (9th Cir.1990), *cert. denied,* 498 U.S. 1103, 111 S.Ct. 1003, 112 L.Ed.2d 1086 (1991). "The rule is really quite simple: If the copyright holder agrees to transfer ownership to another party, that party must get the copyright holder to sign a piece of paper saying so." Id.

As the Ninth Circuit has explained, there are substantial policy concerns that underlie the signed writing requirement:

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[50]Defendant argues that plaintiff's position in an unrelated litigation constitutes a "judicial admission" that prevents TWC from alleging the existence of an oral agreement for the licensing and distribution of *Push.* The case at issue concerned a claim to an oral right of first refusal for rights to the television program *Project Runway.* The Weinstein Company, the defendant in that proceeding, moved to dismiss the claim, arguing, among other things, that a right of first refusal had to be evidenced by a signed writing under § 204(a) of the Copyright Act. (See Def.'s Mem., Hayes Decl. Ex. E at 16.)

As a practical matter, defendant's argument appears to be irrelevant at this point. Although plaintiff's Complaint appears to rely on the flawed legal theory that the parties had an oral agreement for the licensing and distribution of *Push,* plaintiff's Opposition to Defendant's Motion to Dismiss argues that there is, in fact, a signed writing as required by § 204(a) and draws on facts alleged in the Complaint to advance this theory. Thus, at least now, plaintiff's position is consistent with its position in the *Project Runway* litigation.

Yet even if plaintiff had taken a different position in this case, its prior position would not constitute a "judicial admission," as defendant claims. Judicial admissions "are statements of fact rather than legal arguments made to a court." New York State Nat'l Org. for Women v. Terry, 159 F.3d 86, 97 n .7 (2d Cir.1998).

Rather, it is conceivable that plaintiff could be judicially estopped from taking a different legal position in this case. Judicial estoppel "applies only in situations where a party both takes a position that is inconsistent with one taken in a prior proceeding, and has had that earlier position adopted by the tribunal to which it was advanced." Stichting ter Behartiging van de Belangen van Oudaandeelhouders in het Kapitaal van Saybolt Int'l B.V. v. Schreiber, 407 F.3d 34, 45 (2d Cir.2005). As even defendant concedes, plaintiff's motion in the *Project Runway* case was denied for reasons unrelated to § 204(a), and its legal position on the provision was never adopted. (Def.'s Mem. at 9.)

Thus, the only barrier to any attempt by plaintiff to argue that a transfer of copyright ownership can be effected through a purely oral agreement would be the overwhelming and unequivocal legal authority to the contrary.

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> Common sense tells us that agreements should routinely be put in writing. This simple practice prevents misunderstandings by spelling out the terms of a deal in black and white, forces parties to clarify their thinking and consider problems that could potentially arise, and encourages them to take their promises seriously because it's harder to backtrack on a written contract than on an oral one. Copyright law dovetails nicely with common sense by requiring that a transfer of copyright ownership be in writing. Section 204 ensures that the creator of a work will not give away his copyright inadvertently and forces a party who wants to use the copyrighted work to negotiate with the creator to determine precisely what rights are being transferred and at what price. Most importantly, section 204 enhances predictability and certainty of copyright ownership-Congress' paramount goal when it revised the Act in 1976. Rather than look to the courts every time they disagree as to whether a particular use of the work violates their mutual understanding, parties need only look to the writing that sets out their respective rights.

Id. It is for these reasons that the intention of a copyright owner seeking to transfer an ownership interest must be clear and unequivocal.

In this case, plaintiff has failed to allege the existence of a writing that satisfies the requirements of § 204(a).

Neither of the e-mails sent by Walker on the evening of January 27th demonstrates a clear statement of intent to transfer an exclusive right in *Push.* Rather, it is the *plaintiff* whose e-mails demonstrate an unambiguous desire to enter into the deal. By contrast, Walker's responses on behalf of defendant contain nothing like the affirmative and unambiguous statement that § 204(a) requires from a copyright owner. After Glasser's first e-mail of the evening, in which he purported to confirm a deal, Walker merely stated that he would be talking with the producers and financiers of the film and would call afterwards. When Glasser followed up shortly afterward, once again purporting to confirm a deal, Walker provided a response that was as noncommittal as his previous message.[51]

Plaintiff focuses on the e-mails from Glasser, one of its own principals in the negotiations, who demonstrated a clear intention to acquire the exclusive worldwide distribution rights to *Push.* But this inverts the proper legal analysis. On plaintiff's theory, because Glasser's e-mails were clear and evinced an unambiguous desire to finalize a deal, it was up to defendant to affirmatively reject Glasser's overtures. This is precisely contrary to the way copyright law allocates the obligations among parties to a transfer of copyright ownership. If a copyright owner's intention in writing is unclear-even deliberately so-there is no legally valid transfer.

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[51] This is, of course, to say nothing of the fact that approximately ten hours later, Walker and Sloss were quite clear in writing about their desire *not* to enter into a deal with plaintiff. (*See* Pl.'s Mem, Shulman Decl. Ex. C at 2.)

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Plaintiff argues that when Walker signed his e-mails "Best, bw," this "recorded his agreement with Glasser's assertion that TWC had entered into a valid agreement for exclusive distribution rights to Push." (Pl.'s Mem. at 7.) This argument-that because Walker ended his e-mails with a friendly and widely-used valediction, he therefore endorsed the contents of Glasser's e-mails-is absurd on its face and inadvertently underscores the difficulty of discerning any intention on the part of defendant to grant TWC a license.

Plaintiff relies for its analysis on two cases-*Rico Records* and *Johnson v. Tuff-n-Rumble Management, Inc.,* No. Civ. A. 99-1374, 2000 WL 1145748 (E.D.La. Aug. 14, 2000)-in which courts held that check endorsements could constitute a signed writing for the purposes of § 204(a) when analyzed in conjunction with parol evidence. As an initial matter, plaintiff misses a key difference between this case and both *Rico Records* and *Johnson* by overlooking the significance of a check endorsement: the very act of accepting payment from an alleged licensee can corroborate a copyright owner's intention to transfer its rights. This is rather different from a "signed endorsement," as plaintiff puts it (Pl.'s Mem. at 8), of an e-mail from a would-be licensee.

Moreover, the facts in *Rico Records* and *Johnson* were far stronger than plaintiff's allegations here. The *Rico Records* plaintiffs claimed copyrights to certain sound recordings performed by El Gran Combo de Puerto Rico ("El Gran Combo") based on checks that accompanied the purported transfers. Judge Rakoff held that endorsements on the checks-such as "Purchase of rights of ECG catalogue" and "Bonus on L.P. recording agreement"-could be read to evidence a copyright transfer, and he therefore denied defendants' summary judgment motion with respect to these recordings.2006 WL 846488, at *1. In *Johnson,* the language on the check expressly referred to an assignment of copyrights and "clearly indicate[d] that an ownership interest in copyrights [was] being transferred." 2000 WL 1145748, at *6; see also Dean v. Burrows, 732 F.Supp. 816 (E.D.Tenn.1989) (endorsed check with notation that it. was payment for copyright satisfied signed writing requirement of § 204(a)). In short, these cases involve written statements that, while arguably ambiguous, are nevertheless far clearer in intent than the writings that plaintiff has pointed to in this case.

Moreover, as defendant points out, the question of finality is critical to an analysis of the January 27th e-mails. Walker's e-mails do not set forth the terms of any exclusive license or distribution agreement, and they lack the suggestion of finality. We agree with the Ninth Circuit that "[w]ithout language indicating finality, § 204(a) is not satisfied." Radio Television Espanola S.A. v. New World Entm't, Ltd., 183 F.3d 922, 928 (9th Cir.1999). In *Radio Television Espanola,* the plaintiff claimed that it had an oral agreement, followed by two confirmatory faxes, to license two television shows. The court held that the faxes were legally insufficient, observing that "[a] mere reference to a deal without any information about the deal itself fails to satisfy the simple requirements of § 204(a)." Id. at 927.

As *Radio Television Espanola* indicates, Section 204(a) can be satisfied without much

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difficulty, but a valid writing must nevertheless clearly identify the deal and its basic parameters. Here, plaintiff has alleged no writing, such as a deal memorandum, that accomplishes this. Rather, plaintiff alleges that it reached an oral agreement concerning the terms of the deal (Compl.¶ 14.) and points to the statement in Glasser's first e-mail that the deal was for "exclusive worldwide distribution rights" (Pl.'s Mem. at 6 n. 6 .). The purpose of the signed writing requirement is to ensure that the copyright owner deliberately transfers its ownership interest and that the owner does so in a way that provides the parties with a clear guide to their rights and responsibilities. Effects Associates, 908 F.2d at 557.

The January 27th e-mails fail to accomplish this.

Plaintiff attempts to overcome these difficulties by focusing on the procedural posture of this case, arguing that the e-mail exchange is at least "susceptible to the interpretation that TWC and Smokewood had agreed to an exclusive license" and thus "create[s] a question of fact as to intent that cannot be determined on a motion to dismiss." (Pl.'s Mem. at 7.) Here again, plaintiff focuses on *Rico Records*-in particular, Judge Rakoff's conclusion that because the check endorsements at issue were ambiguous, there was therefore a question of fact for the jury. (See id.) However, Judge Rakoff first concluded that the endorsements were sufficiently ambiguous that it was appropriate (as is common when interpreting vague contractual language) to resort to extrinsic evidence; it was only after concluding that the extrinsic evidence buttressed plaintiff's claim that he determined there was an issue of fact for the jury. 2006 WL 846488, at *1. The Court here finds no ambiguity in Walker's e-mails warranting the need for extrinsic evidence.[52]

More importantly, although plaintiff is correct that the Court's inferences at the motion to dismiss stage must favor plaintiff, those inferences must still be reasonable. Kassner v. 2nd Ave. Delicatessen, Inc., 496 F.3d 229, 237 (2d Cir.2007). Here, the plaintiff urges the Court to employ inferences when reading the January 27th e-mail exchange that strain credulity. Simply put, there is no way to read Walker's e-mails as constituting an intention to grant plaintiff an exclusive license. Under such circumstances, it is appropriate to grant a motion to dismiss. See Papa's-June Music, Inc. v. McLean, 921 F.Supp. 1154, 1158-60 (S.D.N.Y.1996) (granting motion to dismiss for plaintiff's failure to allege signed writing satisfying § 204(a)).

Finally, the Court notes plaintiff's attempt to buttress its position by arguing that it is "customary in the entertainment industry" for parties to negotiate copyright transfers orally and for licensees to follow up with a confirmatory note indicating acceptance of a copyright owner's terms. (Pl.'s Mem. at 3.) As an initial matter, this is hardly unusual; virtually every contract negotiation has an oral component before the parties begin committing terms to writing. Further, although some courts have held that oral licenses can be validated by subsequent writings, those

[52]Similarly, plaintiff argues that "to the extent that TWC and Smokewood disagree as to the meaning or scope of the alleged license, such disagreement presents an issue of material fact." (Pl.'s Mem. at 8.) To support this contention, plaintiff cites Bourne v. Walt Disney Co., 68 F.3d 621 (2d Cir.1995), a case in which the Second Circuit was interpreting an executed contract. Here, the parties are not arguing over "the meaning or scope" of a license; the parties' dispute concerns whether a license exists at all. This is a legal question that can be resolved upon a motion to dismiss.

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cases have involved narrow circumstances not present here.[53] Indeed, in this particular case, the subtext of plaintiff's argument bears some resemblance to the one summarized in *Effects Associates* as: "Moviemakers do lunch, not contracts," 908 F.2d at 556. Congress did not exempt parties in the film industry from the requirements of the Copyright Act. Under § 204(a), a transfer of copyright ownership has not occurred unless and until the copyright owner unambiguously embodies its intention to a signed writing. Defendant did no such thing.

B. Breach of a Non-Exclusive License for *Push*

Plaintiff argues that even if the Court finds that there is no valid signed writing under § 204(a), TWC has nevertheless stated a claim for breach of a non-exclusive license. For the reasons explained below, this argument is even more defective than plaintiff's claim to an exclusive license.

Plaintiff no doubt makes this argument because although the Copyright Act requires exclusive licenses to be evidenced by a writing, there is no such requirement for non-exclusive licenses. The Copyright Act defines "transfer of copyright ownership" to include exclusive licenses, but it expressly excludes non-exclusive licenses from the definition. See 17 U.S.C. § 101. Thus, the requirement contained in § 204(a) that a "transfer of copyright ownership" be contained in a writing does not apply to non-exclusive licenses, which can be granted orally or, in certain cases, implied by conduct. See Graham v. James, 144 F.3d 229, 235 (2d Cir.1998).

Although the Second Circuit has not yet ruled on the precise circumstances under which an implied non-exclusive license will be found, our Circuit has followed the lead of other appeals courts and cautioned that implied non-exclusive licenses should be found "only in 'narrow' circumstances where one party 'created a work at [the other's] request and handed it over, intending that [the other] copy and distribute it." SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharm., Inc., 211 F.3d 21, 25 (2d Cir.2000) (quoting Effects Associates, 908 F.2d at 558); *accord SHL Imaging, Inc. v. Artisan House, Inc.,* 117 F.Supp.2d 301, 317

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[53]These cases arise when plaintiff-licensees bring actions against third-party infringers, who, in turn, challenge the validity of the plaintiff's license on the ground that there was no contemporaneous signed writing between the copyright owner and plaintiff-licensee.

For instance, in *Eden Toys, Inc. v. Florelee Undergarment Co.,* 697 F.2d 27 (2d Cir.1982), defendant, a third-party infringer, argued that plaintiff had no standing to bring an infringement claim because it did not have a valid exclusive license from the copyright owner. Plaintiff countered that it had an oral license from the copyright owner that was subsequently formalized in a written agreement. On appeal from a summary judgment ruling in favor of the defendant, the Second Circuit remanded the case for findings on the question of whether a license between the copyright owner and plaintiff existed orally or through conduct. The court reasoned that the purpose of § 204(a) was "to protect copyright holders from persons mistakenly or fraudulently claiming oral licenses." Id. at 36. In a case "in which the copyright holder appears to have no dispute with its licensee on this matter," the court explained that "it would be anomalous to permit a third party infringer to invoke [§ 204(a)] against the licensee." Id. at 36; *accord Dan-Dee Imports, Inc. v. Well-Made Toy Mfg. Corp.,* 524 F.Supp. 615, 618-19 (E.D.N.Y.1981); see generally 3 M. Nimmer, *supra,* § 10.03[A][3] (affirmatively quoting *Eden Toys* and noting that "the mere preparation of written proposals back and forth, which never resulted in a final meeting of the minds, does not suffice to confirm a purportedly 'oral contract' ").

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(S.D.N.Y.2000) ("An implied [non-exclusive] license can only exist where an author creates a copyrighted work with knowledge and intent that the work would be used by another for a specific purpose.").

At least one other Circuit has reframed this standard into a more analytic test,[54] but the basic requirement remains clear: an implied non-exclusive license will only be found when a copyright owner creates a work at the request of the licensee and with the intention that the licensee exploit it.

Analyzing the Complaint under this rubric, it is clear that plaintiff has failed to allege facts sufficient to state a claim for breach of a non-exclusive license. Plaintiff has not alleged that it requested the creation of *Push.* To the contrary, plaintiff's Complaint clearly indicates that negotiations between the parties over the rights to the film began only after it was created and debuted at the Sundance Film Festival.

As the Supreme Court has recently made clear, a plaintiff cannot survive a motion to dismiss merely by alleging the violation of a legal right. "[L]egal conclusions . . . must be supported by factual allegations." Ashcroft v. Iqbal, --- U.S. ----, 129 S.Ct. 1937, 1950 (2009). Here, plaintiff has not alleged facts that would support the claim that TWC acquired a non-exclusive license for *Push.* Indeed, the facts alleged affirmatively belie such a finding.

Plaintiff cites three cases in which courts concluded that a copyright owner had granted an implied non-exclusive license to another party. In all of these cases, however, the work at issue was created by the copyright owner at the request of the licensee and with the intention that the licensee copy and distribute it. In other words, all of these cases follow the *Effects Associates* test that has been applied in this Circuit. See Lulirama Ltd. v. Axcess Broad. Servs., Inc., 128 F.3d 872 (5th Cir.1997) (writer created advertising jingles at request of defendant and with the intention that defendant sell them to other parties); Jacob Maxwell, Inc. v. Veeck, 110 F.3d 749 (11th Cir.1997) (composer created song at request of defendant, a minor league baseball team, and with the intention that defendant play it at games); I.A.E., Inc. v. Shaver, 74 F.3d 768 (7th Cir.1996) (architect created preliminary drawings at the request of defendant and with the intention that defendant use them).

Plaintiff nevertheless argues that a failed attempt to acquire an exclusive license can result in an implied nonexclusive license and that, as a result, the Complaint has at a minimum stated a claim for breach of a non-exclusive license. Although there are cases in which courts have held that an (invalid) oral agreement contemplating an exclusive license can nevertheless be enforced as a non-exclusive license, the licensees in those cases still satisfied the conditions necessary for a non-exclusive license-that the work at issue was created at the licensee's request

[54]Drawing on *Effects Associates,* the Seventh Circuit applies a three-part test: an implied exclusive license may arise when "(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work." I.A.E., Inc. v.. Shaver, 74 F.3d 768, 776 (7th Cir.1996).

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and with the intention that the licensee copy and distribute it. See Lulirama, 128 F.3d at 879-81; Jacob Maxwell, 110 F.3d at 752-53. Thus, even if the Court were inclined to accept the notion that an implied non-exclusive license can be granted where the parties attempt but fail to reach a binding agreement on an exclusive license,[55] plaintiff's Complaint would still fail to allege the necessary facts to withstand a motion to dismiss for breach of a nonexclusive license.

C. Breach of a Binding Preliminary Commitment to Negotiate in Good Faith

Plaintiff's final theory is that defendant breached a binding preliminary commitment to negotiate with TWC in good faith when the defendant negotiated and then closed a competing deal with Lionsgate. Like plaintiff's other theories, this too fails.

New York law recognizes the existence of binding preliminary commitments under certain, very narrow circumstances. The framework for analyzing whether such a commitment exists was provided by Judge Leval in *Teachers Insurance & Annuity Ass'n v. Tribune Co.,* 670 F.Supp. 491 (S.D.N.Y.1987), and has since been applied by the Second Circuit, see, e.g., Shann v. Dunk, 84 F.3d 73, 77 (2d Cir.1996).

The *Tribune* opinion outlined two types of binding preliminary contracts:

> Type I is where all essential terms have been agreed upon in the preliminary contract, no disputed issues are perceived to remain, and a further contract is envisioned primarily to satisfy formalities. Type II is where the parties recognize the existence of open terms, even major ones, but, having agreed on certain important terms, agree to bind themselves to negotiate in good faith to work out the terms remaining open. In Type II agreements, the parties do not bind themselves to conclude the deal but only to negotiate in good faith toward conclusion within the agreed framework.

Shann, 64 F.3d at 77 (citing Tribune, 670 F.Supp. at 496). The first type of agreement "is preliminary only in form," and formalization "is not necessary" to fully bind the parties as to the terms of the agreement. Tribune, 670 F.Supp. at 498. Plaintiff argues that it has stated a claim for the second type of agreement-"an agreement to continue to negotiate in good faith and not an enforceable licensing and distribution agreement." (Pl.'s Mem. at 13.)

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[55]As Nimmer points out, according partial significance to an attempted grant of an exclusive license as a non-exclusive license "raise [s] serious questions under contract law, as the enterprise would plainly contravene the mutual intent of the parties." 3 M. Nimmer, supra, § 10-03 [A][7]. Here, plaintiff's own e-mail clearly indicates that it was negotiating an "exclusive" license for *Push.* (Pl. Mem, Shulman Decl. Ex. A at 2.) Indeed, plaintiff has not even alleged that it ever wanted a non-exclusive license. In TWC's very first e-mail on the evening of January 27th, for instance, Glasser stated his belief that the company had acquired "exclusive worldwide distribution rights." (Id.)

Plaintiff's position in this case seems to be that a nonexclusive license should function as a sort of consolation prize for TWC's failure to successfully secure an exclusive license. The cases cited by plaintiff do not support this argument, which, if accepted by the Court, would undermine copyright owners' statutory rights by turning every failed negotiation for an exclusive license into a potential claim for a non-exclusive license.

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Before proceeding to the specific factors that *Tribune* directs courts to consider when determining whether a Type II preliminary commitment exists, we must bear in mind the overarching principles outlined by Judge Leval. When parties are negotiating an agreement, the default assumption is that "enforceable legal rights do not arise." 670 F.Supp. at 497. "It is fundamental to contract law that mere participation in negotiations and discussions does not create binding obligation, even if agreement is reached on all disputed terms." Id. Courts must ensure that they "avoid trapping parties in surprise contractual obligations that they never intended." Id. For such reasons, "[t]here is a strong presumption against finding binding obligation in agreements which include open terms, call for future approvals and expressly anticipate future preparation and execution of contract documents." Id. at 499.

The *Tribune* decision describes five specific factors to use when determining whether parties have entered into a preliminary binding commitment to negotiate in good faith: "(1) the language of the agreement; (2) the context of the negotiations; (3) the existence of open terms; (4) any partial performance; and (5) the necessity of putting the agreement in final form, as indicated by the customary form of such transactions." Spencer Trask Software & Info. Servs. LLC v. RPost Int'l, 383 F.Supp.2d 428, 446 (S.D.N . Y.2003) (citing Tribune, 670 F.Supp. at 499-503).

1. The Language of the Alleged Agreement

The "first and most important" of the factors "looks to the language of the preliminary agreement for indication whether the parties considered it binding or whether they intended not to be bound until the conclusion of final formalities." Tribune, 670 F.Supp. at 499. Courts are to look to "the context of the overall agreement" and engage in a "full consideration of the circumstances and the contract language." Id. at 500.

Plaintiff focuses on defendant's purported failure to expressly reserve its right not to enter into a preliminary binding commitment and points to Judge Leval's observation that "a party that does not wish to be bound at the time of the preliminary exchange of letters can very easily protect itself by not accepting language that indicates a 'firm commitment' or 'binding commitment,' " id. at 499. Plaintiff, however, ignores the context of the negotiations at issue in *Tribune.* There, the court found the parties' communications to be "replete with the terminology of binding contract." Id. The defendant, for instance, signed one of plaintiff's proposal letters with the words "Accepted and agreed to" and opened a subsequent letter of acceptance with the phrase "Attached is an executed copy of the Commitment Letter." Id.

Here, defendant never "accept[ed] language that indicate[d] a 'firm commitment' or 'binding commitment,' " id. Indeed, looking, as we must, at the full context of the communications, it is clear that although Glasser was keen on a binding commitment, there is nothing in Walker's e-mails that committed defendant to a deal. In his first response to Glasser, Walker wrote that he had "been on a call with the producers and financiers explaining every sentence" of TWC's proposal and that he was "relaying the contents of our conversation this

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afternoon.” (Pl.'s Mem., Shulman Decl. Ex. A at 2.) In his second e-mail of the night, Walker stated that he was “explaining every detail to the producers and financiers and taking comments.” (Id. at 1.) These e-mails do not suggest any intention on the part of Walker to enter into a preliminary binding commitment to conclude the deal. Rather, they suggest nothing more than that defendant was considering the deal on the table between the parties.

2. The Context of the Negotiations

The court in *Tribune* placed particular emphasis on the circumstances surrounding the negotiations in that case. Specifically, the court observed that defendant needed to confirm the deal at issue-a real estate financing commitment-by a specific date, so that the agreement could be concluded in time for the defendant to realize a significant tax benefit. 670 F.Supp. at 500.

Here, the plaintiff has not alleged any reason that the defendant would have needed to secure a commitment to conclude the licensing deal and, thus, to enter into a binding preliminary commitment to negotiate in good faith for its completion. In other words, plaintiff has failed to allege a reason (like the one in *Tribune*) that defendant would have found it advantageous to have a preliminary binding commitment to negotiate in good faith.

In other cases, however, courts have taken a more lax approach to the second *Tribune* factor, asking simply whether “the negotiations were at such a preliminary stage that the parties conclusively could have evinced no intent to be bound to a preliminary commitment.” Spencer Trask Software, 383 F.Supp.2d at 446-47 (citing Cleveland Wrecking Co. v. Hercules Constr. Corp., 23 F.Supp.2d 287, 298 (E.D.N.Y.1998)). Without passing on the wisdom of this interpretation, the Court finds that such an analysis would favor plaintiff, given its allegation that the negotiations had virtually concluded by the time the parties exchanged their e-mails on January 27th.

In light of these competing approaches, the Court concludes that this factor weighs neither for nor against plaintiff.

3. The Existence of Open Terms

The *Tribune* decision counsels that “[t]he existence of open terms is always a factor tending against the conclusion that the parties have reached a binding agreement.” 670 F.Supp. at 499. Nevertheless, when the alleged contract at issue is a preliminary binding commitment to negotiate in good faith to resolve open terms, “[t]o consider the existence of open terms as fatal would be to rule, in effect, that preliminary binding commitments cannot be enforced.” Id.

In this case, plaintiff acknowledges that this factor “is neutral at this time.” (Pl.'s Mem. at 17.) Plaintiff has not alleged that all major terms to the purported deal for *Push* were resolved during negotiations. On the other hand, plaintiff has not conceded that there were significant terms that had yet to be worked out between the parties. As such, the Court agrees with plaintiff

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that the third *Tribune* factor is neutral on the facts as alleged.

4. Partial Performance

Plaintiff has not alleged partial performance in this case, but this is not surprising. Even assuming that the parties reached a binding preliminary commitment to negotiate in good faith on the evening of January 27th, it was clear less than ten hours later, when Walker sent an e-mail stating that there had "been no agreement reached" between the parties (Pl.'s Mem., Shulman Decl. Ex. C at 2), that defendant had no intention of finalizing a deal. Thus, it is understandable that plaintiff would not have performed in any way, rendering this factor neutral in the analysis. See Hostcentric Techs, Inc. v. Republic Thunderbolt, LLC, No. 04 Civ. 1621(KMW), 2005 WL 1377853, at *8 (S.D.N.Y. June 9, 2005) (where the absence of partial performance is "not surprising," the factor is "essentially neutral").

5. The Necessity of Putting the Agreement in Final Form

Ultimately, this factor weighs decisively in favor of defendant. In *Tribune,* the court framed the inquiry as "whether in the relevant business community, it is customary to accord binding force to the type of informal or preliminary agreement at issue." 670 F.Supp. at 503. Plaintiff contends that "the custom and practice in the entertainment industry is to negotiate deals orally, confirm them via e-mail and then commit them to writing at a later date." (Pl.'s Mem. at 17.)

Plaintiff's argument founders, however, when analyzed against the backdrop of § 204(a) of the Copyright Act. As discussed at length above, Section 204(a) requires a transfer of copyright ownership to be completed through a signed writing that clearly (though perhaps succinctly) evidences the parties' rights and responsibilities. While in many industries it is not unusual for parties to enter into oral contracts, and notwithstanding plaintiff's claims about "custom and practice" in the entertainment industry, federal copyright law dictates the terms by which an exclusive license can be granted.

To accept plaintiff's contention that parties can preliminarily bind themselves under state law to conclude exclusive licensing deals would be to open a serious loophole in the signed writing requirement of § 204(a)-at least on facts such as those alleged here. Such an approach would undermine the twin concerns with certainty and clarity that underlie the provision, see Effects Assocs., Inc. v. Cohen, 908 F.2d 555, 557 (9th Cir.1990), and would raise concerns under the Supremacy Clause of the United States Constitution, see U.S. Const. art. VI, cl. 2. It is perhaps for such reasons that plaintiff has failed to identify a single case in which a court has found a preliminary binding commitment between parties to conclude a transfer of copyright ownership.

The Court does not conclusively rule out the possibility that a copyright owner might enter into a binding preliminary commitment to negotiate in good faith over the final terms of a

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transfer of copyright ownership. It is possible, for instance, that a copyright owner could sign an unambiguous letter of intent to finalize a licensing deal, akin to what is often used in other industries. See, e.g., Crossroads Mortgage Corp. v. Columbia Equities, Ltd., No. 97 Civ. 1117(LMM), 1997 WL 363809 (S.D.N.Y. July 1, 1997). Alternatively, a licensee may secure from a copyright owner an assurance that the licensee is the only party with whom the owner is negotiating at a particular moment in time. Absent such indicia, however, the Court declines to hold that an alleged copyright licensee can state a claim for breach of a preliminary binding commitment merely by alleging negotiations between the parties and the existence of what are, upon any fair reading, decidedly non-committal e-mails from the copyright owner.

Conclusion

For the foregoing reasons, defendant's motion to dismiss is granted. The Clerk of the Court is respectfully directed to close this case.

[B] Contracts with Minors

USAGE: On page 177, ADD the following case after note (2):

BERG v. TRAYLOR
148 Cal. App. 4th 809, 56 Cal. Rptr. 3d 140 (2007)

DOI TODD, J.

Appellants Meshiel Cooper Traylor (Meshiel) and her minor son Craig Lamar Traylor (Craig) appeal the judgment confirming an arbitration award in favor of Craig's former personal manager, respondent Sharyn Berg (Berg), for unpaid commissions under a contract between Berg, Meshiel and Craig and unrepaid loans from Berg. Because we find that Craig had the statutory right as a minor to disaffirm both the original contract and the arbitration award, we reverse the judgment against Craig. We affirm the judgment against Meshiel.

FACTUAL AND PROCEDURAL BACKGROUND

The Agreement

On January 18, 1999, Berg entered into a two-page "Artist's Manager's Agreement" (agreement) with Meshiel and Craig, who was then 10 years old. Meshiel signed the agreement and wrote Craig's name on the signature page where he was designated "Artist." Craig did not sign the agreement. Pursuant to the agreement, Berg was to act as Craig's exclusive personal manager in exchange for a commission of 15 percent of all gross monies or other consideration paid to him as an artist during the three-year term of the agreement, as well as income from merchandising or promotional efforts or offers of employment made during the term of the

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agreement, regardless of when Craig received such monies. The agreement expressly provided that any action Craig "may take in the future pertaining to disaffirmance of this agreement, whether successful or not," would not affect Meshiel's liability for any commissions due Berg. The agreement also provided that any disputes concerning payment or interpretation of the agreement would be determined by arbitration in accordance with the rules of Judicial Arbitration and Mediation Services, Inc. (JAMS).

Termination of the Agreement

On or about June 13, 2001, Craig obtained a recurring acting role on the Fox Television Network show "Malcolm in the Middle" (show). On September 11, 2001, four months prior to the expiration of the agreement, Meshiel sent a certified letter to Berg stating that while she and Craig appreciated her advice and guidance, they no longer needed her management services and could no longer afford to pay Berg her 15 percent commission because they owed a "huge amount" of taxes. On September 28, 2001, Berg responded, informing appellants that they were in breach of the agreement.

The Lawsuit

In 2004, Berg filed suit against Meshiel and Craig for breach of the agreement, breach of the implied covenant of good faith and fair dealing, breach of an oral loan agreement, conversion and declaratory relief. In July 2004, the law firm of White O'Connor Curry & Avanzado represented Meshiel and Craig when the parties stipulated to submit the matter to binding arbitration before JAMS. But in November 2004, the trial court granted that firm's motion to withdraw due to appellants' refusal to pay legal fees or communicate with the firm.

The Arbitration

The arbitration hearing was originally scheduled for December 7, 2004. In order to accommodate Meshiel's hospitalization for the premature delivery of her third child and to give appellants time to find new counsel, JAMS continued the hearing to February 7, 2005. In the meantime, appellants' second counsel, the law firm of Cohen & Gardner, represented appellants in unsuccessful settlement negotiations.

The arbitration hearing commenced on February 7, 2005. Because appellants had failed to pay their share of the arbitration fees, Berg did not anticipate their appearance and did not retain a court reporter. Though Meshiel and Craig's counsel failed to appear at the hearing, Meshiel personally appeared with Craig's talent agent, Steven Rice. Craig did not appear. According to Meshiel, the arbitrator denied her request for a two-week continuance. The arbitrator permitted Meshiel to use Rice's assistance and advice in presenting her case. Rice asserted that the agreement was invalid because Craig was a minor at the time it was executed and there had been no court approval of the agreement.

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The Arbitration Award

On February 11, 2005, the arbitrator issued his award, which was served on the parties on February 14, 2005. Noting that Craig had not appeared at the hearing "despite personal service of summons and notice from JAMS," the arbitrator stated that the award was "issued against him through prove-up and default as provided for in the JAMS Rules" incorporated by reference.[56] After briefly summarizing the testimonial and documentary evidence presented, the arbitrator found that Berg had proven her case by a preponderance of the evidence and reiterated that "Craig did not appear at the arbitration and the award of the undersigned is made on the basis of the evidence produced during the prove-up and is deemed a default judgment." The arbitrator awarded Berg commissions and interest of $154,714.15, repayment of personal loans and interest of $5,094, and attorney fees and costs of $13,762. He also awarded Berg $405,000 "for future earnings projected on a minimum of 6 years for national syndication earnings," and stated that this part of the award would "vest and become final, as monies earned after February 7, 2005, become due and payable." On February 20, 2005, the arbitrator served a clarification of the award, stating that "all monies earned by Craig Traylor, pursuant to the contract with Ms. Berg, are paid directly to Ms. Berg.... After deduction of fees and commissions, etc., the balance of the funds shall be forwarded to the client."

Stipulated Order

Following issuance of the arbitration award, appellants hired their third counsel, the law firm of White Bordy & Levey. The parties then entered into a stipulated order signed by the court in March 2005, which contained the following provisions: (1) Appellants would pay Berg $50,000 plus 50 percent of compensation earned by Craig on the show until the award was satisfied and thereafter 15 percent of all future compensation related to the show; (2) the award of unpaid commissions could not be reduced below $50,000 and the award of attorney fees and costs could not be modified; (3) appellants could only seek an adjustment of the amount of the award if they disclosed all of Craig's earnings from the show with verified declarations; and (4) the arbitration award would be treated as final for all purposes until the parties agreed on any correction to the award or the arbitrator recalculated the commissions and interest due. Pursuant to the stipulated order, appellants' counsel directed Fox Television Network to pay Berg $50,000, and Meshiel signed an "Authorization Re: One-Time Payment" to this effect on behalf of Craig as his "legal guardian."

Petitions to Confirm and Vacate the Arbitration Award

After appellants' third counsel filed a motion to withdraw in June 2005 on the grounds

[56]Rule 22(j) of the JAMS Comprehensive Arbitration Rules & Procedures provides in pertinent part: "The Arbitrator may proceed with the Hearing in the absence of a Party who, after receiving notice of the Hearing pursuant to Rule 19, fails to attend. The Arbitrator may not render an Award solely on the basis of the default or absence of the Party, but shall require any Party seeking relief to submit such evidence as the Arbitrator may require for the rendering of an Award."

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that appellants refused to follow legal advice, pay legal fees or communicate with them, Meshiel and her counsel filed a substitution of attorney on July 7, 2005 indicating that Meshiel was representing herself. The substitution of attorney did not address Craig's representation.

On July 8, 2005, Berg served a petition to confirm the arbitration award, which was filed on July 12, 2005. The petition sought confirmation of the award and a judgment entered thereon, together with a "permanent injunction (i) prohibiting Defendants from accepting compensation for Malcolm in the Middle and (ii) requiring Defendants to direct all Malcolm in the Middle payors to pay all compensation directly into Berg's Counsel's Client Trust Account for distribution to Defendants after deduction of monies owed to Berg."

On August 8, 2005, the Law Offices of Robert N. Pafundi substituted in as appellants' fourth counsel. The same day, appellants filed a "Notice of Disaffirmance of Arbitration Award by Minor," which stated that in addition to his disaffirmance of the agreement on September 11, 2001, Craig was also disaffirming the arbitration award and all other proceedings and orders arising out of the parties' dispute, including the stipulation to submit the action to binding arbitration and the March 2005 stipulated order following the arbitration. Also on that day, appellants filed a "Notice of Intention to File Documents in Opposition to Petition to Confirm Arbitration Award and to File Petition to Vacate Arbitration Award."

On August 18, 2005, appellants filed a petition/response seeking to vacate the arbitration award. The petition to vacate was based primarily on the grounds that Craig had exercised his statutory right to disaffirm both the original agreement with Berg and the arbitration award and that Berg was illegally practicing as an unlicensed talent agent. Following a hearing, the trial court took the matter under submission and the next day issued an order denying the petition to vacate the arbitration award as untimely and granting Berg's petition to confirm the award. Thereafter, the trial court entered a judgment in favor of Berg consistent with the arbitrator's award.

Appellants then filed a motion to vacate the judgment pursuant to Code of Civil Procedure section 473. While the motion was pending, appellants filed a notice of appeal from the judgment. In a January 2006 order, the trial court determined that it had no jurisdiction to rule on the matter in light of the appeal and ordered the motion off calendar.

DISCUSSION

Simply stated, one who provides a minor with goods and services does so at her own risk. (*Goldberg v. Superior Court* (1994) 23 Cal.App.4th 1378, 1382-1383, 28 Cal.Rptr.2d 613.) The agreement here expressly contemplated this risk, requiring that Meshiel remain obligated for commissions due under the agreement regardless of whether Craig disaffirmed the agreement. Thus, we have no difficulty in reaching the conclusion that Craig is permitted to and did disaffirm the agreement and any obligations stemming therefrom, while Meshiel remains liable under the agreement and resulting judgment. Where our difficulty lies is in understanding how

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counsel, the arbitrator and the trial court repeatedly and systematically ignored Craig's interests in this matter. From the time Meshiel signed the agreement, her interests were not aligned with Craig's. That no one-counsel, the arbitrator or the trial court-recognized this conflict and sought appointment of a guardian ad litem for Craig is nothing short of stunning. It is the court's responsibility to protect the rights of a minor who is a litigant in court. (*Williams v. Superior Court* (2007) 147 Cal.App.4th 36, 49, 54 Cal.Rptr.3d 13.)

I. Standard of Review.

Our review of an arbitrator's award is generally limited. In *Aguilar v. Lerner* (2004) 32 Cal.4th 974, 981-982, 12 Cal.Rptr.3d 287, 88 P.3d 24(*Aguilar*), the Supreme Court stated: “When parties choose to forgo the traditional court system and arbitrate their claims, it is assumed they wish to have a final and conclusive resolution of their dispute. The Legislature has recognized this underlying assumption of finality and has, by statute, limited the grounds for judicial review of an arbitrator's award. (Code Civ. Proc., § 1286.2.)Consistent with this legislative intent, we recognized the general rule that ‘an arbitrator's decision cannot be reviewed for errors of fact or law.’ (*Moncharsh v. Heily & Blase* (1992) 3 Cal.4th 1, 11, 10 Cal.Rptr.2d 183, 832 P.2d 899(*Moncharsh*).) We explained that because the Legislature has provided certain statutory grounds to overturn or modify an arbitrator's decision, courts should not subject such decisions to standard judicial review. (*Id.* at pp. 26, 27-28, 10 Cal.Rptr.2d 183, 832 P.2d 899.) In addition, however, to the statutory grounds for vacating an arbitrator's award, we explained in *Moncharsh* ‘that there may be some limited and exceptional circumstances justifying judicial review of an arbitrator's decision.... Such cases would include those in which granting finality to an arbitrator's decision would be inconsistent with the protection of a party's *statutory rights.*’ (*Id.* at p. 32, 10 Cal.Rptr.2d 183, 832 P.2d 899, italics added.)” Although appellants cite neither *Aguilar* nor *Moncharsh v. Heily & Blase* (1992) 3 Cal.4th 1, 10 Cal.Rptr.2d 183, 832 P.2d 899, this exception appears to be the primary basis on which appellants rely in seeking judicial relief from the arbitrator's award.

II. The Judgment is Reversed as to the Minor.

The trial court denied appellants' petition to vacate the arbitration award on the ground that it was untimely. Code of Civil Procedure section 1288 provides that a petition to vacate or correct an arbitration award must be served and filed no later than 100 days after the date of service of a signed copy of the award on the petitioner. Code of Civil Procedure section 1290.6 provides that a response to a petition to confirm an award must be served and filed within 10 days after service of the petition. Here, the arbitration award was served on February 14, 2005 and the clarification of the award was served on February 20, 2005. Berg's petition to confirm the award was served on July 8, 2005 and filed on July 12, 2005. It is undisputed that by the time appellants' fourth and current counsel substituted into the action and thereafter filed a petition to vacate the arbitration award and response to the petition to confirm it on August 18, 2005, both of these statutory deadlines had passed.

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Appellants contend that despite the lapse of these deadlines, Craig had the statutory right as a minor to disaffirm both the original agreement with Berg containing the arbitration provision and the arbitration award itself. We agree. Craig's minority status entitled him to disaffirm the agreement and his minority status coupled with the absence of the appointment of guardian ad litem entitled him to disaffirm the arbitration award and judgment even after the statutory deadline for moving to vacate the arbitration award had passed.

A. Disaffirmance of the Agreement.

"As a general proposition, parental consent is required for the provision of services to minors for the simple reason that minors may disaffirm their own contracts to acquire such services." (*Ballard v. Anderson* (1971) 4 Cal.3d 873, 878, 95 Cal.Rptr. 1, 484 P.2d 1345.) According to Family Code section 6700, "a minor may make a contract in the same manner as an adult, subject to the power of disaffirmance" provided by Family Code section 6710. In turn, Family Code section 6710 states: "Except as otherwise provided by statute, a contract of a minor may be disaffirmed by the minor before majority or within a reasonable time afterwards or, in case of the minor's death within that period, by the minor's heirs or personal representative." Sound policy considerations support this provision: "The law shields minors from their lack of judgment and experience and under certain conditions vests in them the right to disaffirm their contracts. Although in many instances such disaffirmance may be a hardship upon those who deal with an infant, the right to avoid his contracts is conferred by law upon a minor 'for his protection against his own improvidence and the designs of others.' It is the policy of the law to protect a minor against himself and his indiscretions and immaturity as well as against the machinations of other people and to discourage adults from contracting with an infant. Any loss occasioned by the disaffirmance of a minor's contract might have been avoided by declining to enter into the contract." (*Niemann v. Deverich* (1950) 98 Cal.App.2d 787, 793, 221 P.2d 178; accord *Burnand v. Irigoyen* (1947) 30 Cal.2d 861, 866, 186 P.2d 417.)

Berg offers two reasons why the plain language of Family Code section 6710 is inapplicable, neither of which we find persuasive. First, she argues that a minor may not disaffirm an agreement signed by a parent. She relies on two cases to support her position, both of which are inapposite because they address discrete public policy concerns not at issue here. In *Doyle v. Giuliucci* (1965) 62 Cal.2d 606, 43 Cal.Rptr. 697, 401 P.2d 1, the court rejected a minor's attempt to disaffirm a healthcare contract containing an arbitration provision signed by the minor's father. The court explained that a minor's statutory power to disaffirm a contract "does not apply to contracts between adults and is therefore not controlling on the question of a parent's power to bind his child to arbitrate by entering into a contract of which the child is a third party beneficiary." (*Id.* at p. 609, 43 Cal.Rptr. 697, 401 P.2d 1.) The court found "compelling reasons" for recognizing that "the power to enter into a contract for medical care that binds the child to arbitrate any dispute arising thereunder is implicit in a parent's right and duty to provide for the care of his child." (*Id.* at p. 610, 43 Cal.Rptr. 697, 401 P.2d 1; see also *Pietrelli v. Peacock* (1993) 13 Cal.App.4th 943, 947, 16 Cal.Rptr.2d 688 [a parent's power to bind a minor child to arbitration of claims arising from the minor's health care contract is implied

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from the parent's duties and rights as the child's guardian].) Because it was unlikely that medical groups would contract directly with minors who could disaffirm their own contracts to pay for medical services, minors could therefore only be assured of the benefits of a group medical service if their parents contracted on their behalf. (*Ibid.*) Moreover, the arbitration provision did not unreasonably restrict a minor's rights, "for it does no more than specify a forum for the settlement of disputes." (*Doyle v. Giuliucci, supra,* at p. 610, 43 Cal.Rptr. 697, 401 P.2d 1.)

Here, in contrast, Craig was not a third party beneficiary of the agreement signed by his mother, but a principal. Moreover, there are no compelling reasons justifying binding Craig to the agreement. An agreement for personal management services does not implicate a parent's fundamental duty to provide for the care and health of a child. Further, because there is a statutory procedure governing contracts in which minors agree to render artistic or creative services, there is no danger that talent managers will decline to contract with minors absent their parents contracting on their behalf. (See Fam.Code, §§ 6750, 6751, subd. (a).)[57] Finally, the agreement here did not merely require Craig to arbitrate his disputes, but created significant obligations on his part, notably, the payment of substantial monies to Berg.

In the other case relied on by Berg, *Hohe v. San Diego Unified Sch. Dist.* (1990) 224 Cal.App.3d 1559, 274 Cal.Rptr. 647, the court rejected a minor's attempt to disaffirm a liability release signed by her father relating to the minor's participation in a school program. Relying on *Doyle,* the *Hohe* court reasoned that a parent may contract on behalf of his or her children and that former Civil Code section 35 (now Family Code section 6710) was not intended to affect contracts entered into by adults on behalf of their children. (*Hohe v. San Diego Unified Sch. Dist., supra,* at p. 1565, 274 Cal.Rptr. 647.) It has become "well established that a parent may execute a release on behalf of his or her child." (*Aaris v. Las Virgenes Unified School Dist.* (1998) 64 Cal.App.4th 1112, 1120, 75 Cal.Rptr.2d 801.) Here, in contrast, Meshiel did not sign an agreement on Craig's behalf that merely obligated him to release another party from liability. Thus, the state's public policy to enforce releases signed by parents on behalf of their children is not implicated. There is no public policy barring a minor from disaffirming a contract that imposes significant affirmative responsibilities on him.

Second, Berg argues that Craig cannot disaffirm the agreement because it was for his and his family's necessities. Family Code section 6712 provides that a valid contract cannot be disaffirmed by a minor if all of the following requirements are met: the contract is to pay the reasonable value of things necessary for the support of the minor or the minor's family, the things have actually been furnished to the minor or the minor's family, and the contract is entered into by the minor when not under the care of a parent or guardian able to provide for the minor or the minor's family. These requirements are not met here. The agreement was not a contract to pay for the necessities of life for Craig or his family. While such necessities have been held to include

[57]While we recognize that the agreement here does not fall within the parameters of the contracts specified by Family Code section 6750, subdivision (a), which generally involve the employment of a minor to render artistic services, there was evidence below that parties to agreements for the provision of personal management services in the entertainment industry routinely seek court approval for the protection of all involved.

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payment for lodging (*Burnand v. Irigoyen, supra,* 30 Cal.2d at pp. 867-868, 186 P.2d 417) and even payment of attorneys' fees (*Leonard v. Alexander* (1942) 50 Cal.App.2d 385, 387-389, 122 P.2d 984), we cannot conclude that a contract to secure personal management services for the purpose of advancing Craig's acting career constitutes payment for the type of necessity contemplated by Family Code section 6712. Nor is there any evidence that Meshiel was unable to provide for the family in 1999 at the time of the agreement. As such, Family Code section 6712 does not bar the minor's disaffirmance of the contract.

No specific language is required to communicate an intent to disaffirm. "A contract (or conveyance) of a minor may be avoided by any act or declaration disclosing an unequivocal intent to repudiate its binding force and effect." (*Spencer v. Collins* (1909) 156 Cal. 298, 303, 104 P. 320.) Express notice to the other party is unnecessary. (*Celli v. Sports Car Club of America, Inc.* (1972) 29 Cal.App.3d 511, 517, 105 Cal.Rptr. 904.) We find that the "Notice of Disaffirmance of Arbitration Award by Minor" filed on August 8, 2005 was sufficient to constitute a disaffirmance of the agreement by Craig. Although the notice assumed that Meshiel's September 11, 2001 letter to Berg stating that Meshiel and Craig were no longer going to honor their obligations under the agreement acted as a prior disaffirmance of the agreement, the notice further stated that Craig "disaffirms all other documents filed under his name or affecting him as a minor in this litigation...." This language adequately conveyed Craig's intent to repudiate the binding force and effect of the agreement. (Cf., *Celli v. Sports Car Club of America, Inc., supra,* at p. 517, 105 Cal.Rptr. 904 [filing of an action is sufficient to disaffirm a contract]; *Pereira v. Toscano* (1927) 84 Cal.App. 526, 531, 258 P. 429 [oral notice is sufficient to disaffirm a contract].)

We find that Craig was entitled to and did disaffirm the agreement which, among other things, required him to arbitrate his disputes with Berg. On this basis alone, therefore, the judgment confirming the arbitration award must be reversed.

B. Disaffirmance of the Arbitration Award.

Although it is unnecessary to our disposition, we further find that Craig was entitled to and did disaffirm the arbitration award because he was never represented by an appointed guardian ad litem.

Code of Civil Procedure section 372, subdivision (a) requires that a minor who is a party to a lawsuit "shall appear either by a guardian or conservator of the estate or by a guardian ad litem appointed by the court in which the action or proceeding is pending, or by a judge thereof, in each case." As aptly explained in *Keane v. Penha* (1946) 76 Cal.App.2d 693, 696, 173 P.2d 835: "It is the general rule that an omission to cause the appointment of a guardian if there be none is fatal to all subsequent steps taken in the action.... Unless a minor is 'duly represented as provided by law' at the time a judgment is entered against him his right to disaffirm such judgment 'continues until barred by laches after the minor has attained the age of majority.' [Citation.] Such a judgment is voidable and may be disaffirmed. [Citation.] The right of

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disaffirmance by a minor of a judgment rendered voidable by the fact that he was not represented by a guardian in the action is absolute [citation], and such right continues throughout his minority. [Citations.]" (Accord *Field v. Hughes* (1933) 131 Cal.App. 144, 146-147, 20 P.2d 990 ["A judgment procured against a minor without the appointment of a guardian as provided by statute may be disaffirmed by him"].)

Berg contends that no appointment of a guardian ad litem was necessary because Meshiel functioned as Craig's "guardian." She relies on a declaration submitted in support of appellants' petition to vacate the arbitration award in which Meshiel averred that she was "the natural mother and guardian of Craig." Meshiel's self-characterization in no way obviated the need for the appointment of a guardian ad litem to represent Craig's interests. Code of Civil Procedure, section 372, subdivision (a) provides that "[a] guardian ad litem may be appointed in any case when it is deemed by the court in which the action or proceeding is prosecuted, or by a judge thereof, expedient to appoint a guardian ad litem to represent the minor, ... notwithstanding that the person may have a guardian or conservator of the estate and may have appeared by the guardian or conservator of the estate."

Such an appointment was required here due to the inherent conflict of interest between Craig and Meshiel. The agreement expressly provided that if even Craig disaffirmed, Meshiel would remain liable for commissions due Berg. It was therefore not in Meshiel's interest to have Craig disaffirm the agreement because Berg would look to her, personally, for satisfaction of Craig's obligations under the agreement. As such, Meshiel's interests in the lawsuit were in direct conflict with those of her son's. (See *Estate of Lacy* (1975) 54 Cal.App.3d 172, 185, 126 Cal.Rptr. 432 [where litigation involved conflicting interests of a minor and his parent in a testamentary trust, a guardian ad litem other than the parent should have been appointed to represent the minor's interests]; *Loock v. Pioneer Title Ins. Etc. Co.* (1935) 4 Cal.App.2d 245, 249, 40 P.2d 526 [where mother's personal interests in litigation differed from minor's, proper to appoint a guardian ad litem to protect the minor's interests].) It is clear that Meshiel, as Craig's guardian, could not adequately represent his interests. " 'When there is a potential conflict between a perceived parental responsibility and an obligation to assist the court in achieving a just and speedy determination of the action,' a court has the right to select a guardian ad litem who is not a parent if that guardian would best protect the child's interests. [Citation.]" (*Williams v. Superior Court, supra.* 147 Cal.App.4th at p. 49, 54 Cal.Rptr.3d 13.) As such, it was necessary for Craig to have a guardian ad litem appointed to separately represent his interest with respect to Berg's claims.

It is undisputed that the trial court never appointed a guardian ad litem for Craig. We find it irrelevant that Craig was represented on and off throughout the litigation by counsel also representing his mother. There is no evidence that counsel treated his interests separately from his mother's. Indeed, at the most crucial juncture of the proceedings-the arbitration hearing-no attorney appeared to represent Craig and the matter was treated as a default prove-up hearing. Because no guardian ad litem was appointed for Craig, we conclude that he was entitled to disaffirm the arbitration award, the stipulated orders pertaining to the arbitration award and the

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subsequent judgment rendered against him.

III. The Judgment is Affirmed as to the Mother.

Appellants do not generally distinguish their arguments between mother and son, apparently assuming that if Craig disaffirms the agreement and judgment, Meshiel would be permitted to escape liability as well. But a disaffirmance of an agreement by a minor does not operate to terminate the contractual obligations of the parent who signed the agreement. (*Raden v. Laurie* (1953) 120 Cal.App.2d 778, 783, 262 P.2d 61.) The agreement Meshiel signed provided that Craig's disaffirmance would not serve to void or avoid Meshiel's obligations under the agreement and that Meshiel remained liable for commissions due Berg regardless of Craig's disaffirmance. Accordingly, we find no basis for Meshiel to avoid her independent obligations under the agreement.

Appellants remaining challenges to the arbitration award do not mandate reversal of the judgment as to Meshiel. They argue that the award must be vacated because the arbitrator refused to postpone the hearing despite sufficient cause being shown. (Code Civ. Proc., § 1286.2, subd. (a)(5).) They also raise the defense that the agreement was unenforceable because Berg was allegedly performing the acts of an unlicensed agent in violation of the Talent Agencies Act (Lab.Code, § 1700 et seq.) (the Act), an issue not raised at the arbitration.[58] But Meshiel fails to explain how these issues can be considered after she stipulated to the finality of the arbitration award. (See *Norgart v. Upjohn Co.* (1999) 21 Cal.4th 383, 400, 87 Cal.Rptr.2d 453, 981 P.2d 79 [the rule that a stipulated judgment is not appealable is based upon " 'the theory that by consenting to the judgment or order the party expressly waives all objection to it, and cannot be allowed afterwards, on appeal, to question its propriety, because by consenting to it he has abandoned all opposition or exception to it' "].) More importantly, her failure to file a timely petition to vacate the arbitration award bars her from challenging the judgment confirming the award on appeal. (*Louise Gardens of Encino Homeowners' Assn., Inc. v. Truck Ins. Exchange, Inc.* (2000) 82 Cal.App.4th 648, 658-660, 98 Cal.Rptr.2d 378; *Knass v. Blue Cross of California* (1991) 228 Cal.App.3d 390, 393-396, 279 Cal.Rptr. 124.)

While we conclude that Craig nevertheless had the right to disaffirm the arbitration award

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[58]In its amicus curiae brief, SAG raises for the first time the issue that this defense must be resolved by the California Labor Commissioner, who has exclusive authority to hear disputes arising under the Act. (*Styne v. Stevens* (2001) 26 Cal.4th 42, 55-56, 109 Cal.Rptr.2d 14, 26 P.3d 343 [whether a contract is void and unenforceable as involving the services of an unlicensed person in violation of the Act "must first be submitted to the Commissioner, and that forum must be exhausted, before the matter can be determined by the superior court"].) Appellants never raised this issue below and we decline to consider it. "California courts refuse to consider arguments raised by amicus curiae when those arguments are not presented in the trial court, and are not urged by the parties on appeal. ' "Amicus curiae must accept the issues made and propositions urged by the appealing parties, and any additional questions presented in a brief filed by an amicus curiae will not be considered [citations]." ' "(*California Assn. for Safety Education v. Brown* (1994) 30 Cal.App.4th 1264, 1275, 36 Cal.Rptr.2d 404; see also *Mercury Casualty Co. v. Hertz Corp.* (1997) 59 Cal.App.4th 414, 425, 69 Cal.Rptr.2d 9 [" 'As a general rule, issues not raised by the appealing parties may not be considered if raised for the first time by amici curiae' "].)

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and the subsequent judgment as an unrepresented minor, Meshiel has not provided us with any authority that would permit her now to challenge the award against her. Accordingly, the judgment confirming the arbitration award is affirmed as to Meshiel.

DISPOSITION

The judgment is reversed as to Craig and affirmed as to Meshiel. The parties to bear their own costs on appeal.

§ 2.04 Contract Performance and Breach

[B] Implied Covenant of Good Faith and Fair Dealing

USAGE: On page 228, ADD the following case after *Third Story Music, Inc. v. Waits*:

LOCKE v. WARNER BROS., INC.
57 Cal. App. 4th 354 (1997)

KLEIN, P.J.

Plaintiffs and appellants Sondra Locke (Locke) and Caritas Films, a California corporation (Caritas) (sometimes collectively referred to as Locke) appeal a judgment following a grant of summary judgment in favor of defendant and respondent Warner Bros., Inc. (Warner).

The essential issue presented is whether triable issues of material fact are present which would preclude summary judgment.

We conclude triable issues are present with respect to whether Warner breached its development deal with Locke by categorically refusing to work with her, and whether Warner fraudulently entered into said agreement without the intention to work with Locke. The judgment therefore is reversed as to the second and fourth causes of action and otherwise is affirmed.

FACTUAL AND PROCEDURAL BACKGROUND

1. *Locke's dispute with Eastwood*.

In 1975, Locke came to Warner to appear with Clint Eastwood in The Outlaw Josey Wales (Warner Bros. 1976). During the filming of the movie, Locke and Eastwood began a personal and romantic relationship. For the next dozen years, they lived in Eastwood's Los Angeles and Northern California homes. Locke also appeared in a number of Eastwood's films. In 1986, Locke made her directorial debut in Ratboy (Warner Bros. 1986).

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In 1988, the relationship deteriorated, and in 1989 Eastwood terminated it. Locke then brought suit against Eastwood, alleging numerous causes of action. That action was resolved by a November 21, 1990, settlement agreement and mutual general release. Under said agreement, Eastwood agreed to pay Locke additional compensation in the sum of $ 450,000 "on account of past employment and Locke's contentions" and to convey certain real property to her.

2. *Locke's development deal with Warner*.

According to Locke, Eastwood secured a development deal for Locke with Warner in exchange for Locke's dropping her case against him. Contemporaneously with the Locke/Eastwood settlement agreement, Locke entered into a written agreement with Warner, dated November 27, 1990. It is the Locke/Warner agreement which is the subject of the instant controversy.

The Locke/Warner agreement had two basic components. The first element states Locke would receive $ 250,000 per year for three years for a "non-exclusive first look deal." It required Locke to submit to Warner any picture she was interested in developing before submitting it to any other studio. Warner then had 30 days either to approve or reject a submission.

The second element of the contract was a $ 750,000 "pay or play" directing deal. The provision is called "pay or play" BECAUSE IT GIVES THE STUDIO A CHOICE: It can either "play" the director by using the director's services, or pay the director his or her fee.

Unbeknownst to Locke at the time, Eastwood had agreed to reimburse Warner for the cost of her contract if she did not succeed in getting projects produced and developed. Early in the second year of the three-year contract, Warner charged $ 975,000 to an Eastwood film, Unforgiven (Warner Bros. 1992).

Warner paid Locke the guaranteed compensation of $ 1.5 million under the agreement. In accordance with the agreement, Warner also provided Locke with an office on the studio lot and an administrative assistant. However, Warner did not develop any of Locke's proposed projects or hire her to direct any films. Locke contends the development deal was a sham, that Warner never intended to make any films with her, and that Warner's sole motivation in entering into the agreement was to assist Eastwood in settling his litigation with Locke.

3. *Locke's action against Warner*.

On March 10, 1994, Locke filed suit against Warner, alleging four causes of action.

The first cause of action alleged sex discrimination in violation of public policy. Locke alleged Warner denied her the benefit of the bargain of the development deal on account of her gender.

The third cause of action, captioned "Tortious Breach of the Implied Covenant of Good Faith and Fair Dealing in Violation of Public Policy," alleged a similar claim. Locke pled that in

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denying her the benefits of the Warner/Locke agreement, Warner was "motivated by [its] discriminatory bias against women in violation of . . . public policy."[59]

The second cause of action alleged that Warner breached the contract by refusing to consider Locke's proposed projects and thereby deprived her of the benefit of the bargain of the Warner/Locke agreement.

Lastly, the fourth cause of action alleged fraud. Locke pled that at the time Warner entered into the agreement with her, it concealed and failed to disclose it had no intention of honoring the agreement.

Warner answered, denied each and every allegation and asserted various affirmative defenses.

4. *Warner's motion for summary judgment and opposition thereto*.

On January 6, 1995, Warner filed a motion for summary judgment. Warner contended it did not breach its contract with Locke because it did consider all the projects she presented, and the studio's decision not to put any of those projects into active development or "hand" Locke a script which it already owned was not a breach of any express or implied contractual duty. Warner asserted the odds are slim a producer can get a project into development and even slimmer a director will be hired to direct a film. During the term of Locke's deal, Warner had similar deals with numerous other producers and directors, who fared no better than Locke.

* * * * *

In opposing summary judgment, Locke contended Warner breached the agreement in that it had no intention of accepting any project regardless of its merits. Locke also asserted Warner committed fraud by entering into the agreement without any intention of approving any project with Locke or allowing Locke to direct another film.

Locke's opposition papers cited the deposition testimony of Joseph Terry, who recounted a conversation he had with Bob Brassel, a Warner executive, regarding Locke's projects. Terry had stated to Brassel: " 'Well, Bob, this woman has a deal on the lot. She's a director that you want to work with. You have a deal with her. . . . I've got five here that she's interested in.' [P] And then I would get nothing. [P] . . . [P] I was told [by Brassel], 'Joe, we're not going to work with her,' and then, 'That's Clint's deal.' And that's something I just completely did not understand."

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[59] We construe both the first and third causes of action as purporting to allege a claim for tortious wrongful discharge in violation of the public policy against sex discrimination. (*Foley v. Interactive Data Corp. (1988) 47 Cal. 3d 654, 665-671 [254 Cal. Rptr. 211, 765 P.2d 373]*; *Rojo v. Kliger (1990) 52 Cal. 3d 65, 88-91 [276 Cal. Rptr. 130, 801 P.2d 373]*.)

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Similarly, the declaration of Mary Wellnitz stated: She worked with Locke to set up projects at Warner, without success. Shortly after she began her association with Locke, Wellnitz submitted a script to Lance Young, who at the time was a senior vice-president of production at Warner. After discussing the script, Young told Wellnitz, "Mary, I want you to know that I think Sondra is a wonderful woman and very talented, but, if you think I can go down the hall and tell Bob Daly that I have a movie I want to make with her he would tell me to forget it. They are not going to make a movie with her here."

5. *Trial court's ruling*.

On February 17, 1995, the trial court granted summary judgment in favor of Warner. Thereafter, the trial court signed an extensive order granting summary judgment. The order stated:

> "Under the contract, Warner had no obligation either to put into development any of the projects submitted to the studio for its consideration, or to 'hand off ' to Locke any scripts for her to direct that it previously had acquired from someone else. The implied covenant of good faith and fair dealing cannot be imposed to create a contract different from the one the parties negotiated for themselves. Warner had the option to pass on each project Locke submitted. Warner was not required to have a 'good faith' or 'fair' basis for declining to exercise its right to develop her material. Such a requirement would be improper and unworkable. A judge or jury cannot and should not substitute its judgment for a film studio's when the studio is making the creative decision of whether to develop or produce a proposed motion picture. Such highly subjective artistic and business decisions are not proper subjects for judicial review. Moreover, Warner had legitimate commercial and artistic reasons for declining to develop the projects Locke submitted."

With respect to Locke's claim she was defrauded by Warner when it entered into the agreement with the undisclosed intention not to honor its contractual obligations, the trial court ruled that because Warner did not breach its contractual obligations to Locke, the fraud claim was meritless. Also, it could not be inferred from the statements by Young and Brassel that two years earlier, when Warner entered into agreement, it had no intention of working with Locke. . . .

CONTENTIONS

Locke contends: The trial court erred by granting Warner's motion for summary judgment based on its conclusion there were no disputed issues of material fact; the trial court erred in weighing the evidence, resolving doubts against Locke, the nonmoving party, and adopting only those inferences favorable to Warner where the evidence supported contrary inferences; and the trial court committed reversible error first by failing to make any findings or evidentiary rulings and then by adopting Warner's defective ruling.

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DISCUSSION

* * * * *

2. *A triable issue exists as to whether Warner breached its contract with Locke by failing to evaluate Locke's proposals on their merits*.

As indicated, the second cause of action alleged Warner breached the contract by "refusing to consider the projects prepared by [Locke] and depriving [Locke] of the benefit of the bargain of the Warner-Locke agreement."[60]

In granting summary judgment on this claim, the trial court ruled "[a] judge or jury cannot and should not substitute its own judgment for a film studio's when the studio is making the creative decision of whether to develop or produce a proposed motion picture. Such highly-subjective artistic and business decisions are not proper subjects for judicial review."

The trial court's ruling missed the mark by failing to distinguish between Warner's right to make a subjective creative decision, which is not reviewable for reasonableness, and the requirement the dissatisfaction be bona fide or genuine.

a. *General principles*.

" '[W]here a contract confers on one party a discretionary power affecting the rights of the other, a duty is imposed to exercise that discretion in good faith and in accordance with fair dealing.' [Citations.]" (*Perdue v. Crocker National Bank (1985) 38 Cal. 3d 913, 923 [216 Cal. Rptr. 345, 702 P.2d 503]*; accord, *Kendall v. Ernest Pestana, Inc. (1985) 40 Cal. 3d 488, 500 [220 Cal. Rptr. 818, 709 P.2d 837]*.) It is settled that in " 'every contract there is an implied covenant that neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract. . . .' " (*Kendall, supra, at p. 500*; accord, *Waller*, v. *Truck Ins. Exchange, Inc., supra, 11 Cal. 4th at p. 36*.)

Therefore, when it is a condition of an obligor's duty that he or she be subjectively satisfied with respect to the obligee's performance, the subjective standard of *honest satisfaction* is applicable. (1 Witkin, Summary of Cal. Law (9th ed. 1987) Contracts, § 729, p. 659; *Rest.2d Contracts, § 228, coms. a*, b, pp. 182-183.) "Where the contract involves matters of fancy, taste or judgment, the promisor is the sole judge of his satisfaction. If he asserts *in good faith* that he is not satisfied, there can be no inquiry into the reasonableness of his attitude. [Citations.] [P]

[60]Contrary to Warner's contention Locke is raising an unpled claim for breach of the implied covenant of good faith and fair dealing, the second cause of action for breach of contract adequately alleges Warner deprived Locke of the benefit of the bargain of the development deal by refusing to consider her projects. Such conduct by Warner, if proven, would amount to a breach of the covenant, implied "in every contract that neither party will do anything which will injure the right of the other to receive the benefits of the agreement. [Citation.]" (*Comunale v. Traders & General Ins. Co. (1958) 50 Cal. 2d 654, 658 [328 P.2d 198, 68 A.L.R.2d 883]*; accord, *Waller v. Truck Ins. Exchange, Inc. (1995) 11 Cal. 4th 1, 36 [44 Cal. Rptr. 2d 370, 900 P.2d 619]*.)

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Traditional examples are employment contracts . . . and agreements to paint a portrait, write a literary or scientific article, or produce a play or vaudeville act. [Citations.]" (1 Witkin, Summary of Cal. Law, *supra*, § 730, p. 660; accord, *Schuyler v. Pantages* (1921) 54 Cal. App.. 83, 85-87 [*201 P. 137].*) In such cases, "the promisor's determination that he is not satisfied, *when made in good faith*, has been held to be a defense to an action on the contract. [Citations.]" (*Mattei v. Hopper (1958) 51 Cal. 2d 119, 123 [330 P.2d 625]*, italics added.)

Therefore, the trial court erred in deferring entirely to what it characterized as Warner's "creative decision" in the handling of the development deal. If Warner acted in bad faith by categorically rejecting Locke's work and refusing to work with her, irrespective of the merits of her proposals, such conduct is not beyond the reach of the law.

b. *Locke presented evidence from which a trier of fact reasonably could infer Warner breached the agreement by refusing to consider her proposals in good faith*.

Merely because Warner paid Locke the guaranteed compensation under the agreement does not establish Warner fulfilled its contractual obligation. As pointed out by Locke, the value in the subject development deal was not merely the guaranteed payments under the agreement, but also the opportunity to direct and produce films and earn additional sums, and most importantly, the opportunity to promote and enhance a career.

Unquestionably, Warner was entitled to reject Locke's work based on its subjective judgment, and its creative decision in that regard is not subject to being second-guessed by a court. However, bearing in mind the requirement that subjective dissatisfaction must be an honestly held dissatisfaction, the evidence raises a triable issue as to whether Warner breached its agreement with Locke by not considering her proposals on their merits.

As indicated, the deposition testimony of Joseph Terry recounted a conversation he had with Bob Brassel, a Warner executive, regarding Locke's projects. In that conversation, Brassel stated " 'Joe, we're not going to work with her,' and then, 'That's Clint's deal.' "

Similarly, the declaration of Mary Wellnitz recalled a conversation she had with Lance Young, a senior vice-president of production at Warner. After discussing the script with Wellnitz, Young told her: "Mary, I want you to know that I think Sondra is a wonderful woman and very talented, but, if you think I can go down the hall and tell Bob Daly that I have a movie I want to make with her he would tell me to forget it. They are not going to make a movie with her here."

The above evidence raises a triable issue of material fact as to whether Warner breached its contract with Locke by categorically refusing to work with her, irrespective of the merits of her proposals. While Warner was entitled to reject Locke's proposals based on its subjective dissatisfaction, the evidence calls into question whether Warner had an honest or good faith dissatisfaction with Locke's proposals, or whether it merely went through the motions of purporting to "consider" her projects.

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c. *No merit to Warner's contention Locke seeks to rewrite the instant agreement to limit Warner's discretionary power*.

Warner argues that while the implied covenant of good faith and fair dealing is implied in all contracts, it is limited to assuring compliance with the express terms of the contract and cannot be extended to create obligations not contemplated in the contract. (*Racine & Laramie, Ltd*. v. *Department of Parks & Recreation (1992) 11 Cal. App. 4th 1026, 1032 [14 Cal. Rptr. 2d 335]*.)

This principle is illustrated in *Carma Developers (Cal.), Inc. v. Marathon Development California, Inc. (1992) 2 Cal. 4th 342, 351-352 [6 Cal. Rptr. 2d 467, 826 P.2d 710]*, wherein the parties entered into a lease agreement which stated that if the tenant procured a potential sublessee and asked the landlord for consent to sublease, the landlord had the right to terminate the lease, enter into negotiations with the prospective sublessee, and appropriate for itself all profits from the new arrangement. *Carma* recognized "[t]he covenant of good faith finds particular application in situations where one party is invested with a discretionary power affecting the rights of another." (*Id.*, at p. 372.) The court expressed the view that "[s]uch power must be exercised in good faith." (*Ibid*.) At the same time, *Carma* upheld the right of the landlord under the express terms of the lease to freely exercise its discretion to terminate the lease in order to claim for itself--and deprive the tenant of--the appreciated rental value of the premises. (*Id., at p. 376*.)

In this regard, *Carma* stated: "We are aware of no reported case in which a court has held the covenant of good faith may be read to prohibit a party from doing that which is expressly permitted by an agreement. On the contrary, as a general matter, implied terms should never be read to vary express terms. [Citations.]. 'The general rule [regarding the covenant of good faith] is plainly subject to the exception that the parties may, by express provisions of the contract, grant the right to engage in the very acts and conduct which would otherwise have been forbidden by an implied covenant of good faith and fair dealing. . . . [P] This is in accord with the general principle that, in interpreting a contract "an implication . . . should not be made when the contrary is indicated in clear and express words." 3 Corbin, Contracts, § 564, p. 298 (1960). . . . [P] *As to acts and conduct authorized by the express provisions of the contract*, no covenant of good faith and fair dealing can be implied which forbids such acts and conduct. And if defendants were given the right to do what they did by the express provisions of the contract there can be no breach.' [Citation.]" (*Carma Developers (Cal.), Inc*. v. *Marathon Development California, Inc., supra, 2 Cal. 4th at p. 374*, italics added.)

In *Third Story Music, Inc. v. Waits (1995) 41 Cal. App. 4th 798, 801 [48 Cal. Rptr. 2d 747]*, the issue presented was "whether a promise to market music, or to refrain from doing so, at the election of the promisor is subject to the implied covenant of good faith and fair dealing where substantial consideration has been paid by the promisor."

In that case, Warner Communications obtained from Third Story Music (TSM) the

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worldwide right to manufacture, sell, distribute and advertise the musical output of singer/songwriter Tom Waits. (*Third Story Music, Inc*. v. *Waits, supra, 41 Cal. App. 4th at pp. 800-801*.) The agreement also specifically stated that Warner Communications " 'may at our election refrain from any or all of the foregoing.' " (*Id., at p. 801*.) TSM sued Warner Communications for contract damages based on breach of the implied covenant of good faith and fair dealing, claiming Warner Communications had impeded TSM's receiving the benefit of the agreement. (*Id., at p. 802*.) Warner Communications demurred to the complaint, alleging the clause in the agreement permitting it to " 'at [its] election refrain' from doing anything to profitably exploit the music is controlling and precludes application of any implied covenant." (*Ibid*.) The demurrer was sustained on those grounds. (*Ibid*.)

The reviewing court affirmed, holding the implied covenant was unavailing to the plaintiff. (*Third Story Music, Inc*. v. *Waits, supra, 41 Cal. App. 4th at pp. 808-809*.) Because the agreement *expressly* provided Warner Communications had the right to *refrain* from marketing the Waits recordings, the implied covenant of good faith and fair dealing did not limit the discretion given to Warner Communications in that regard. (*Ibid*.; *Carma Developers (Cal.), Inc*. v. *Marathon Development California, Inc., supra, 2 Cal. 4th at p. 374*.)

Warner's reliance herein on *Third Story Music, Inc*., is misplaced. The Locke/Warner agreement did not give Warner the express right to refrain from working with Locke. Rather, the agreement gave Warner *discretion* with respect to developing Locke's projects. The implied covenant of good faith and fair dealing obligated Warner to exercise that discretion honestly and in good faith.

In sum, the Warner/Locke agreement contained an implied covenant of good faith and fair dealing, that neither party would frustrate the other party's right to receive the benefits of the contract. (*Comunale v. Traders & General Ins. Co., supra, 50 Cal. 2d at p. 658*; *Waller v. Truck Ins. Exchange, Inc., supra*, 11 Cal. 4th at p. 36.) Whether Warner violated the implied covenant and breached the contract by categorically refusing to work with Locke is a question for the trier of fact.

* * * * *

The judgment is reversed with respect to the second and fourth causes of action and is otherwise affirmed. Locke to recover costs on appeal.

LADD v. WARNER BROS. ENTERTAINMENT, INC.
184 Cal. App. 4th 1298 (2010)

KLEIN, P. J.

Defendant and appellant Warner Bros. Entertainment, Inc. (Warner), appeals a judgment

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on a jury verdict awarding plaintiffs and appellants Alan Ladd, Jr., Jay Kanter, L-K Producers Corporation, Ketram Corporation and Kanter Corporation (collectively, Ladd) $ 3,190,625 in damages. . . .

Warner licensed packages of movies to broadcast television and cable networks. Ladd's movies were included in those packages. In a practice known as "straight-lining," Warner allocated the same share of the licensing fee to every movie in a package, regardless of its value to the licensee. The gravamen of Ladd's action against Warner is that by allocating the same portion of the licensing fee to every movie in a package without regard to the true value of each movie, Warner deprived Ladd of a fair allocation of the licensing fees to which Ladd was entitled as a profit participant.

We hold that under the implied covenant of good faith and fair dealing, Warner was bound to act in good faith toward profit participants. Warner had an obligation, as conceded by a Warner executive, to "fairly and accurately allocate license fees to each of the films based on their comparative value as part of a package." Therefore, the record supports the jury's determination that Warner's straight-lining method of allocating licensing fees to profit participants breached the implied covenant of good faith and fair dealing.

* * * * *

FACTUAL AND PROCEDURAL BACKGROUND

1. *Facts*.

This action arises out of Ladd's claim that Warner undervalued and underpaid the license fees attributable to the following 12 motion pictures: Blade Runner, Body Heat (The Ladd Co. 1981), Night Shift (The Ladd Co. 1982), Tequila Sunrise (The Mount Co. 1988), Outland (The Ladd Co. 1981), Chariots of Fire (Enigma Prods. 1981), and the Police Academy franchise, consisting of the original and sequels 2, 3, 4, 5 and 6.

By way of background, in 1979, Warner and Ladd entered into a joint venture, essentially a "mini-studio" within a studio. Ladd had control over development of movies, financing of movies, production and distribution. Warner's role was to finance the films.

In 1985, the parties entered into a termination agreement, under which the parties ended their joint venture, with Warner remaining obligated to pay Ladd the profit participation called for under their earlier agreement.

In 1993, Ladd conducted a profit participation audit (the first audit) of the motion pictures for the period from October 1, 1988, through September 30, 1992. The audit did not cover Blade Runner because Warner represented to Ladd said movie was unprofitable and was "so far in the red it was not worthwhile to issue [profit] statements." (In Mar. 1992, Warner provided Ladd with a one-page statement indicating Blade Runner had lost $ 19.5 million as of

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Dec. 31, 1991.)

Following this audit, the parties entered into a 1996 settlement agreement and release. Warner agreed to pay Ladd $ 500,000 and to increase royalty payments on home videos. Pursuant to the 1996 settlement agreement, the parties released "all claims, whether known or unknown, arising from, based on, or in any way relating to the distribution and exploitation through September 30, 1992 of the motion pictures (the 'Properties') produced pursuant to, and/or referenced in" the earlier agreements between Warner and Ladd.

In 2001, Ladd learned another Blade Runner investor, Empress Investments (Empress), was receiving payments from Warner even though Warner told Ladd the movie was unprofitable. Ladd retained James Perry (Perry) to audit Warner's records (the second audit). Warner limited Perry's audit to the four-year period from April 1, 1997, through March 31, 2001, for all films except Blade Runner and Outland, which Warner allowed Perry to audit back to their inception. Following the second audit, Ladd filed the instant lawsuit.

2. *Proceedings*.

a. *Pleadings*.

On July 31, 2003, Ladd filed this action against Warner. The operative third amended complaint included causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, fraud and negligent misrepresentation. In addition to compensatory and punitive damages, Ladd sought an accounting and imposition of a constructive trust. The gravamen of the action is that Warner deprived Ladd of the bargained-for profit participation in the termination agreement by undervaluing Ladd's films relative to other films in television licensing packages.

b. *Trial testimony*.

On July 9, 2007, the matter came on for a jury trial. The evidence showed Warner licensed films to broadcasters or to cable in a package, in a practice known as straight-lining, in which "every feature film in that group or package is given the exact same value regardless of its value to the broadcaster or to the channel." David Simon (Simon), Ladd's expert, with 32 years' experience in the television and entertainment industry, testified that in treating every movie as though it had the same value, "the studio was not doing its expert work, as a provider or distributor of content, in weighing the value of each of these titles ... ."[61]

Simon's testimony in this regard was corroborated by Eric Frankel (Frankel), the president of Warner's domestic cable distribution, who was called by Ladd as an adverse witness. (*Evid. Code, § 776*.) Frankel testified that in the licensing process, Warner has an obligation to

[61]The licensing agreements between Warner and third parties were *not* the contracts being sued upon. Ladd was suing Warner for breach of the termination agreement. The licensing agreements reflected the underallocation of licensing fees and thus a breach of the termination agreement's implied covenant of good faith and fair dealing. The licensing agreements also were relevant to establishing the extent of Ladd's damages.

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act in good faith toward profit participants, and as part of Warner's good faith obligation, Warner was required to "fairly and accurately allocate license fees to each of the films based on their comparative value as part of a package."

With respect to damages, Simon determined Warner should have allocated an additional $ 97 million in licensing fees to Ladd's films. Ladd was entitled to 5 percent of gross revenues on all films once Warner recouped its costs, except for Chariots of Fire, on which Ladd was entitled to 2.5 percent. Thus, on the $ 97 million in underallocated licensing fees, Ladd's profit participation should have been $ 3,190,625.

* * * * *

d. *The verdict*.

. . . [O]nly two causes of action went to the jury: breach of contract and breach of the implied covenant of good faith and fair dealing. The jury was instructed, inter alia, "There are no express contractual obligations restricting the discretion afforded to [Warner] in licensing the library films in which [Ladd] [has] a participation interest. Therefore, to prove their claims regarding [Warner's] licensing of the films, [Ladd] must prove that [Warner] breached the contract or the implied covenant of good faith and fair dealing."

On August 2, 2007, the jury returned a special verdict in Ladd's favor. The jury specifically found Warner breached the contract with Ladd or the covenant of good faith and fair dealing implied into the contract, and that Ladd suffered a monetary loss in the form of underpayment of profit participation as a proximate result of that breach. The jury determined that in the period from August 1, 1999 (four years prior to the filing of the complaint), to the present, Warner had underallocated the license fees for Ladd's films, including Blade Runner, in the amount of $ 97,251,000 (which was consistent with Simon's testimony). With respect to damages, the jury found Ladd should have been paid $ 3,190,625 in additional profit participation on said license fees.

Judgment on the verdict was entered on September 25, 2007.

* * * * *

CONTENTIONS

Warner contends: Ladd failed to prove Warner breached its contractual obligations by undervaluing Ladd's films in license fee agreements; the judgment must be reversed because Ladd failed to specify the amount of damages Ladd incurred during the permissible time period; assuming Simon's testimony provides a basis for establishing liability and calculating Ladd's damages during the relevant timeframe, the judgment should be reduced to the maximum amount of damages supported by his testimony; and in the event this court does not reverse the judgment outright or reduce it to the maximum supported by Simon's testimony, this court should grant Warner a new trial.

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Ladd contends the trial court erred in its nonsuit rulings because more than sufficient evidence and inferences exist to allow a reasonable jury to conclude Warner knew the falsity of its representations that Blade Runner was not profitable; the settlement of the 1992 audit claims did not bar Ladd's Blade Runner profitability claims, especially those accruing after 1992; and Warner's movie credit and logo deletions undeniably damaged Ladd, precluding nonsuit.

DISCUSSION

I. WARNER'S APPEAL

1. *Substantial evidence supports the jury's determination Warner breached the implied covenant of good faith and fair dealing.*

As indicated, the special verdict included the finding that Warner breached the contract with Ladd or the covenant of good faith and fair dealing implied into the contract. Warner challenges the sufficiency of the evidence to support said finding. The contention fails.

a. *Warner owed a duty to allocate license fees fairly to Ladd's movies.*

As a preliminary matter, every contract in California contains an implied covenant of good faith and fair dealing that " 'neither party will do anything which will injure the right of the other to receive the benefits of the agreement.' "(*Kransco v. American Empire Surplus Lines Ins. Co. (2000) 23 Cal.4th 390, 400 [97 Cal. Rptr. 2d 151, 2 P.3d 1]*.) The implied covenant "finds particular application in situations where one party is invested with a discretionary power affecting the rights of another. Such power must be exercised in good faith." (*Carma Developers (Cal.), Inc. v. Marathon Development California, Inc. (1992) 2 Cal.4th 342, 372 [6 Cal. Rptr. 2d 467, 826 P.2d 710]*.)

Consistent therewith, Frankel, the president of Warner's domestic cable distribution, who was called by Ladd as an adverse witness (*Evid. Code, § 776*), testified that in the licensing process Warner has an obligation to act in good faith toward profit participants. Frankel acknowledged that as part of Warner's good faith obligation, Warner was required to "fairly and accurately allocate license fees to each of the films based on their comparative value as part of a package." Frankel testified the valuation factors included "the vintage of the film, the box office, the genre, the star, the awards, the utility, can you play it in multiple day parts or is it a movie that's too sexy that maybe you can only play at 10:00 at night."

Thus, Ladd established Warner owed a duty to fairly allocate license fees to each of the films based on their relative value in an overall package.

b. *Substantial evidence supports the jury's finding that Warner breached said duty to Ladd.*

In this regard, Ladd's expert witness, Simon, testified Warner often licensed films to broadcasters or to cable in a package, in a practice known as straight-lining, in which "every feature film in the package is given the exact same value regardless of its value to the

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broadcaster or to the channel." In evaluating its movies, Warner internally assigned each movie a grade of A, B or C.[62] Simon generally agreed with Warner's ratings and noted that all Ladd's films were rated either A or B. The problem was that Warner allocated the same proportion of the license fee to each title in the package, irrespective of the film's letter grade. Simon opined that in treating every movie as though it had the same value, "the studio was not doing its expert work, as a provider or distributor of content, in weighing the value of each of these titles ... ."

Simon also testified that in non-straight-lined film packages, movies that were less valuable than Ladd's received greater value. For example, there were times when Daffy Duck and Bugs Bunny animated films were allocated double the money that was allocated to Chariots of Fire, a valuable feature film that won multiple Academy Awards, including Best Picture. Those animated films are wholly owned by Warner, which means Warner keeps every dollar generated by licensing fees on those films. Simon determined that Warner was overallocating license fees to movies that were studio owned or that did not have profit participants.

c. *Warner's purported justifications for straight-lining are meritless.*

Warner seeks to avoid the unfairness of its allocations by contending that in certain cases, the buyers insisted on paying the same license fee for every film they acquired. However, the evidence showed licensees only care about the aggregate amount they are paying for an entire package of films. For example, in one licensing deal between Warner and HBO, a package of films was negotiated for a price of $ 141,475,000, of which $ 400,000 was allocated to Chariots of Fire. However, HBO did not care whether Warner internally allocated $ 1 million of the licensing fee to Chariots of Fire, and some other picture would have been allocated $ 600,000 less.

Further, Robert Levi, a defense expert, testified the buyer/licensee "did not have a say in what the allocation would be from Warner Bros.'s standpoint," and the buyer could not dictate how Warner would allocate internally the monies from a licensing package to specific films within that package. Thus, Warner's claim "the buyer made me do it" is meritless.

Warner also defends its straight-lining of films in a licensing package on the ground it is "undisputed" the practice of straight-lining is common in the industry. However, the prevalence of straight-lining was a disputed issue at trial. Defense expert Levi testified it was "unusual" that a licensing agreement "would list each film in the package as having an equal license fee." The evidence also showed MGM did not engage in straight-lining because different movies have different values.

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[62]Movies that are rated a C are “relegated to filler material.” There is a need for C movies because many channels broadcast 24 hours a day. However, Frankel acknowledged there is no licensing demand for individual C movies, which is why they are bundled in a package together with A and B movies. Leslie Cohen, director of film acquisitions at HBO, testified that in one licensing deal, Warner added a group of old Tarzan movies to a licensing package at no cost. Warner then allocated a license fee of $40,000 to each of the Tarzan movies, thereby reducing other movies' allocations in the package.

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Moreover, even if straight-lining were a common practice, it would not absolve Warner of its duty to Ladd, as a profit participant, to fairly allocate fees derived from licensing packages.

d. *Conclusion as to breach of the implied covenant of good faith and fair dealing*.

Substantial evidence supports the jury's determination that Warner breached its obligation to Ladd, as a profit participant, to fairly allocate licensing fees to Ladd's movies based on their relative worth in licensing packages. . . .

§ 2.05 Limitations on Enforcement and Remedies

[A] Contract Duration Limitations

[2] New York Rule

USAGE: On page 250, SUBSTITUTE *Radioactive, J.V. v. Manson* with the following cases:

DON KING PRODUCTIONS, INC. v. DOUGLAS
742 F. Supp. 741 (S.D.N.Y. 1990)

SWEET, District Judge.

This action is brought by plaintiff Don King Productions, Inc. ("DKP") against defendants James "Buster" Douglas ("Douglas") and his manager John P. Johnson ("Johnson") for breach of contract, and against Golden Nugget, Inc. and The Mirage Casino-Hotel (collectively, "Mirage") for tortious interference with contract. The Mirage has asserted a counterclaim seeking a declaration that the contracts between DKP and Douglas are invalid. Before the court is DKP's motion pursuant to Rule 56, Fed.R.Civ.P., for summary judgment on the breach of contract count of its complaint; DKP's motion to dismiss the counterclaim of GNI pursuant to Rule 12(b)(1) for lack of standing; Douglas and Johnson's motion pursuant to Rule 56 for summary judgment dismissing the complaint; and Mirage's motion pursuant to Rule 56 for summary judgment dismissing the complaint. For the reasons stated below, the summary judgment motions of DKP, Mirage and Douglas and Johnson are denied. The motion of DKP to dismiss Mirage's counterclaim is granted. . . .

The Facts

The following facts for purposes of these motions are undisputed. Douglas, a

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professional boxer, and Johnson, his manager, both citizens of Ohio, entered into a boxing promotion agreement dated December 31, 1988 (the "Promotional Agreement" or "Agreement"), with DKP, a New York corporation engaging in boxing promotions with its principal place of business in New York. Douglas was paid $25,000 by DKP as consideration for entering into the Promotional Agreement. . . .

B. Terms of the Promotional Agreement

The Agreement provides DKP with the "sole and exclusive right to secure and arrange all professional boxing bouts" of Douglas for the term of the Agreement. DKP in turn obligates itself to promote not less than four bouts requiring Douglas' services during the annual period ending February 25, 1990, and, for two years' thereafter, no less than three bouts per year. Such bouts were to be on dates and at sites designated by DKP, and against opponents designated by DKP after consultation with Douglas and Johnson.

With respect to any bout, the contract deems DKP to have complied with its promotional obligations if it has made a "bona fide offer" to Douglas to promote a bout, "irrespective of whether such bout actually takes place for any reason other than DKP's nonperformance." Purses payable by DKP to Douglas for bouts undertaken pursuant to the Agreement are to be negotiated and mutually agreed upon by the parties, and are subject to a floor of $25,000 and $10,000 in training expenses per bout. The Promotional Agreement contemplates that such bouts would be governed by individual bout agreements, the standard terms of which were affixed to the Promotional Agreement.

The Promotional Agreement also set forth the intention of DKP to promote a heavyweight championship bout involving Douglas, and provided that the three year term of the Agreement would be automatically extended in the event Douglas was recognized as world champion, "to cover the entire period you are world champion and a period of two years following" loss of the title. Under the Agreement Douglas promised to "not participate in any bouts other than bouts promoted or co-promoted by DKP" nor "render ... services as a professional boxer" to any entity other than DKP. Douglas also represented that he would not enter into any oral or written contract that "conflict[ed] in any material respect with the provisions" of the Agreement, that "purport[ed] to grant similar or conflicting rights" to any person other than DKP or that "might interfere with [Douglas'] full and complete performance" of the Agreement.

The Agreement authorized DKP to promote other professional boxers, including those in the same weight class as Douglas. The Agreement also contained a choice of law provision providing that it would "in all respects be governed, construed and enforced in accordance with the laws of the State of New York applicable to contracts to be fully performed therein."

C. Performance under the Promotional Agreement

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Pursuant to the Promotional Agreement, Douglas participated in three bouts arranged by DKP during the first year ending February 25, 1990. The last of these was the heavyweight championship bout held on February 10, 1990, in Tokyo, Japan between Douglas and the then-heavyweight champion, Michael Tyson. In accordance with the Promotional Agreement, which called for the monetary terms of each bout to be negotiated and set forth in a separate agreement, Douglas and Johnson entered into a bout agreement for that fight, dated August 14, 1989 (the "Bout Agreement"), pursuant to which Douglas was to be paid $1.3 million, inclusive of training expenses. Douglas won the bout and became the undisputed heavyweight champion of the world. . . .

D. Events In Tokyo

During the February 10 Tokyo bout against Tyson, Douglas was knocked down during the eighth round but came to his feet prior to the referee's conclusion of the count. Douglas went on to knock out Tyson in the tenth round. King, who also is Tyson's promoter, protested at the end of the eighth round, to boxing officials who were ringside, that the referee's count had been too long. After the fight, a press conference was held at which the "long count" theory was further aired, and later, formal challenges to the fight decision were filed by the Japanese Boxing Commission and by Tyson with certain boxing governing bodies, apparently predicated on the "long count" theory. The result was to place in temporary doubt official recognition of Douglas' victory over Tyson.

E. Post-Tokyo Negotiations and the Douglas-Mirage Contract

On or about February 14, 1990, Johnson met with King in New York to discuss terms for a Douglas rematch with Tyson which King sought to hold in June 1990 at Trump Plaza in Atlantic City, New Jersey. Around the same time, a representative of Mirage contacted Johnson and expressed an interest in having Douglas' next fight at the Mirage Hotel in Las Vegas. After further phone conversations with Johnson and Douglas' lawyer, and a visit by a Mirage emissary to Ohio, on February 18, 1990, Mirage sent its president and corporate jet to Columbus, Ohio to pick up Douglas and Johnson and bring them to the hotel to stay as guests of the Mirage, where discussions were planned concerning holding Douglas' next fight at the hotel.

Prior to the February 18 plane ride, DKP had become aware of Mirage's interest in Douglas. On February 16, 1990, DKP had its lawyers notify Mirage by letter of DKP's contractual rights to Douglas' boxing services. Mirage thereafter obtained and reviewed a copy of the Promotional Agreement.

After returning to Las Vegas, Mirage officials met with Johnson and Douglas over the next two to three days, and with numerous lawyers and promoters, discussing possible terms and arrangements for a boxing contract involving Douglas' services. King flew out to the Mirage on February 20 in an effort to come to terms with Johnson or reach some understanding with Mirage. His efforts apparently failed and on February 21, 1990, Douglas and Johnson executed a

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contract with Mirage (the "Mirage-Douglas Contract").

The Mirage-Douglas Contract provides for Douglas to fight two bouts at the Mirage, in consideration for which he is to receive a minimum payment of $25 million for performing in the first bout and another $25 million for a second heavyweight championship bout to be performed pursuant to its terms. The Contract also contains an express condition precedent, which makes Mirage's rights and obligations under the Contract contingent upon the parties' first obtaining, by September 1, 1990, a release from DKP of its purported exclusive rights or a judicial declaration that the exclusive promotional rights of the Promotion Agreement and Bout Agreement are void and unenforceable. The parties to the Contract filed a suit on the date of its execution in Nevada state court, seeking such a declaration, which action is now before the federal district court in Nevada.

I. *The Breach of Contract Motions*

* * *

The Validity and Enforceability of the DKP/Johnson Contracts under New York Law

* * *

B. Adequacy of the Term

Douglas and Johnson next urge that this case in an appropriate one for application of the maxim that "an option actually intended by the parties to run for an unlimited time, i.e., forever is void." Mohr Park Manor, Inc. v. Mohr, 83 Nev. 107, 424 P.2d 101 (1967); see also Ketcham v. Hall Syndicate, Inc., 37 Misc.2d 693, 236 N.Y.S.2d 206, 212 (Sup.Ct.N.Y.Co.1962), *aff'd,* 19 A.D.2d 611, 242 N.Y.S.2d 182 (1963); Jewish Center of Mt. Vernon v. Mt. Eden Cemetery Ass'n, 30 Misc.2d 1057, 225 N.Y.S.2d 241 (Sup.Ct.Westch.Co.1960).

The Promotional Agreement and Bout Agreement do not fall into that class of contracts, as both contain clauses explicitly addressing duration and neither contemplates an indefinite term. The former provides that it shall run for three years and shall be "automatically extended to cover the entire period [Douglas is] world champion and a period of two years following the date on which [Douglas] thereafter cease[s], for any reason, to be so recognized as world champion." So extensive a commitment of one's services might be questioned as excessive, but clearly does not suffer from indefiniteness or ambiguity. Nor does the Bout Agreement: it grants DKP an exclusive option on the promotion of Douglas' "next three fights," which must be exercised within thirty days of the Tokyo bout.

Both are contracts "of the type ... which do provide for termination or cancellation upon the occurrence of a specified event," Payroll Express Corp. v. Aetna Casualty & Sur. Co., 659 F.2d 285, 291 (2d Cir.1981), and are therefore not jeopardized by the void-for-indefiniteness rule. Id. Contracts which "provide no fixed date for the termination of the promisor's obligation but condition the obligation upon an event which would necessarily terminate the contract" remain in force until that event occurs. Warner-Lambert Pharmaceutical Co. v. John J.

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Reynolds, Inc., 178 F.Supp. 655 (S.D.N.Y.1959), *aff'd,* 280 F.2d 197 (2d Cir.1960) (upholding contract entered into in 1881 that lacked termination date but which obligated pharmaceutical manufacturer to pay royalties on every gross of "Listerine" made and sold by it as long as it continued to manufacture the product); Ketcham v. Hall Syndicate, Inc., 37 Misc.2d 693, 236 N.Y.S.2d 206, 212-13 (Sup.Ct.1962) (agreement for syndication of cartoons sufficiently definite as to term where duration of contract was made subject to termination in event artist's share of revenue fell below stipulated amount), *aff'd,* 19 A.D.2d 611, 242 N.Y.S.2d 182 (1st Dep't 1963).[63]

* * * * *

FURRY RECORDS, INC. v. REALNETWORKS, INC.
2002 WL 2005812 (S.D.N.Y. 2002)

MEMORANDUM ORDER

RAKOFF, J.

Plaintiffs, a music artist named Hannah Bentley (who previously did business under the name Sam LaHanna)[64] and her personal company, FurryRecords, Inc., allege that the sole remaining defendant in this case, a music promotion company named The Orchard, LLC ("Orchard"),[65] committed various violations of the Copyright Act, 17 U.S.C. § 101 *et seq.,* the Lanham Act, 15 U .S.C. § 1125, and the common law, chiefly by making allegedly unauthorized MP3 copies of plaintiffs' recordings. Ultimately, the viability of all of plaintiffs' claims against Orchard depends on the scope and validity, *vel non,* of a license agreement between Sam LaHanna and Orchard, dated September 3, 1999. Against this background, both sides move for summary judgment.

The pertinent portions of the license agreement read:

You [Sam LaHanna] grant to us [Orchard] throughout the Territory during the

[63]In general, contracts with terms that commit services for a commercial lifetime are not thereby invalid. See Ehrenworth v. George F. Stuhmer & Co., 229 N.Y. 210, 220, 128 N.E. 108 (1920) (upholding validity of agreement to sell bread to an exclusive distributor as long as both parties remained in business); Zimco Restaurants, Inc. v. Bartenders & Culinary Workers Union, 165 Cal.App.2d 235, 331 P.2d 789, 791 (1958) ("if the contract is to remain in effect so long as one continues to perform or act in a certain manner ... the agreement is sufficiently certain to be vital."). The parties have not briefed, and the court therefore does not address, whether in the context of a personal services contract such a term might be so "unduly harsh or one-sided" as to warrant withholding, as a matter of discretion, a restrictive negative covenant (perhaps in favor of some other remedy). See Madison Square Garden Boxing, Inc. v. Shavers, 434 F.Supp. 449, 452 (S.D.N.Y.1977) (quoting Connecticut Professional Sports Corp. v. Heyman, 276 F.Supp. 618, 620 (S.D.N.Y.1967)).

[64]The talented Ms. Bentley is also an attorney and represents the plaintiffs in this lawsuit.

[65]By stipulations dated February 6, 2002 and February 11, 2002, three defendants, RealNetworks, Inc., peoplesound.com, Ltd., and Vitaminic SpA, were dismissed from the case on consent. . . .

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> Sales Period the NON-EXCLUSIVE rights to sell, distribute and otherwise exploit any and all of your Recordings by any and all means and media (whether now known or existing in the future), including, without limitation, the non-exclusive rights to sell, distribute and otherwise exploit any and all of your Recordings throughout E-stores including, but not limited to, those via the Internet, as well as digital storage, download and transmission rights, whether now known or existing in the future.
>
> * * *
>
> The following words when used have the following meanings: "You" means the person(s) signing as individual(s) and/or as member(s) of any group(s). "We" or "Us" means THE ORCHARD, LLC. "Territory" means the Universe. "Signing Date" means the date You sign. "Term" means a period starting on the Signing Date and ending one (1) year from the Signing Date. "Recordings" means each and every compact disc and/or any other audio and/or audiovisual recording in any format, in whole or in part (whether now known or existing in the future) which You deliver during the Term. "Sales Period" means the time period beginning on the Signing Date and continuing in perpetuity for each of your Recordings in each country of the Territory.

Declaration of Scott Cohen dated April 29, 2002, Ex. 3 (license agreement dated Sept. 3, 1999) at pp. 3-4.

Plaintiffs' primary argument is that, because the contract does not expressly provide for "copying" *per se,* defendant's encoding of plaintiffs' works into MP3 format constitutes copyright infringement (and other, related violations). However, defendant's open-ended right under the contract to "otherwise exploit" plaintiffs' recordings permits such copying. Moreover, any doubt on this score is resolved, so far as MP3 copying is concerned, by the contract's specific grant to defendant to exercise plaintiffs' "storage, download and transmission rights, whether now known or existing in the future."[66]

Plaintiffs' fall-back argument is that the license agreement--a form contract used by Orchard--is unconscionable, and therefore void, chiefly because, while it obligates defendant to promote plaintiffs' recordings for only a one-year period, it permits defendants to sell, distribute, and otherwise exploit plaintiffs' recordings "in perpetuity." But there is nothing inherently unreasonable in a promoter, in return for promoting (here, on a website) musical works of a relatively unknown artist, obtaining, as here, a *non-exclusive* right to thereafter exploit those works. Furthermore, notwithstanding the "in perpetuity" language, plaintiffs have a federally-protected statutory right to terminate the contract after 35 years. See 17 U.S.C. § 203(a)(3).

---

[66]While the contract was between Orchard and Sam LaHanna, the latter was doing business at the time as "FurryRecords," an entity that was subsequently incorporated with LaHannah/Bentley as President and principal shareholder.

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More generally, Ms. Bentley (LaHanna), a graduate of the Columbia Law School, could not conceivably have been misled as to the nature of the bargain she was entering into in agreeing to this simple, four-page contract. Nor is there any competent evidence that she was subject to high pressure tactics, given a deadline by which she had to accept or reject the contract, or otherwise subject to having her will overborne. Indeed, virtually none of the indicia of unconscionability under New York state law (which governs this contract) is here present. See Gillman v. Chase Manhattan Bank, N.A., 73 N.Y.2d 1, 537 N.Y.S.2d 787, 791, 534 N.E.2d 824 (N.Y.1988).

Plaintiffs' final argument is that because of its "in perpetuity" term, the agreement is, under New York law, terminable at will, and that plaintiffs terminated it by a letter dated July 24, 2001, so that any copying thereafter was unlawful. However, New York law provides that a contract is terminable at will only if (i) there is no fixed "or determinable" duration to the overall contract and (ii) there is no express agreement that the duration is perpetual. See Ketcham v. The Hall Syndicate, Inc., 37 Misc.2d 693, 236 N.Y.S.2d 206, 212 (N.Y.Sup.Ct.1962). Here, by contrast, the license agreement itself expressly provides that defendant's rights to plaintiffs' music shall last "in perpetuity" unless terminated by mutual consent (not here given), *see* license agreement at p. 4, 236 N.Y.S.2d 206. Moreover, there is a determinable duration because, as mentioned, federal law expressly gives plaintiffs the right to terminate the contract after 35 years. Thus, on any analysis, the contract is not terminable at will.

The Court has considered plaintiffs' other arguments and finds them without merit. Consequently, defendants' motion for summary judgment is granted and plaintiffs' cross-motion is denied. Accordingly, the Clerk of the Court is directed to enter judgment dismissing the case with prejudice.

SO ORDERED.

§2.05 Limitations on Enforcement and Remedies

[D] Remedies

USAGE: On page 297, ADD the following case after the Notes and Questions:

NOLAN v. WILLIAMSON MUSIC, INC.
300 F. Supp. 1311 (S.D.N.Y. 1969), *aff'd,* 499 F.2d 1394 (2d Cir. 1974)

EDELSTEIN, District Judge.

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This action was brought by Robert Nolan, the composer of a musical composition entitled "Tumbling Tumbleweeds," and tried before the court without a jury. The plaintiff seeks, first of all, a declaration that a July 11, 1934, publishing agreement and a March 1, 1960, assignment were rescinded on May 16, 1963, and the defendants have had no rights in and to the song since that date. . . .

Plaintiff composed "Tumbling Tumbleweeds" in 1929, and, in an agreement dated April 3, 1934, he entered into a publishing agreement with one Harry Walker, doing business as Sunset Publishing Company. However, shortly thereafter, Nolan and Walker by mutual consent rescinded their agreement, and, together with one Harry Hall, joined in an assignment of the song and its copyright to the Sam Fox Publishing Company (Sam Fox).

The assignment to Sam Fox was dated July 11, 1934, and it provided, *inter alia* , that the "Composers" (defined as Nolan, Walker and Hall) conveyed to the "Publisher (defined as Sam Fox Publishing Company), its successors and assigns forever, all the right, title and interest of every kind, nature and description, including the copyright therein, throughout the world, of the Composers in 'Tumbling Tumbleweeds.'" This agreement also recites that it was the intention of the parties:

> "to transfer to the Publisher all rights of every kind, nature and description (including the rights generally known in the field of literary and musical endeavor as the moral rights of the authors) throughout the world which the Composers have, own and possess in and to the said musical composition and no right of any kind, nature or description is [to be] reserved by the Composers."

The "Composers" also agreed to renew the copyright on the song and then to assign the renewal term to the "Publisher."

In consideration of these undertakings, the "Publisher" agreed to pay to the "Composers" royalties based upon a schedule the substance of which is as follows: (a) three cents for each pianoforte copy sold and paid for in the United States; (b) 33 1/3 percent of all royalties received by the "Publisher" for mechanical reproductions of the song in the United States and Canada; (c) 33 1/3 percent of all net sums received by the "Publisher" for the use of the song in the United States and Canada from "all other sources not specifically mentioned herein;" (d) 33 1/3 percent of all net sums received by the "Publisher" for the use of the song in motion pictures; and (e) 33 1/3 percent of the net income received by the "Publisher" from all foreign sources except from the use of the song in motion pictures. The "Publisher" generally was not obligated to pay royalties on copies of the song for which it was not paid, for reproductions included in folios, albums, books, or newspapers, nor for orchestrations. Additionally, the "Publisher" agreed to render semi-annual statements to the "Composers" and to accord to them the right to "inspect and audit the accounts of the Publisher at all reasonable hours."

Between 1934 and 1946 Sam Fox published and exploited "Tumbling Tumbleweeds." Subsequently, by an agreement dated January 28, 1946, Sam Fox assigned all of its right and

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interest in and to the song to defendant, Williamson Music, Inc., (Williamson) and agreed to use its best efforts to obtain the renewal copyright of the song and then to assign the renewal term to Williamson. . . .

Under this agreement Williamson was to assume publication and exploitation of the song and to pay royalties to Sam Fox based upon the song's earnings. . . .

As between Williamson and Sam Fox, the latter continued to be obligated to pay all royalties payable under the July 11, 1934, contract and further agreed to indemnify and save Williamson harmless against any claims or demands made in connection therewith. Since 1946 Williamson has been responsible for the publication of "Tumbling Tumbleweeds" and has been paying royalties on the earnings thereon . . . to Sam Fox. . . .

On March 1, 1960, the plaintiff executed a new assignment in favor of Sam Fox of the renewal term of the copyright. In exchange for this assignment Sam Fox agreed to pay $1500.00 to plaintiff and also agreed to modify the existing royalty arrangement so that plaintiff would now receive from Sam Fox "two-thirds (2/3) of Fifty (50) percent of all royalties received by the publisher from any and all sources throughout the world for use of said composition, except the sale of sheet music. "

In accordance with the terms of their 1946 agreement, Sam Fox assigned the renewal term to Williamson, and Williamson then paid to Sam Fox $1000.00 of the $1500.00 due plaintiff under his March 1, 1960, agreement with Sam Fox. The renewal term of the copyright commenced on May 26, 1962.

To continue with the background facts of this case, for nineteen years, from 1930 to 1949, plaintiff was a member of a cowboy singing group called the "Sons of the Pioneers." During the period from 1939 or 1940 until the mid-nineteen forties this group employed one Edward M. Gray as its representative. Following the termination of Gray's employment by the "Sons of the Pioneers," plaintiff retained Gray to act as his personal business agent and he executed a power of attorney in Gray's favor. This relationship lasted until the early part of 1962. . . .

[¶] Plaintiff's account with Sam Fox was maintained in Gray's name, royalty statements were sent to Gray, and checks for royalties due to plaintiff were drawn to Gray's order.

Plaintiff gave formal notice to Sam Fox of the revocation of Gray's power of attorney in a letter dated February 19, 1962. The termination of Gray's agency, it would appear, was caused by plaintiff's discovery of breaches by Gray of his fiduciary duties. . . .

Plaintiff was represented in his suit against Gray by one Edythe Jacobs, a California attorney. During the course of the litigation against Gray, Miss Jacobs requested from Sam Fox copies of the accountings that had been submitted by Sam Fox to Gray on plaintiff's behalf. This

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request was refused on the ground that compliance, in the absence either of Gray's consent or a court order, might be construed as showing favoritism toward one or the other side.

Thereafter, in November of 1962, Miss Jacobs went to Sam Fox's office in New York and requested to examine all of Sam Fox's records relating to "Tumbling Tumbleweeds." This request was denied at first, but after Miss Jacobs consulted with Sam Fox's attorney, she was permitted to examine Fox's records relating only to the years 1959 to 1961. At the time Miss Jacobs made her demand for inspection of the records, Sam Fox was already aware both of the pending suit between plaintiff and Gray. . . .

The basic claim which plaintiff has urged in this suit is that he had the legal right to, and, in fact, did rescind his agreements with Sam Fox by the May 29, 1963, notice. Plaintiff argues that rescission is justified in this case because over the years Sam Fox has allegedly committed the following breaches: (1) non-payment of all royalties earned by foreign sources (this is conceded by Sam Fox); (2) non-payment of the royalties due from domestic performing income; (3) non-payment of all of the royalties due on octavo editions of the song, electrical transcriptions, synchronizations, and on lyric uses of the song; (4) assignment of the copyright and its renewal term to Williamson; (5) payment of royalties by Sam Fox based only on Sam Fox's receipts from Williamson; (6) treating the $1500.00 given in consideration for the March 1, 1960, agreement to assign the renewal to Sam Fox as an advance rather than as a bonus; and (7) denying plaintiff his contractual right to inspect on demand Sam Fox's records. In addition to all of these, plaintiff argues that Sam Fox has generally acted fraudulently towards plaintiff and that in particular it was fraudulent not to have revealed to plaintiff Sam Fox's relationship with Williamson.

The court finds that it was not a breach of contract for Sam Fox to assign the copyright to Williamson. The 1934 transfer from plaintiff to Sam Fox of "all rights of every kind, nature and description" which plaintiff had in the copyright was clearly absolute on its face. Furthermore, the agreement specifically provided that the conveyance was to the "Publisher, its successors and assigns." Whether a contract is assignable or not is, of course, a matter of contractual intent, and one must look to the language used by the parties to discern that intent. Clearly the language just quoted contemplated that the agreement was to be assignable. Williston on Contracts, ' 423 (3rd ed. 1962).

The plaintiff, by citing *Paige v. Faure, 229 N.Y. 114, 127 N.E. 898 (1920)*; *Adrian v. Unterman, 281 App.Div. 81, 118 N.Y.S.2d 121 (1st Dept. 1952)*, aff'd mem. *306 N.Y. 771, 118 N.E.2d 477 (1954)*; and *Nassau Hotel Co. v. Barnett & Barse Corp., 162 App. Div. 381, 147 N.Y.S. 283* (1st Dept.) aff'd mem. *212 N.Y. 568, 106 N.E. 1036 (1914)*, seems to be saying, however, that this contract involved such personal elements of trust and confidence that it was not assignable without the consent of the parties despite the clear language to the contrary. This argument, though, is not premised upon any reliable evidence adduced at the trial which would demonstrate that Nolan entered into his agreement with Sam Fox because of any personal trust and confidence which he placed in Sam Fox. Further, rescission of copyright exploitation

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agreements much like the one in issue in the case at bar was also sought in the case of In re Waterson, Berlin & Snyder Co. when the original assignee of the copyrights at issue there attempted to assign them to other publishers. The District Court, *36 F.2d 94 (S.D.N.Y. 1929)*, granted rescission in that case on the ground that the agreements were not assignable because of the degree of personal trust involved in them. *The Court of Appeals, In re Waterson, Berlin & Snyder Co. v. Irving Trust Co., 48 F.2d 704 (2d Cir. 1931)*, however, reversed that decision and held that the copyrights could be assigned further.

Plaintiff's assertions of fraud are based in part upon the allegation that Sam Fox concealed from plaintiff its relationship with Williamson by never giving plaintiff actual notice of the assignment. The evidence, however, does not support a finding of fraud in this regard. It is true that Sam Fox never gave plaintiff actual notice of the assignment, but the court has already held that the contract was assignable without Sam Fox's first having to obtain the plaintiff's consent. Further, far from demonstrating an intent to conceal the assignment, the evidence shows that the defendants openly announced the fact of their arrangement in an advertisement placed in the trade newspaper "Variety" shortly after the assignment was made in 1946. Additionally, the assignment was registered in the Copyright Office and the Sam Fox-Williamson relationship was noted on the copies of sheet music which were distributed.

In this regard it is also important to note that the evidence adduced at the trial indicates that plaintiff's agent Gray, while also acting in 1946 on behalf of a company called Pioneer Radio Productions, Inc., unrelated to Nolan, contracted with Williamson for the use of "Tumbling Tumbleweeds" on a commercial radio program. Gray thus had, at the least, notice that Williamson was publishing the song, and since Gray was plaintiff's authorized business agent in general and specifically acted as such with regard to "Tumbling Tumbleweeds," this notice is imputable to plaintiff. *See e.g.*, *Farr v. Newman, 14 N.Y.2d 183, 250 N.Y.S.2d 272, 199 N.E.2d 369 (1964).*

The other part of plaintiff's claim of fraud is predicated upon the failure of Sam Fox to render clearer and more detailed accountings to plaintiff and to pay him all of the royalties which were due him. Again, however, the reliable evidence fails to demonstrate fraud. Essentially what plaintiff is really complaining of here is mere breaches of contract by Sam Fox; fraud consists of something more than the mere breach of a contract.

Plaintiff's complaint with regard to the breach of his right to inspect Sam Fox's records is based upon what allegedly occurred at the time of Miss Jacobs' visit in 1962 to Sam Fox's office. The record is clear that until that time plaintiff had not attempted to exercise his right of inspection. Moreover, as has already been noted, at the time Miss Jacobs made her demand to see Sam Fox's records, Sam Fox had notice both of the pending suit between plaintiff and Gray... The limitations which Sam Fox imposed on the records which were made available to Miss Jacobs must be considered in the light of these facts. This was not a case in which the defendant completely and unjustifiably denied the plaintiff his right to inspect records as was the case in *Raftery v. World Film Corp., 180 App.Div. 475, 167 N.Y.S. 1027 (1st Dept. 1917). . . .*

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[¶] The question to be resolved at this juncture is whether these breaches, when considered together, provide a sufficient basis for rescission.

It is accepted law that not every breach of a contract will justify rescission. Rather, rescission can be permitted only when the complaining party has suffered breaches of so material and substantial a nature that they affect the very essence of the contract and serve to defeat the object of the parties. *E.g.*, *Callanan v. Powers, 199 N.Y. 268, 92 N.E. 747 (1910)*; *O'Herron v. Southern Tier Stores, Inc., 9 A.D.2d 568, 189 N.Y.S.2d 323 (3rd Dept. 1959).*

Cases which have considered the problem of rescission in situations analogous to the one presented by the case at bar have granted rescission only after finding the equivalent of a total failure in the performance of the contract. In *Raftery v. World Film Corp., supra*, the plaintiff temporarily turned over to the defendant prints from which movies were to be made and then distributed. The contract provided that the defendant was to render weekly accounts of the earnings on the movies and to pay the plaintiff fifty percent thereof. The prints were to be returned at the expiration of the contract term. The court found that the defendant never paid plaintiff the full amount due, deliberately maintained a set of fictitious records, deliberately rendered false accountings, refused to permit inspection of the records as was required by the contract, and failed to return the prints to the plaintiff. Based on all of these factors rescission was granted. In *Driver-Harris Co. v. Industrial Furnace Corp., 12 F. Supp. 918 (W.D.N.Y.1935)* suit for rescission of a patent licensing agreement was permitted upon a claim that no royalties had been paid for a long period and that the patent was not being exploited. Rescission was also granted in *Oscar Barnett Foundry Co. v. Crowe, 219 F. 450 (3rd Cir. 1915)* upon a finding that all royalty payments had ceased and that the patent was no longer being exploited. *Accord*, *Ruby v. Ebsary Gypsum Co., 36 F.2d 244 (W.D.N.Y. 1929).* And finally in *De Mille Co. v. Casey, 115 Misc. 646, 189 N.Y.S. 275 (Sup. Ct.1921)*, a contract permitting the defendant to produce motion pictures based on plaintiff's plays was rescinded when royalty payments ceased and the defendant, because of various sublicensing agreements over which he had lost effective control, was no longer in a position to comply with the contract and to protect the plaintiff's future interests.

Rescission is not justified in this case. The fact that fraud has not been established has already been discussed. Although defendant has been guilty of divers breaches, these breaches involve a failure to comply fully with the contractual provisions for payment of royalties in various categories, and as to these breaches, it is clear to the court that plaintiff may be rendered whole by an award of monetary damages. Moreover, there seems little danger that Nolan will be deprived of his royalties in the future. This is not a case in which defendant has repudiated his obligation to pay royalties, nor is this a case in which plaintiff's song has not been exploited fully in the past or threatened with not being exploited fully in the future.

Thus, plaintiff is not entitled to rescission. Accordingly, all the attendant remedies must also fail. . . .

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It is the judgment of this court that plaintiff's agreements with Sam Fox are not rescinded. Plaintiff is entitled to the payment of royalties due him under his 1934 and 1960 agreements with Sam Fox and the court directs an accounting limited to the period commencing six years prior to the commencement of this action. . . .

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Chapter 3

GRANT OF RIGHTS

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§ 3.01 Rights of Persons

[B] Rights of Privacy

[1] False Light

USAGE: On page 379, ADD the following case before *Messenger v. Gruner + Jahr Printing and Publ'g*:

JEWS FOR JESUS, INC.v. RAPP
997 So. 2d 1098 (Fla. 2008)

PARIENTE, J.

The issue in this case is whether the tort of false light invasion of privacy should be recognized in Florida. In *Rapp v. Jews for Jesus, Inc.,* 944 So.2d 460 (Fla. 4th DCA 2006), the Fourth District Court of Appeal certified the following question to be of great public importance:

> Does Florida recognize the tort of false light invasion of privacy, and if so, are the elements of the tort set forth in section 652E of Restatement (Second) of Torts?

Id. at 468. We have jurisdiction. See art. V, § 3(b)(4), Fla. Const.

Because we conclude that false light is largely duplicative of existing torts, but without the attendant protections of the First Amendment, we decline to recognize the tort and answer the certified question in the negative. In declining to recognize false light, we resolve two additional issues raised by this case. First, we conclude that Florida recognizes a cause of action for defamation by implication. Second, we hold that a communication can be considered defamatory if it "prejudices" the plaintiff in the eyes of a "substantial and respectable minority of the community," as set forth in comment e of the Restatement (Second) of Torts § 559 (1972). We elaborate on these two existing principles of defamation law because they further support our decision not to recognize false light in view of the competing policy considerations.

FACTS AND PROCEDURAL HISTORY

We begin with the facts that gave rise to the claim for false light invasion of privacy in this case, which are based on the allegations contained in the second amended complaint of the petitioner, Edith Rapp. Edith Rapp was married to Marty Rapp until his death in 2003. Bruce

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Rapp, who was Marty's son and Edith Rapp's stepson, was employed by Jews for Jesus, Inc. Prior to Marty's death, Bruce reported the following account in the Jews for Jesus newsletter:

> I had a chance to visit with my father in Southern Florida before my Passover tour. He has been ill for sometime and I was afraid that I may not have another chance to be with him. I had been witnessing to him on the telephone for the past few months. He would listen and allow me to pray for him, but that was about all. On this visit, whenever I talked to my father, my stepmother, Edie (also Jewish), was always close by, listening quietly. Finally, one morning Edie began to ask me questions about Jesus. I explained how G-d [sic] gave us Y'Shua (Jesus) as the final sacrifice for our atonement, and showed her the parallels with the Passover Lamb. She began to cry, and when I asked her if she would like to ask G-d for forgiveness for her sins and receive Y'Shua she said yes! My stepmother repeated the sinner's prayer with me-praise G-d! Pray for Edie's faith to grow and be strengthened.***1101** And please pray for my father Marty's salvation.

Rapp, 944 So.2d at 462. The complaint alleged that the newsletter was published on the internet and seen by one of Edith's relatives. Id.

The gravamen of Rapp's claim is that Jews for Jesus falsely and without her permission stated that she had "joined Jews for Jesus, and/or [become] a believer in the tenets, the actions, and the philosophy of Jews for Jesus." Second Amended Complaint at 2, Rapp v. Jews for Jesus, Inc., No. 502003CA013234XXOCAH (Fla. 15th Cir. Mar. 28, 2005). Rapp's complaint alleged: (1) false light invasion of privacy; (2) defamation; and (3) intentional infliction of emotional distress. The trial court granted Jews for Jesus's motion to dismiss without prejudice and also struck several paragraphs from the complaint described by the Fourth District as "primarily polemical" against Jews for Jesus, Inc. Id. at 462-63. . . .

ANALYSIS
I. The Origins of False Light

Our discussion of false light naturally begins with an overview of the common law tort of invasion of privacy. First recognized in 1890 as a legal theory by Samuel D. Warren and Louis D. Brandeis, common law invasion of privacy was expounded upon in 1960 by William L. Prosser, a leading scholar in tort law. William L. Prosser, Privacy, 48 Cal. L.Rev. 383 (1960). Prosser proposed that invasion of privacy consisted of four distinct torts: (1) intrusion upon the seclusion of another; (2) commercial appropriation of one's name or likeness; (3) publication of private facts; and (4) false light. Id. at 389. Prosser defined the tort of false light as one that "consists of publicity that places the plaintiff in a false light in the public eye." Id. at 398. The United States Supreme Court in Cantrell v. Forest City Publishing Co., 419 U.S. 245, 95 S.Ct. 465, 42 L.Ed.2d 419 (1974), a case involving the false light theory of invasion of privacy, referred to the claim as being "generally recognized as one of the several distinct kinds of invasions actionable under the privacy rubric." Id. at 248 n. 2, 95 S.Ct. 465.

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In 1977, the Restatement (Second) of Torts codified Prosser's description of the four categories of invasion of privacy and defined false light as follows:

> One who gives publicity to a matter concerning another that places the other before the public in a false light is subject to liability to the other for invasion of his privacy, if
>
> (a) the false light in which the other was placed would be highly offensive to a reasonable person, and
> (b) the actor had knowledge of or acted in reckless disregard as to the falsity of the publicized matter and the false light in which the other would be placed.

Restatement (Second) of Torts § 652E. With these background principles in mind, we now address the certified question.

II. To Recognize or Not to Recognize-That is the Certified Question

This Court has previously acknowledged Prosser's paradigm of the four general categories of invasion of privacy, one of which is a cause of action for false light. See Allstate Ins. Co. v. Ginsberg, 863 So.2d 156, 160-61 (Fla.2003); Agency for Health Care Admin. v. Associated Industries of Fla., Inc., 678 So.2d 1239, 1252 n. 20 (Fla.1996) (citing Forsberg v. Hous. Auth. of Miami Beach, 455 So.2d 373 (Fla.1984) (Overton, J., concurring)) [hereinafter *AHCA]*. However, we have reviewed each of these cases and conclude that the Court was simply repeating citations from academic treatises or law review articles about privacy torts in general or discussing an alternative tort in particular. For example, in *AHCA*, the Court noted that it had previously recognized a cause of action for invasion of privacy and specifically cited the four general categories outlined by Prosser, which included false light. 678 So.2d at 1252 n. 20 (ruling on the constitutionality of a statute that abolished affirmative defenses recognized at common law). Then, in *Ginsberg,* the Court again set forth the four general categories of invasion of privacy by quoting *AHCA*, albeit in the context of deciding whether there was a cause of action for intrusion upon the seclusion of another based upon touching in a sexual manner or sexually offensive comments. 863 So.2d at 162. Importantly, none of these cases actually involved a claim of false light, and we have never discussed any of the competing policy concerns; the issue of whether to recognize false light as a new common law cause of action has never been before the Court. We therefore begin by looking to common law principles and public policy considerations to facilitate our analysis of this issue of first impression.

Florida adopted the English common law as it existed on July 4, 1776, "to the extent that it [wa]s not inconsistent with the statutes and constitutions of Florida and the United States." Stone v. Wall, 734 So.2d 1038, 1043 (Fla.1999). Although the tort of false light did not exist at common law, this Court can recognize new common law causes of action where that recognition is neither in conflict with contrary legislation nor outweighed by any competing interests. We

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have explained that the common law "must keep pace with changes in our society" and "may be altered when the reason for the rule of law ceases to exist, or when the change is demanded by public necessity or required to vindicate fundamental rights." Stone, 734 So.2d at 1043 (quoting United States v. Dempsey, 635 So.2d 961, 964 (Fla.1994)). Indeed, this was the impetus for the Court's decision to recognize invasion of privacy as a common law cause of action in Cason v. Baskin, 155 Fla. 198, 20 So.2d 243 (1944). As this Court stated:

> The common law has shown an amazing vitality and capacity for growth and development. This is so largely because the great fundamental object and principle of the common law was the protection of the individual in the enjoyment of all his inherent and essential rights and to afford him a legal remedy for their invasion.

Id. at 250.

Based on both the common law and Florida's Constitution, the Court found that the right to privacy was a distinct and cognizable tort. However, the Court recognized that the right would be subject to limitations because of competing rights, such as freedom of speech and of the press, and that the right must be restricted to "ordinary sensibilities" and cannot extend to the hypersensitive plaintiff. Id. at 251. Finally, in discussing the balancing of the rights at stake, the Court agreed that:

> The right of privacy does not prohibit the publication of matter which is of legitimate public or general interest. At some point the public interest in obtaining information becomes dominant over the individual's desire for privacy. It has been said that the truth may be spoken, written, or printed about all matters of a public nature, as well as matters of a private nature in which the public has a legitimate interest. However, the phrase "public or general interest," in this connection, does not mean mere curiosity.

Id.

Because there is no statutory prohibition against recognizing the tort of false light and because our case law concerning the other categories of invasion of privacy may seem to support recognition of false light, we next review the main policy arguments against its adoption. We do this with the view that the "primary purpose of tort law is 'that wronged persons should be compensated for their injuries and that those responsible for the wrong should bear the cost of their tortious conduct.' " Clay Elec. Coop. v. Johnson, 873 So.2d 1182, 1190 (Fla.2003) (quoting Weinberg v. Dinger, 106 N.J. 469, 524 A.2d 366, 375-79 (1987)). As cogently explained by the Colorado Supreme Court,

> Tort law represents the way in which we draw lines around acceptable and unacceptable non-criminal behavior in our society. Torts are designed to

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> encourage socially beneficial conduct and deter wrongful conduct. See, e.g., Restatement (Second) of Torts, § 901(c) (1979). Correspondingly, liability arises out of culpable behavior wherein the defendant breaches a duty to the plaintiff: crosses the line into unacceptable behavior. Liability not only recompenses the wronged plaintiff, but also deters the socially wrongful conduct in the first place. Hence, clarity and certainty of tort law serves a very important function in regulating how we deal with one another.

Denver Publ'g Co. v. Bueno, 54 P.3d 893, 897-98 (Colo.2002).

Although false light has been recognized in a substantial number of jurisdictions, it "remains the least-recognized and most controversial aspect of invasion of privacy." Id. at 898 (quoting Cain v. Hearst Corp., 878 S.W.2d 577, 579 (Tex.1994)). The reason most often given for rejecting false light is that "it substantially overlaps with another tort, defamation," id. at 898, and allows the plaintiff to circumvent the strict requirements that have been adopted by statute and developed by case law to ensure the right to freedom of expression. Id. at 903-04. Prosser himself expressed these concerns when proposing the tort:

> The question may well be raised, and apparently still is unanswered, whether this branch of the tort is not capable of swallowing up and engulfing the whole law of public defamation; and whether there is any false libel printed, for example, in a newspaper, which cannot be redressed upon the alternative ground. If that turns out to be the case, it may well be asked, what of the numerous restrictions and limitations which have hedged defamation about for many years, in the interest of freedom of the press and the discouragement of trivial and extortionate claims? Are they of so little consequence that they may be circumvented in so casual and cavalier a fashion?

Prosser, supra, at 401.

In short, courts rejecting false light have expressed the following two primary concerns: (1) it is largely duplicative of defamation, both in the conduct alleged and the interests protected, and creates the potential for confusion because many of its parameters, in contrast to defamation, have yet to be defined; and (2) without many of the First Amendment protections attendant to defamation, it has the potential to chill speech without any appreciable benefit to society. Because the two concerns are interrelated, we discuss them together below.

A. The Elements: False Light v. Defamation

Although Prosser described false light as one of the four causes of action for invasion of privacy, it is more closely related to defamation than the other three privacy torts. When the elements of false light are compared to those of defamation, the overlap between the two torts is evident. As previously mentioned, false light has the following six elements: (1) publicity; (2)

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falsity; (3) actor must act with knowledge or reckless disregard as to the falsity; (4) actual damages; (5) publicity must be highly offensive to a reasonable person; and (6) publicity must be about the plaintiff. See Restatement (Second) of Torts § 652E; see also Bueno, 54 P.3d at 899-900. Defamation has the following five elements: (1) publication; (2) falsity; (3) actor must act with knowledge or reckless disregard as to the falsity on a matter concerning a public official, or at least negligently on a matter concerning a private person; (4) actual damages; and (5) statement must be defamatory. See Restatement (Second) of Torts §§ 558B, 580A-580B. Except for the distinction between publicity that is "highly offensive" and a publication that is "defamatory," which we will discuss in more detail below, a comparison reveals that the elements of these two torts are remarkably similar.

B. Recovery for True Statements that Give a False Impression

Despite the apparent similarity in the elements, one argument often advanced to support the recognition of false light is that, unlike defamation, it allows recovery for literally true statements that create a false impression. See, e.g., Godbehere v. Phoenix Newspapers, Inc., 162 Ariz. 335, 783 P.2d 781, 787 (1989); see also Straub v. Lehtinen, Vargas & Riedi, P.A., 980 So.2d 1085, 1086-87 (Fla. 4th DCA 2007) (stating that a false light cause of action could be based on the publication of true facts that create a false impression); Heekin v. CBS Broad., Inc., 789 So.2d 355, 358 (Fla. 2d DCA 2001). For example, in *Heekin,* which appears to be the first appellate case in Florida that directly involved a cause of action for false light and discussed the tort in detail, the plaintiff alleged that a broadcast falsely portrayed him as a spouse abuser by juxtaposing an interview with his former spouse along with stories and pictures of women who had been abused and killed by domestic partners. 789 So.2d at 357 ("Heekin's complaint alleged that the specific facts about Heekin contained in the broadcast were true, but that the juxtaposition of these facts with the other stories created the false impression that Heekin had abused and battered his wife and children."). The Restatement also provides for false light recovery in cases like the present one, where statements could be literally true but juxtaposed in such a manner as to create a false impression. Restatement (Second) of Torts § 652E cmt. b (illustrating that a taxi driver whose photograph is used in a news article about drivers who cheat the public on fares has a claim for false light because the article implies that he engages in this practice).

Although proponents often argue that allowing recovery for these types of true statements justifies the necessity of false light, defamation already recognizes the concept that literally true statements can be defamatory where they create a false impression. This variation is known as defamation by implication and has a longstanding history in defamation law. See Stevens v. Iowa Newspapers, Inc., 728 N.W.2d 823, 827 (Iowa 2007) ("Defamation by implication arises, not from what is stated, but from what is implied when a defendant '(1) juxtaposes a series of facts so as to imply a defamatory connection between them, or (2) creates a defamatory implication by omitting facts, [such that] he may be held responsible for the defamatory implication ....' " (quoting W. Page Keeton et al., Prosser & Keeton on the Law of Torts § 116, at 117 (5th ed. Supp.1988))). . . .

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Relying on such longstanding precedent, Jews for Jesus and the amici for the media contend that Florida already recognizes a cause of action for "defamation by implication." Although this Court has never directly discussed defamation by implication, district courts in this state have recognized the tort as a valid variation of defamation. . . .

In addition, our own standard jury instructions state that in a claim of defamation, a "statement is substantially true *if its substance or gist* conveys essentially the same meaning that the truth would have conveyed. In making this determination, you should consider the context in which the statement is made and disregard any minor inaccuracies that do not affect the substance of the statement." Standard Jury Instructions-Civil Cases (No. 00-1), 795 So.2d 51, 57 (Fla.2001) (emphasis added). The legal significance of the "gist" of a publication was noted in W. Page Keeton et al., Prosser and Keeton on the Law of Torts § 116, at 117 (5th ed. Supp.1988), which stated that while defamation law shields publishers from liability for minor factual inaccuracies, "it also works in reverse, to impose liability upon the defendant who has the details right but the 'gist' wrong." Simply put, "if the defendant juxtaposes a series of facts so as to imply a defamatory connection between them, or creates a defamatory implication by omitting facts, he may be held responsible for the defamatory implication, unless it qualifies as an opinion, even though the particular facts are correct." Id. (footnotes omitted).

We agree with petitioner and its amici that defamation by implication is a well-recognized species of defamation that is subsumed within the tort of defamation. All of the protections of defamation law that are afforded to the media and private defendants are therefore extended to the tort of defamation by implication. See, e.g., Locricchio v. Evening News Ass'n, 438 Mich. 84, 476 N.W.2d 112, 133-34 (1991) (stating that defamation by implication claims must conform to the First Amendment principles of general defamation law).[67] Because defamation by implication applies in circumstances where literally true statements are conveyed in such a way as to create a false impression, we conclude that there is no meaningful distinction on that basis to justify recognition of false light as a separate tort.

C. Nature of the Interests Protected

Although there is substantial overlap with defamation, proponents often argue that an important distinction lies in the nature of the interests sought to be protected. As the Restatement explains, it is "not . . . necessary to the action for invasion of privacy that the plaintiff be

[67]We have carefully considered the risk of constitutional infringement of free speech by imposing liability for publication of a true statement. Indeed, the Florida Constitution states:

> In all criminal prosecutions and civil actions for defamation the truth may be given in evidence. If the matter charged as defamatory is true and was published with good motives, the party shall be acquitted or exonerated.

Art. I, § 4, Fla. Const. However, in a defamation by implication claim, the "matter charged as defamatory" is not the literally true statement, but the false impression given by the juxtaposition or omission of facts. Accordingly, truth remains an available defense to defendants who can prove that the defamatory implication is true.

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defamed. It is enough that he is given unreasonable and highly objectionable publicity that attributes to him characteristics, conduct or beliefs that are false, and so is placed before the public in a false position." See Restatement (Second) of Torts § 652E cmt. b. For the tort of false light, the standard is whether the statement is highly offensive to a reasonable person. Id. § 652E(a). Conversely, a defamatory statement is one that tends to harm the reputation of another by lowering him or her in the estimation of the community or, more broadly stated, one that exposes a plaintiff to hatred, ridicule, or contempt or injures his business or reputation or occupation. Standard Jury Instructions-Civil Cases (No. 00-1), 795 So.2d at 55.

The use of a different standard, which is the main distinction between the elements of false light and defamation, is the theoretical mechanism for protecting the two different interests at issue. A false light plaintiff must prove that the publicity would be "highly offensive to a reasonable person," whereas a defamation plaintiff must prove injury to his or her reputation in the community. As explained by the Ohio Supreme Court in recognizing false light, "in defamation cases the interest sought to be protected is the *objective* one of reputation, either economic, political, or personal, in the outside world. In privacy cases the interest affected is the *subjective* one of injury to [the] inner person." Welling v. Weinfeld, 113 Ohio St.3d 464, 866 N.E.2d 1051, 1057 (2007) (emphases added) (quoting Crump v. Beckley Newspapers, Inc., 173 W.Va. 699, 320 S.E.2d 70, 83 (1984)).

We acknowledge the nature of the interests to be protected is always a relevant concern in deciding whether to recognize a cause of action. As we stated in *Cason,* it is the Court's duty in this realm to ensure that there is "protection of the individual in the enjoyment of all of his inherent and essential rights and to afford a legal remedy for their invasion." 20 So.2d at 250. Therefore, if there is a unique interest that could be protected by false light, that certainly might be one reason for deciding to recognize the tort. However, if the interest is not unique and is adequately addressed by defamation, then that would militate against the need for the tort.

In this instance, although the standard may be different in principle, it may be a distinction without a difference in practice because conduct that defames will often be highly offensive to a reasonable person, just as conduct that is highly offensive will often result in injury to one's reputation. See Bueno, 54 P.3d at 902. As noted by the Colorado Supreme Court:

> We believe that recognition of the different interests protected rests primarily on parsing a too subtle distinction between an individual's personal sensibilities and his or her reputation in the community. In fact, the United States Supreme Court trampled any such subtleties in *Zacchini v. Scripps-Howard Broadcasting Co.,* 433 U.S. 562, 97 S.Ct. 2849, 53 L.Ed.2d 965 (1977). "'The interest protected' in permitting recovery for placing the plaintiff in a false light 'is clearly that of reputation, with the same overtones of mental distress as in defamation.' " Id. at 573, 433 U.S. 562, 97 S.Ct. 2849, 53 L.Ed.2d 965 (quoting Prosser, supra, at 400.).

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> . . . False statements that a plaintiff finds "highly offensive" will generally either portray that plaintiff negatively or attack his conduct or character. At the same time, publicized statements that are disparaging and false satisfy the elements of defamation. Thus, the same publications that defame are likely to offend, and publications that offend are likely to defame.

Bueno, 54 P.3d at 902 (citation omitted).

Moreover, the interests are even less distinct when considering the fact that a false light plaintiff may also recover damages for "harm to his reputation," even though false light originally existed to compensate a plaintiff for an injury to their inner and personal feelings or emotional distress. See Restatement (Second) of Torts § 652H, cmt. a. This mirrors the harm that defamation law seeks to prevent, which has led some courts to conclude that while the torts are theoretically dissimilar, they are almost identical when put into practice. See, e.g., Cain, 878 S.W.2d at 581 ("[M]any, if not all, of the injuries redressed by the false light tort are also redressed by defamation."). In fact, in states such as Florida, which do not require damage to reputation as a predicate to a defamation action, there may be no distinction in recoverable damages. *Compare Miami Herald Publ'g Co. v. Ane,* 458 So.2d 239, 242-43 & n. 3 (Fla.1984) (quoting Time, Inc. v. Firestone, 424 U.S. 448, 460, 96 S.Ct. 958, 47 L.Ed.2d 154 (1976), which notes that "States could base [defamation] awards on elements other than injury to reputation," such as "personal humiliation and mental anguish and suffering") *and In re Standard Jury Instructions (Civil Cases 89-1),* 575 So.2d 194, 198 (Fla.1991) (same) *with* Restatement (Second) of Torts § 652H, cmt. b (stating that a plaintiff in an invasion of privacy action can recover damages for emotional distress or personal humiliation). Therefore, absent such a distinction, most injuries capable of being remedied by false light could also be remedied by defamation. Cain, 878 S.W.2d at 581.

On the other hand, the very fact that false light is defined in subjective terms is one of the main causes for concern because the type of conduct prohibited is difficult to define. Unlike defamation, which has a defined body of case law and applicable restrictions that objectively proscribe conduct with "relative clarity and certainty," false light and its subjective standard create a moving target whose definition depends on the specific locale in which the conduct occurs or the particular sensitivities of the day. Bueno, 54 P.3d at 903-04. As we now discuss, utilizing a subjective standard that "fails to draw reasonably clear lines between lawful and unlawful conduct" may impermissibly restrict free speech under the First Amendment. Cain, 878 S.W.2d at 584.

D. First Amendment Implications

As noted by the United States Supreme Court, "[o]ur profound national commitment to the free exchange of ideas, as enshrined in the First Amendment, demands that the law of libel carve out an area of 'breathing space' so that protected speech is not discouraged." Harte-Hanks Commc'ns, Inc. v. Connaughton, 491 U.S. 657, 686, 109 S.Ct. 2678, 105 L.Ed.2d 562 (1989)

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(quoting Gertz v. Robert Welch, Inc., 418 U.S. 323, 342, 94 S.Ct. 2997, 41 L.Ed.2d 789 (1974)). "Whatever is added to the field of libel is taken from the field of free debate." N.Y. Times Co. v. Sullivan, 376 U.S. 254, 272, 84 S.Ct. 710, 11 L.Ed.2d 686 (1964). The same can also be said for the tort of false light invasion of privacy. Indeed, this Court recognized in *Cason* that there was an important need to balance the right to be let alone against the legitimate interests flowing from free speech and free press. 20 So.2d at 251.

However, the "highly offensive to a reasonable person" standard runs the risk of chilling free speech because the type of conduct prohibited is not entirely clear:

> Because tort law is intended both to recompense wrongful conduct and to prevent it, it is important that it be clear in its identification of that wrongful conduct. The tort of false light fails that test. The sole area in which it differs from defamation is an area fraught with ambiguity and subjectivity. Recognizing "highly offensive" information, even framed within the context of what a reasonable person would find highly offensive, necessarily involves a subjective component. The publication of highly offensive material is more difficult to avoid than the publication of defamatory information that damages a person's reputation in the community. In order to prevent liability under a false light tort, the media would need to anticipate whether statements are "highly offensive" to a reasonable person of ordinary sensibilities even though their publication does no harm to the individual's reputation. To the contrary, defamatory statements are more easily recognizable by an author or publisher because such statements are those that would damage someone's reputation in the community. *In other words, defamation is measured by its results; whereas false light invasion of privacy is measured by perception.*

Bueno, 54 P.3d at 903 (emphasis added). The Colorado Supreme Court ultimately refused to recognize false light because it "is too amorphous a tort" and "risks inflicting an unacceptable chill on those in the media seeking to avoid liability." Id. at 904. This sentiment was echoed by the Texas Supreme Court:

> The Restatement adds an element not associated with defamation, the requirement that the statement places the subject in a false light "highly offensive" to the reasonable person. The distinction fails to draw reasonably clear lines between lawful and unlawful conduct, however. "A law forbidding or requiring conduct in terms so vague that men of common intelligence must necessarily guess at its meaning and differ as to its application violates due process." Baggett v. Bullitt, 377 U.S. 360, 84 S.Ct. 1316, 12 L.Ed.2d 377 (1964); see also Hustler Magazine v. Falwell, 485 U.S. 46, 108 S.Ct. 876, 99 L.Ed.2d 41 (1988) (classification of speech as "outrageous" for suits for intentional infliction of emotional distress does not provide a meaningful standard, and would allow jury to impose damages on the basis of the jurors' tastes or views).

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> Thus, the uncertainty of not knowing what speech may subject the speaker or writer to liability would have an unacceptable chilling effect on freedom of speech.

Cain, 878 S.W.2d at 584.

In addition, many safeguards and privileges have been established throughout the years that have effectively balanced the right of individuals to be free from defamatory statements against the rights guaranteed by the First Amendment to freedom of expression. See Phila. Newspapers, Inc. v. Hepps, 475 U.S. 767, 106 S.Ct. 1558, 89 L.Ed.2d 783 (1986) (requiring public-figure plaintiffs in a matter of public concern to prove falsity); Curtis Publ'g Co. v. Butts, 388 U.S. 130, 87 S.Ct. 1975, 18 L.Ed.2d 1094 (1967) (applying "actual malice" standard to suits by public figures against publishers); N.Y. Times Co. v. Sullivan, 376 U.S. 254, 84 S.Ct. 710, 11 L.Ed.2d 686 (1964) (applying "actual malice" standards to suits by public officials against publishers). In Florida, this Court and the district courts have also applied various privileges to defamatory statements. See Abram v. Odham, 89 So.2d 334, 335-36 (Fla.1956) (qualified privilege for fair and accurate statements made in reporting on official government activities); Layne v. Tribune Co., 108 Fla. 177, 146 So. 234, 238 (1933) (qualified privilege for defamatory statements republished by a defendant); Abraham v. Baldwin, 52 Fla. 151, 42 So. 591, 592 (1906) (qualified privilege for defamatory statements made by a person who has a duty, interest or right in a specific subject matter); Fullerton v. Fla. Med. Ass'n, 938 So.2d 587, 592 (Fla. 1st DCA 2006) (stating that the common law recognizes that an absolute privilege extends to a witness's testimony in relation to an existing judicial proceeding); Demby v. English, 667 So.2d 350, 353 (Fla. 1st DCA 1995) ("Under Florida common-law principles anyone who publishes defamatory matter is not liable if the remarks are published upon a conditionally privileged occasion and the privilege is not abused.").

The Florida Legislature has also provided certain requirements for plaintiffs to meet in order to bring a defamation suit, which serve to protect First Amendment interests. Under Florida's defamation law, a prospective plaintiff is required to give a media defendant notice five days before initiating a civil action. § 770.01, Fla. Stat. (2007). The notice must specify the alleged false and defamatory statements contained in the article or broadcast. Id. Further, section 770.02, Florida Statutes (2007), limits the amount of damages a plaintiff may recover where: (1) the statements were published in good faith; (2) the statements were false due to an honest mistake of facts; (3) there were reasonable grounds for believing the statements were true; and (4) a full and fair correction, apology, or retraction was published or broadcast within a specific time period. We believe that all of these protections are necessary to ensure the delicate balance between preventing tortious injury resulting from defamatory statements and protecting the constitutional right to free speech.

Although defamation actions are governed by these extensive protections, the same cannot be said for actions in false light. Without these protections that have slowly developed

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over the years, recognizing false light could persuade plaintiffs to circumvent these safeguards in order to ensure recovery, even though the same conduct could equally be remedied under defamation law. The Restatement echoes this concern:

> When the false publicity is also defamatory so that either action can be maintained by the plaintiff, it is arguable that limitations of long standing that have been found desirable for the action for defamation should not be successfully evaded by proceeding upon a different theory of later origin, in the development of which the attention of the courts has not been directed to the limitations.
>
> As yet there is little authority on this issue. The answers obviously turn upon the nature of the particular restrictive rule, the language of a particular statute and the circumstances of the case, and no generalization can be made.

Restatement (Second) of Torts § 652E cmt. e.

We acknowledge that this risk could be alleviated by simply extending all of the defamation safeguards to actions for false light, much as some courts in other jurisdictions have done. See, e.g., West v. Media Gen. Convergence, Inc., 53 S.W.3d 640 (Tenn.2001) (applying defamation privileges to false light); Russell v. Thomson Newspapers, Inc., 842 P.2d 896 (Utah 1992) (same); Crump v. Beckley Newspapers, Inc., 173 W.Va. 699, 320 S.E.2d 70 (1984) (same); see also Cain, 878 S.W.2d at 582 (noting other jurisdictions that have applied the defamation safeguards to false light). However, we conclude that it is more prudent for the Florida legislature to address these issues by statute, such as the application of privileges, the prerequisites to suit, and the governing statute of limitations. In fact, we note that this matter has already been studied by the Legislature, but no action has yet been taken. See Fla. S. Comm. on Judiciary, Analysis of Cause of Action for False Light Invasion of Privacy (Nov.2007) (on file with the Florida State Archives). Furthermore, because many statements could form the basis of actions for either defamation or false light, "no useful purpose would be served by the separate tort if these restrictions [we]re imposed." Cain, 878 S.W.2d at 582.

E. Rejection Of The False Light Tort

Based upon our review of the law in Florida and in many other jurisdictions, we simply cannot ignore the significant and substantial overlap between false light and defamation. Although we acknowledge that a majority of the states have recognized the false light cause of action, we are struck by the fact that our review of these decisions has revealed no case, nor has one been pointed out to us, in which a judgment based solely on a false light cause of action was upheld. In fact, as exemplified by the Texas Supreme Court's decision in *Cain,* many of the decisions reveal that the cause of action could have been brought as, or was included as an alternative to, a claim for defamation. See 878 S.W.2d at 581 (noting that all of the false light claims brought in Texas "could have been brought . . . under another legal theory," and refusing to recognize false light "when recovery for that tort is substantially duplicated by torts [such as

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defamation] already established in [Texas]"). As one commentator concluded, after reviewing six hundred false light cases through the country, false light most often duplicates defamation and "there is not even a single good case in which false light can be clearly identified as adding anything distinctive to the law." J. Clark Kelso, False Light Privacy: A Requiem, 32 Santa Clara L.Rev. 783, 785 (1992). Our own review of cases in Florida reveals a similar conclusion.

These observations lead us to two competing conclusions. On the one hand, recognizing the tort would apparently not open the proverbial floodgates to false light claims. Yet, the fact that we can find no judgment that has been upheld by an appellate court solely on the basis of false light leads us to conclude that the absence of false light does not create any significant void in the law. Indeed, there are relatively few scenarios where defamation is inadequate and false light provides a potential for relief. The Restatement discusses one such example:

> A is a war hero, distinguished for bravery in a famous battle. B makes and exhibits a motion picture concerning A's life, in which he inserts a detailed narrative of a fictitious private life attributed to A, including a non-existent romance with a girl. B knows this matter to be false. Although A is not defamed by the motion picture, B is subject to liability to him for invasion of privacy.

Restatement (Second) of Torts § 652E cmt. b, illus. 5. Another illustration may be the portrayal of the plaintiff as suffering from a terminal illness, which is "not necessarily defamatory, but [is] potentially highly offensive." Bueno, 54 P.3d at 902- 03. However, to the extent that there may be a subset of cases where there is a wrong without a remedy, we consider that interest too tenuous to be recognized through the tort, most especially in light of the First Amendment concerns. In fact, it appears that the reason there has recently been a spate of false light claims in this State may be because of an attempt to circumvent the shorter statute of limitations for defamation as well as the other statutory prerequisites for a defamation claim. See Anderson, 947 So.2d at 7-8 (concluding that a claim for false light was specifically brought to "circumvent the shorter limitations period that applies to defamation actions" and that it should be treated the same as defamation or the "strict requirements in the law of defamation would have no effect at all").

We once again acknowledge that it is our duty to ensure the "protection of the individual in the enjoyment of all of his inherent and essential rights and to afford a legal remedy for their invasion." Cason, 20 So.2d at 250. However, because the benefit of recognizing the tort, which only offers a distinct remedy in relatively few unique situations, is outweighed by the danger of unreasonably impeding constitutionally protected speech, we decline to recognize a cause of action for false light invasion of privacy.

* * * * *

It is so ordered.

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[C] Right of Publicity

USAGE: On page 439, SUBSTITUTE the following case and text for *Cardtoons v. Major League Baseball Players Association*:

HEBREW UNIVERSITY OF JERUSALEM v. GENERAL MOTORS LLC.
903 F. Supp. 2d 932 (C.D. Cal. 2012)

A. HOWARD MATZ, District Judge.

I. Introduction

Defendant General Motors LLC ("GM") used an image of Albert Einstein in a November 2009 advertisement for its 2010 Terrain vehicle. The ad depicted Einstein's face digitally pasted onto a muscled physique, accompanied by the written message "Ideas are sexy too." The ad ran in only one issue of *People* magazine. Plaintiff Hebrew University of Jerusalem ("HUJ"), which claims to own Einstein's right of publicity as a beneficiary under Einstein's will and thus exclusive control of the exploitation of his name and likeness, brought suit against GM for this unauthorized use of Einstein's image.[68]

On March 16, 2012, the Court issued an order permitting HUJ to proceed to trial to attempt to prove (1) that Albert Einstein would have transferred his postmortem right of publicity under New Jersey law had he been aware that such a right of publicity existed at the time of his death and (2) that GM had violated that right. See Hebrew Univ. of Jerusalem v. Gen. Motors LLC, 878 F. Supp. 2d 1021, 1033-36 (C.D. Cal. March 16, 2012).[69] GM has asserted that even if HUJ could prove both Einstein's intent with respect to the right of publicity and GM's violation of that right, it should not be entitled to recover damages because too much time elapsed between Einstein's death in 1955 and the filing of this lawsuit in 2010.

Now before the Court is HUJ's motion requesting that the Court find that the duration of the postmortem right of publicity is indefinite under New Jersey common law or, in the alternative, that it lasts for 70 years after death, as is the case with copyrights under the federal Copyright Act. In essence, HUJ seeks a ruling from this California federal court as to what New

[68]Article 13 of Einstein's will states: "I give and bequeath all of my manuscripts, copyrights, publication rights, royalties and royalty agreements, and all other literary property and rights, of any and every kind or nature whatsoever, to my Trustees hereinafter named, IN TRUST, to hold the same for a term measured by the lives of my secretary Helena Dukas, and my step-daughter, Margot Einstein.... Upon the death of the said Helena Dukas and the said Margot Einstein, this trust shall terminate, and thereupon all funds or property, if any, still held in this trust, including all accrued, accumulated and undistributed income and all literary rights and property, shall pass and be distributed to Hebrew University...."

[69]In that order, the Court also granted summary judgment in favor of GM on HUJ's causes of action under the Lanham Act (15 U.S.C. § 1125(a)) and California's Unfair Competition Law, but denied summary judgment on HUJ's remaining claims based on California's right of publicity statute (Civil Code § 3344.1) and New Jersey's common law right of publicity.

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Jersey's highest court would likely determine to be the postmortem duration of that state's common law right of publicity.[70] For the reasons set forth below, the Court concludes that the New Jersey Supreme Court would likely find that the postmortem right of publicity endures for no more than 50 years after death. As to HUJ's cause of action under California's right of publicity statute (Civil Code §3344.1), the Court also rules that the rights encompassed in that statute do not apply to Plaintiff.

II. Facts and Procedural History

The facts of this case are set forth in the Court's summary judgment order, Hebrew University of Jerusalem v. General Motors LLC, 878 F. Supp. 2d 1021 (C.D. Cal. 2012), and therefore only a brief review of the background is presented here.

Nothing in Albert Einstein's will specifically mentioned any right of publicity, and during his lifetime he did not claim or receive any monetary compensation for the use of his persona. Applying New Jersey law (because Einstein was domiciled there at the time of his death in 1955), this Court concluded that New Jersey would recognize a common law postmortem right of publicity without the requirement of lifetime exploitation. Id. at 1027-28, 1031-32. The Court therefore found that Einstein had a right of publicity that survived his death, but that the remaining question–whether he would have intended to transfer that right to HUJ through a provision in his will–was a factual question. Id. at 1034-36. For that reason, the Court held, HUJ was entitled to prove Einstein's intent at trial.

For the present motion, the Court assumes without deciding that HUJ succeeded in proving that Einstein would have intended to bequeath his right of publicity to HUJ. The dispositive question now before the Court is the duration of that right. For how many years may HUJ enforce Einstein's common law, postmortem right of publicity?

* * * * *

IV. Analysis

J. Thomas McCarthy, the leading commentator on the right of publicity, has characterized the determination of the right's duration as "by nature almost arbitrary." 2 J. Thomas McCarthy, *Rights of Publicity & Privacy* § 9:16 (2d ed. 2012) (henceforth, "McCarthy"). An "almost arbitrary" ruling is unacceptable, however. The following analysis seeks to avoid one.

A. New Jersey Law Determines the Duration of the New Jersey Right of Publicity

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[70] Given that New Jersey courts have not decided the duration of that state's postmortem right of publicity, this Court is called on to "predict how the highest state court would decide the issue." In re Kekauoha-Alisa, 674 F.3d 1083, 1087-88 (9th Cir. 2012).

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The right of publicity is a property right under both New Jersey common law and California statutory law. McFarland v. Miller, 14 F.3d 912, 917 (3d Cir. 1994) ("In New Jersey, the right of publicity is a property right."); Estate of Presley v. Russen, 513 F. Supp. 1339, 1355 (D.N.J. 1981) (holding that the right of publicity is descendible); Cal. Civ. Code § 3344.1(b) ("The rights recognized under this section are property rights, freely transferable or descendible. . . .").

The duration of California's statutory postmortem right of publicity is 70 years. Cal. Civ. Code § 3344.1(g). But the right is limited to California domiciliaries. See Cal. Civ. Code § 946 ("If there is no law to the contrary, in the place where personal property is situated, it is deemed to follow the person of its owner, and is governed by the law of his domicile."); Cairns v. Franklin Mint Co., 292 F.3d 1139, 1147-49 (9th Cir. 2002) (concluding that § 946 applies in conjunction with § 3344.1 and that therefore the right of publicity provided by § 3344.1 does not apply to persons domiciled outside California, despite the statute's applicability to acts occurring in California); see also Milton H. Greene Archives, Inc. v. Marilyn Monroe LLC, 692 F.3d 983, 1000 (9th Cir. 2012) (confirming that the law of the state where the deceased owner of the right of publicity was domiciled controls whether the right may be posthumously enforced).

As previously noted, Einstein died while domiciled in New Jersey. HUJ's claim pursuant to Cal. Civ. Code § 3344.1 therefore fails. For the same reason, unless sound public policy and the weight of authority establish otherwise, it makes no sense to apply the California statute's 70 year postmortem durational limit--which is part and parcel of the substantive right--to a right arising solely out of the New Jersey common law, and there is no legal principle requiring this Court to do so.[71]

B. Status of Existing New Jersey Law Concerning the Duration of the Postmortem Right of Publicity

[71]HUJ argues that the judicially-created doctrine of "dépeçage" should apply to determine the duration of New Jersey's postmortem right of publicity. Pursuant to that doctrine, courts "erect[] [a] framework under which different issues in a single case, arising out of a common nucleus of operative facts, may be decided according to the substantive law of different states." Putnam Res. v. Pateman, 958 F.2d 448, 465 (1st Cir. 1992). In other words, a choice of law analysis may be applied to each issue in a case. HUJ argues that despite this Court having already determined the very existence of the right of publicity under New Jersey law, the Court should apply dépeçage and determine the right's duration pursuant to California law. The Court disagrees. Dépeçage is inappropriate because the existence and duration of the right of publicity are not separate issues. They are simply two aspects of the single question before the Court–whether HUJ may enforce Einstein's right of publicity. Moreover, it is clear from California and Ninth Circuit cases that there is no common law postmortem right of publicity in California and that California's postmortem right of publicity statute does not apply to non-domiciliaries. See Comedy III Prods., Inc. v. Gary Saderup, Inc., 25 Cal. 4th 387, 391, 106 Cal. Rptr. 2d 126, 21 P.3d 797 (Cal. 2001) (discussing Lugosi v. Universal Pictures, 25 Cal. 3d 813, 160 Cal. Rptr. 323, 603 P.2d 425 (Cal. 1979), which likened the common law right of publicity to the right of privacy and held that it was not descendible). Thus, even if the Court performed a choice of law analysis pursuant to the dépeçage doctrine, there would be no applicable California law to apply. The Ninth Circuit's recent decision in Milton H. Greene Archives, Inc. v. Marilyn Monroe LLC reinforces this conclusion. 692 F.3d 983, 986, 999-1000 (9th Cir. 2012) (confirming that California law does not govern the right of publicity of a personality who was domiciled outside California at the time of her death).

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Only one court in New Jersey, a federal district court, has ever discussed the question of duration, and it did not decide the issue. See Estate of Presley, 513 F. Supp. at 1355 n.10. The primary question in Presley was whether New Jersey recognized a descendible, postmortem right of publicity. The court found that it does, holding that "Elvis Presley's right of publicity survived his death and became part of Presley's estate." Id. at 1354-55. With respect to the duration of the right of publicity, however, the Presley court merely stated that the state legislature should determine that question, although it also noted that the federal Copyright Act, which at that time provided for a copyright term of life plus 50 years, could provide guidance. Id. at 1355 n.10. No state court in New Jersey has ever addressed the issue.

Although the New Jersey Legislature has considered at least two bills that would create a statutory right of publicity, it has thus far not seen fit to enact such a right. See A.3536, 213th Legis. (N.J. 2008) (proposing the "Celebrity Image Protection Act," with a postmortem duration of 70 years); A.4476, 212th Legis. (N.J. 2007) (same). There is nothing stopping HUJ from petitioning the New Jersey Legislature to pass a statute, with retroactive applicability, that would create a definitive postmortem right of publicity with the extended duration that HUJ seeks here.

C. Aspects of the Right of Publicity that Should Affect Its Duration

1. The Right of Publicity's Origins in the Right of Privacy

"The 'right of publicity' 'signif[ies] the right of an individual, especially a public figure or a celebrity, to control the commercial value and exploitation of his name and picture or likeness and to prevent others from unfairly appropriating this value for commercial benefit.'" McFarland, 14 F.3d at 918-19 (interpreting New Jersey law and quoting Estate of Presley, 513 F. Supp. at 1353); see also McCarthy, § 1:3 (defining the right of publicity as "the inherent right of every human being to control the commercial use of his or her identity"); Restatement (Third) of Unfair Competition § 46 cmt. d ("The right of publicity protects the commercial value of a person's identity.")

The right of publicity originally developed within the array of privacy rights that are considered personal, are based on dignitary interests and are not descendible. See Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757, 772 (D.N.J. 2011) (discussing the right's origins as one of four privacy-based torts proposed in a 1960 article by Dean William Prosser); see also McCarthy, § 9:6 (noting that privacy rights "die with the person"); William L. Prosser, Privacy, 48 Calif. L. Rev. 383 (1960).

Now, however, the right of publicity is widely understood, including in New Jersey, to be akin to intellectual property. Hart, 808 F. Supp. 2d at 772 (citing Canessa v. J.I. Kislak, Inc., 97 N.J. Super. 327, 235 A.2d 62, 76 (N.J. Super. Ct. Law Div. 1967)); see also McCarthy, § 9:6 (noting that the right of publicity, like trademark and copyright, recognizes "legally enforceable rights in the commercial value of intangible property"). Additionally, "[w]ith its emphasis on commercial interests, the right of publicity also secures for plaintiffs the commercial value of

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their fame and prevents the unjust enrichment of others seeking to appropriate that value for themselves." Restatement (Third) of Unfair Competition § 46 cmt. c; see also Zacchini v. Scripps-Howard Broad. Co., 433 U.S. 562, 576 (1977) ("The rationale for (protecting the right of publicity) is the straightforward one of preventing unjust enrichment by the theft of good will. No social purpose is served by having the defendant get free some aspect of the plaintiff that would have market value and for which he would normally pay." (internal quotation marks and citation omitted)).

New Jersey has adopted the Restatement (Second) of Torts, including the placement of its "common law privacy right of appropriation" in section 652C, which has been treated by courts as equivalent to the right of publicity. See Hart, 808 F. Supp. 2d at 772-773 (discussing Third Circuit's interchangeable use of "right of publicity" and "appropriation" and observing that New Jersey courts have come to regard the right of publicity as a property right, not one for injury to the person); see also Tellado v. Time-Life Books, Inc., 643 F. Supp. 904, 907-08 (D.N.J. 1986) (citing Bisbee v. John C. Conover Agency, Inc., 186 N.J. Super. 335, 452 A.2d 689 (N.J. Super. Ct. App. Div. 1982)). The American Law Institute also removed the discussion of the right of publicity from its sections on privacy and placed it in the Restatement (Third) of Unfair Competition. See ETW Corp. v. Jireh Pub., Inc., 332 F.3d 915, 930 (6th Cir. 2003). Although New Jersey has not formally adopted the Restatement (Third) of Unfair Competition, Hart, 808 F. Supp. 2d at 791 n.37, its incorporation of the Second Restatement of Torts indicates that New Jersey courts' analysis would likely align with that of the Third Restatement of Unfair Competition, which notes that "'courts may be properly reluctant to adopt a broad construction of the publicity right'" because of its "'less compelling'" rationales than those of other intellectual property rights. See ETW Corp., 332 F.3d at 930-31 (quoting Restatement (Third) of Unfair Competition § 46 cmt. c and concluding for similar reasons that Ohio courts would be likely to follow the Third Restatement).

Notwithstanding the trend toward treating the right of publicity as a commercial property right, HUJ contends that the right of publicity is a deeply personal right. It is true that one of the rationales for recognizing a right of publicity remains its protection of "an individual's interest in personal dignity and autonomy." Restatement (Third) of Unfair Competition § 46 cmt. c. Surely, however, the personal interest that is at stake becomes attenuated after the personality dies.

A maximum 50-year postmortem duration here would be a reasonable middle ground that is long enough for a deceased celebrity's heirs to take advantage of and reap the benefit of the personal aspects of the right. See Restatement (Third) of Unfair Competition § 46 cmt. h ("As a general matter, however, the dignitary and proprietary interests that support the recognition of a right of publicity become substantially attenuated after death. Postmortem uses are also less likely to create a false suggestion of endorsement or sponsorship."). The obviously humorous ad for the 2010 Terrain having been published 55 years or more after Einstein's death, it is unlikely that any viewer of it could reasonably infer that Einstein or whoever succeeded to any right of publicity that Einstein may have had was endorsing the GMC Terrain.

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2. Copyright Law Considerations

HUJ argues that, if the Court must set a limit on the postmortem right of publicity, it should be coterminus with the current federal Copyright Act, which protects copyrights for 70 years after death. See 17 U.S.C. § 302. This Court disagrees. The purpose of the right and its underlying policies do not warrant a mechanical application of the Copyright Act's term of life plus 70 years. Indeed, although McCarthy ultimately recognizes that using the federal Copyright Act as a model will "[m]ore often than not . . . provide the tie-breaking solution to the problem" of determining the postmortem duration of the right of publicity, McCarthy, § 9:16, it is clear that such an analogy is inconsistent with McCarthy's own views about the purpose and policies underlying the right. In fact, he would prefer to limit the extent of the right to 10-20 years after death, despite noting that other commentators have proposed longer durations, including a life-plus-50-year term modeled after the former version of the federal Copyright Act. Id.

The current 70-year postmortem term was enacted by the 1998 Copyright Term Extension Act, which increased the length of copyright protection from its former duration of life plus 50 years. See Eldred, 537 U.S. at 193. HUJ acquired Einstein's right of publicity in 1982, Hebrew Univ. of Jerusalem, 878 F. Supp. 2d at 1024-25, at which time the 1976 Copyright Act was in place–with a 50-year postmortem duration. See Eldred v. Ashcroft, 537 U.S. 186, 193, 123 S. Ct. 769, 154 L. Ed. 2d 683 (2003). HUJ's reasonable expectation at that time, based on the same theory of analogy to copyright that it advocates today, necessarily would have been that any rights it acquired would not last more than 50 years after Einstein's death. Similarly, when the Presley court suggested that the New Jersey Legislature consider the Copyright Act as a guide in setting a postmortem duration for the right of publicity, that statute had only a life-plus-50-year duration. See Estate of Presley, 513 F. Supp. at 1355 n.10. This was approximately one year before HUJ acquired its interest.

There are certain similarities between the goals of copyright and those of the right of publicity. In a sense, both rights evolve from an act of creation, whether it is the creation of a "work" such as a writing or the creation of a cultivated persona. These acts of creation are the product of an individual's choices and self-expression. Some courts, accordingly, have analogized between copyright and the right of publicity in the context of balancing the interests protected by those rights with the interests protected under the First Amendment. See, e.g., Hart, 808 F. Supp. 2d at 776-77 (noting the "common underlying principles shared by the right of publicity and copyright doctrine"); Estate of Presley, 513 F. Supp. at 1359 n.21 (describing Elvis's likeness as an "original work"); see also Comedy III Prods., Inc. v. Gary Saderup, Inc., 25 Cal. 4th 387, 399, 106 Cal. Rptr. 2d 126, 21 P.3d 797 (Cal. 2001) ("The right of publicity, like copyright, protects a form of intellectual property that society deems to have some social utility. Often considerable money, time and energy are needed to develop one's prominence in a particular field. . . . For some, the investment may eventually create considerable commercial value in one's identity."); Zacchini, 433 U.S. at 576 (noting that a state's interest in protecting the right of publicity "is closely analogous to the goals of patent and copyright law, focusing on the

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right of the individual to reap the reward of his endeavors and having little to do with protecting feelings or reputation").

Despite the intersecting similarities between copyright and the right of publicity, however, that the right of publicity is an outgrowth of the right of privacy suggests that the term of copyright protection is far from a perfect precedent for determining the duration of the right of publicity. First, as HUJ itself has argued, the right of publicity is an intensely personal right meant, to some extent, to protect against personal and dignitary harms, such as having one's persona associated with a product or idea of which he disapproves. See Restatement (Third) of Unfair Competition § 46 cmt. c. Thus, "the focus of copyright is on recorded creative expressions while the focus of the right of publicity is on the identity and 'persona' of a human being." McCarthy, § 5:45; see also Restatement (Third) of Unfair Competition § 46 cmt. i ("[T]he subject matter of the right of publicity generally lies outside the scope of copyright. Moreover, the protection afforded by the right of publicity against the exploitation of a person's identity for purposes of trade is not ordinarily 'equivalent' to the rights against reproduction, distribution, performance, and display recognized under copyright.").

Moreover, the protection of copyright is designed to encourage the future creation of works of art, whereas the interest sought to be protected by the right of publicity is usually the byproduct of a different and earlier endeavor. "The commercial value of a person's identity often results from success in endeavors such as entertainment or sports that offer their own substantial rewards. Any additional incentive attributable to the right of publicity may have only marginal significance." Restatement (Third) of Unfair Competition § 46 cmt. c. For this reason, it is questionable whether those interests should be protected for as long a period after the death of the person to whom they belong as are his copyrighted works.

Finally, among the reasons for Congress's 1998 extension of the federal Copyright Act to protect works for life plus 70 years (increased from life plus 50 years) were the desire to harmonize U.S. copyright protection with the protection afforded by countries in the European Union, see Eldred, 537 U.S. at 205-06, and, arguably, to promote the interests of the American entertainment industry, see id. at 262 (Breyer, J., dissenting). These political and economic considerations are distinct from those policies underlying copyright protection that also support a right of publicity. As such, they point away from a mechanical application of the extremely lengthy, 70-year postmortem duration of copyright to the right of publicity.

D. Other States' Laws

1. Common Law

Looking beyond New Jersey, in none of the five other states that recognize a common law postmortem right of publicity has any court addressed the issue of the right's duration, or even raised it as a question needing to be answered. See, e.g., Gignilliat v. Gignilliat, Savitz & Bettis, L.L.P., 385 S.C. 452, 684 S.E.2d 756, 758 (S.C. 2009) (South Carolina); Herman Miller,

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Inc. v. Palazzetti Imports & Exports, Inc., 270 F.3d 298, 304-06 (6th Cir. 2001) (Michigan); Jim Henson Prods., Inc. v. John T. Brady & Assocs., Inc., 867 F. Supp. 175 (S.D.N.Y. 1994) (Connecticut); Nature's Way Prods., Inc. v. Nature-Pharma, Inc., 736 F.Supp. 245, 247 (D. Utah 1990) (Utah); Martin Luther King, Jr., Ctr. for Social Change, Inc. v. Am. Heritage Prods., Inc., 250 Ga. 135, 296 S.E.2d 697, 698 (Ga. 1982) (Georgia). In none of those cases, however, was the interval between the death of the person whose right of publicity was at stake and the date of the alleged infringement of that right 50 years or longer. Indeed, in most of the cases the period was 10 years or less. See, e.g., Gignilliat, 684 S.E.2d at 758 (maximum of 7 years at issue); Jim Henson Prods., Inc., 867 F. Supp. 175 (maximum of 4 years at issue); Nature's Way Prods., Inc., 736 F. Supp. at 247(maximum of 7 years at issue); see also Estate of Presley, 513 F. Supp. at 1355 (permitting right of publicity claim brought three years after Elvis's death).

2. Statutes

The majority of states with statutory rights of publicity limit the right's postmortem duration to 50 years or less. Seven states have statutory rights of publicity that permit the right to endure for up to 50 years. See Fla. Stat. Ann. § 540.08 (Florida; 40 years); 765 Ill. Comp. Stat. § 1075/30 (Illinois; 50 years); Ky. Rev. Stat. § 391.170 (Kentucky; 50 years); Nev. Rev. Stat. § 597.790 (Nevada; 50 years); 42 Pa. C.S.A. § 8316 (Pennsylvania; 30 years); Tex. Prop. Code Ann. § 26.012 (Texas; 50 years); Va. Code Ann. § 8.01-40 (Virginia; 20 years).

Six states allow the postmortem right of publicity to reach 60 years or more. See Cal. Civ. Code § 3344.1 (California; 70 years); Ind. Code Ann. § 32-36-1-8 (Indiana; 100 years); Ohio Rev. Code Ann. § 2741.02 (Ohio; 60 years); 12 Okla. Stat. Ann. § 1448 (Oklahoma; 100 years); see also Tenn. Code Ann. §§ 47-25-1102 to -1104 (Tennessee; indefinite as long as the persona has commercial value); Wash. Rev. Code Ann. §§ 63.60.010 to 63.60.040 (Washington; 75 years when the persona has commercial value).[72]

Of the states whose statutes were enacted prior to the revision of the Copyright Act in 1998, only California amended its statute to reflect the extended copyright term. See California Assembly Committee on Judiciary, SB 209 (March 3, 1999) (noting the California Assembly's express intent to conform its right of publicity statute to the amended federal Copyright Act).

Thus, of the states with currently enacted statutory rights of publicity, a slight majority limits the duration of that right to 50 years or less. Although this does not provide overwhelming support for such a length of time, it does tip the balance slightly in that direction.

E. Public Policy Counsels in Favor of Limiting the Postmortem Right of Publicity to Not More Than 50 Years

[72]One state, Nebraska, has a statutory postmortem right of publicity that does not appear to establish a duration. See Neb. Rev. Stat. §§ 20-202, 20-208. Additionally, the Massachusetts Legislature is currently considering a bill that would create a statutory postmortem right of publicity in that state with a duration of life plus 70 years. See Mass. Bill S.2382; Leon Neyfakh, Life, the Aftermarket, Boston Globe, Aug. 19, 2012, at K1.

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One of the overarching policy concerns in enforcing intellectual property rights is the balance that must be struck between protecting an individual's right to reap the benefits of his creative endeavors and the public's freedom of expression. See White v. Samsung Elecs. Am., Inc., 989 F.2d 1512, 1519 (9th Cir. 1993) (Kozinski, J., dissenting) ("[I]ntellectual property law is full of careful balances between what's set aside for the owner and what's left in the public domain . . . ."). This policy concern extends to the right of publicity. See id.; Hart, 808 F. Supp. 2d at 774 (noting that "it is clear that the right of publicity may encroach upon First Amendment rights" and discussing the various balancing tests used by courts to weigh those rights); Restatement (Third) of Unfair Competition § 47 cmt. c ("The right of publicity as recognized by statute and common law is fundamentally constrained by the public and constitutional interest in freedom of expression.").

An open-ended right of publicity, or even a postmortem duration longer than 50 years, raises considerable First Amendment concerns and creates a potentially infinite curb on expression. See White, 989 F.2d at 1513 (Kozinski, J., dissenting) ("Overprotecting intellectual property is as harmful as underprotecting it. Creativity is impossible without a rich public domain. . . . Overprotection stifles the very creative forces it's supposed to nurture."); Comedy III Prods., 25 Cal. 4th at 397 ("[T]he very importance of celebrities in society means that the right of publicity has the potential of censoring significant expression by suppressing alternative versions of celebrity images that are iconoclastic, irreverent, or otherwise attempt to redefine the celebrity's meaning."). Additionally, as the Ninth Circuit recently noted, an extended right of publicity may interfere with or decrease the value of copyrighted works, such as photographs, thereby pitting one form of protected property against another. See Milton H. Greene Archives, 692 F.3d at 1000.

New Jersey courts' treatment of the First Amendment implications of the right of publicity is indicative of how that state's highest court might decide the issue of the right's duration. Many of those courts have applied a balancing test in their efforts to protect First Amendment values while determining the reach of the right of publicity. See Hart, 808 F. Supp. 2d at 767, 774-776 (collecting New Jersey cases, but noting, however, that "the Supreme Court in Zacchini, the only Supreme Court case addressing a First Amendment defense to the right of publicity did not engage in a balancing of the competing interests"); Tellado, 643 F. Supp. at 908-09 (collecting New Jersey cases); see also G.D. v. Kenny, 205 N.J. 275, 15 A.3d 300, 321-22 (N.J. 2011) (denying claim for misappropriation of name and image based on First Amendment protection of political, as opposed to commercial, speech);[73] Elga A. Goodman, et al., 49 N.J. Prac., Business Law Deskbook § 16:3 (2011-2012 ed.) ("New Jersey recognizes a robust First Amendment constitutional defense to right of publicity claims."). Given that lower New Jersey courts apply a balancing test to the treatment of the First Amendment interests

[73]It is nevertheless indisputable that commercial speech--like GM's ad here--also is protected to some extent by the First Amendment. See Central Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n of New York, 447 U.S. 557, 561-62 (1980).

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implicated by the right of publicity, it is likely that the New Jersey Supreme Court would perceive pitfalls in allowing an unlimited or lengthy term to the right of publicity, and that it would be likely to strike a similar balance if confronted with the question of the postmortem duration of that right.

In addition to First Amendment implications, there is another consideration. In the 57 years since Albert Einstein died, the means of communication have increased and so has the proclivity of people to use them frequently. Journalists, academics and politicians frequently issue pronouncements about the impact on society, both in the United States and around the globe, of the dizzying explosion in the tools of communication. New devices and platforms have been developed, including smart phones, personal computers, social networks, email, Twitter, blogs, etc. These technologies have caused a swift and dramatic, but still developing, impact on ordinary life. It has become a truism that their speed, their accessibility, and their popularity appear to have changed social norms regarding privacy and public expression. But it is not yet clear what this should mean for the protection of such rights as the right of privacy, the right of expression and the right of publicity. For example, on balance should the law increasingly protect people's right of expression, now that we enjoy so many fora in which to broadcast our views? Similarly, should the law value the right of privacy less than before, given that many social media devotees, especially young people, are said to have little compunction about revealing intimate information about themselves? Conversely, should the law afford celebrities greater rights in controlling publicity about themselves, to protect against what appears to be a growing tendency of people to not just exalt but even to exploit the fame and celebrity of others?

The Court does not profess to have answers to these questions, but what is clear is that since the full impact of these rapid changes remains uncertain, it would be imprudent to issue any ruling that strengthens (or at least lengthens) one right–that of the right of publicity–to the potentially significant detriment of these other rights.

V. Conclusion

Absent a legislative directive to the contrary, to extend the right of publicity beyond a half century would be inconsistent with the Court's responsibility to balance all of the interests that are at stake. It also would risk having that right treated as an open-ended heredity right. See McCarthy, § 9:16 (noting the need "to avoid descendants or heirs unto the nth generation reaping the commercial rewards of a distant and famous ancestor, a 'favored bloodline' concept out of step with a society that has abolished hereditary titles" and that at some point, the interests of free speech outweigh the interests of the heirs and "the person's identity should enter the public domain as a part of history and folklore").

A maximum duration of 50 years appropriately reflects the balance between meaningful enforcement of the right of publicity after a famous individual's death and the public's interest in free expression. It aligns with the majority of current state statutes limiting the right's postmortem duration. And it approximates the period evidently contemplated by the Presley

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court–the one court in New Jersey to have discussed the duration of the right–when it encouraged that state's legislature to consider the issue with guidance from the then-current Copyright Act.

The Ninth Circuit recently noted that Marilyn Monroe considered herself to belong "to the Public and to the world." Milton H. Greene Archives, 692 F.3d at 1000. There is no evidence that Albert Einstein saw himself that way, but he did become the symbol and embodiment of genius. His persona has become thoroughly ingrained in our cultural heritage. Now, nearly 60 years after his death, that persona should be freely available to those who seek to appropriate it as part of their own expression, even in tasteless ads.

Accordingly, the Court DENIES HUJ's motion and rules that under New Jersey law, 2005 was the last year during which HUJ could sue to enforce any right of publicity that it might have inherited from Albert Einstein. Because this case was not filed until 2010, HUJ is not entitled to pursue it further. There will be no trial. . . .

Notes

(1) Decisions by New York and California courts, see Shaw Family Archives Ltd v. CMG Worldwide, Inc., 486 F. Supp. 2d 309 (S.D.N.Y. 2007), Milton H. Greene Archives, Inc. v. CMG Worldwide, Inc., 568 F. Supp. 2d 1152 (C.D. Cal. 2008), concerning the domicile of Marilyn Monroe at the time of her death and its impact on her right of publicity led the California legislature to amend the statute that protects the rights of publicity of deceased personalities:

California Civil Code § 3344.1

> (a)(1) Any person who uses a deceased personality's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods, or services, without prior consent from the person or persons specified in subdivision (c), shall be liable for any damages sustained by the person or persons injured as a result thereof. In addition, in any action brought under this section, the person who violated the section shall be liable to the injured party or parties in an amount equal to the greater of seven hundred fifty dollars ($750) or the actual damages suffered by the injured party or parties, as a result of the unauthorized use, and any profits from the unauthorized use that are attributable to the use and are not taken into account in computing the actual damages. In establishing these profits, the injured party or parties shall be required to present proof only of the gross revenue attributable to the use and the person who violated the section is required

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to prove his or her deductible expenses. Punitive damages may also be awarded to the injured party or parties. The prevailing party or parties in any action under this section shall also be entitled to attorney's fees and costs.

(2) For purposes of this subdivision, a play, book, magazine, newspaper, musical composition, audiovisual work, radio or television program, single and original work of art, work of political or newsworthy value, or an advertisement or commercial announcement for any of these works, shall not be considered a product, article of merchandise, good, or service if it is fictional or nonfictional entertainment, or a dramatic, literary, or musical work.

(3) If a work that is protected under paragraph (2) includes within it a use in connection with a product, article of merchandise, good, or service, this use shall not be exempt under this subdivision, notwithstanding the unprotected use's inclusion in a work otherwise exempt under this subdivision, if the claimant proves that this use is so directly connected with a product, article of merchandise, good, or service as to constitute an act of advertising, selling, or soliciting purchases of that product, article of merchandise, good, or service by the deceased personality without prior consent from the person or persons specified in subdivision (c).

(b) The rights recognized under this section are property rights, freely transferable or descendible, in whole or in part, by contract or by means of any trust or any other testamentary instrument, executed before or after January 1, 1985. The rights recognized under this section shall be deemed to have existed at the time of death of any deceased personality who died prior to January 1, 1985, and, except as provided in subdivision (o), shall vest in the persons entitled to these property rights under the testamentary instrument of the deceased personality effective as of the date of his or her death. In the absence of an express transfer in a testamentary instrument of the deceased personality's rights in his or her name, voice, signature, photograph, or likeness, a provision in the testamentary instrument that provides for the disposition of the residue of the deceased personality's assets shall be effective to transfer the rights recognized under this section in accordance with the terms of that provision. The rights established by this section shall also be freely transferable or descendible by contract, trust, or any other testamentary instrument by any subsequent owner of the deceased personality's rights as recognized by this section. Nothing in this section shall be construed to render invalid or unenforceable any contract entered into by a deceased personality during his or her lifetime by which the deceased personality assigned the rights, in whole or in part, to use his or her name, voice,

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signature, photograph , or likeness, regardless of whether the contract was entered into before or after January 1, 1985.

(c) The consent required by this section shall be exercisable by the person or persons to whom the right of consent, or portion thereof, has been transferred in accordance with subdivision (b), or if no transfer has occurred, then by the person or persons to whom the right of consent, or portion thereof, has passed in accordance with subdivision (d).

(d) Subject to subdivisions (b) and (c), after the death of any person, the rights under this section shall belong to the following person or persons and may be exercised, on behalf of and for the benefit of all of those persons, by those persons who, in the aggregate, are entitled to more than a one-half interest in the rights:

(1) The entire interest in those rights belongs to the surviving spouse of the deceased personality unless there are any surviving children or grandchildren of the deceased personality, in which case one-half of the entire interest in those rights belongs to the surviving spouse.

(2) The entire interest in those rights belongs to the surviving children of the deceased personality and to the surviving children of any dead child of the deceased personality unless the deceased personality has a surviving spouse, in which case the ownership of a one-half interest in rights is divided among the surviving children and grandchildren.

(3) If there is no surviving spouse, and no surviving children or grandchildren, then the entire interest in those rights belongs to the surviving parent or parents of the deceased personality.

(4) The rights of the deceased personality's children and grandchildren are in all cases divided among them and exercisable in the manner provided in Section 240 of the Probate Code according to the number of the deceased personality's children represented. The share of the children of a dead child of a deceased personality can be exercised only by the action of a majority of them.

(e) If any deceased personality does not transfer his or her rights under this section by contract, or by means of a trust or testamentary instrument, and there are no surviving persons as described in subdivision (d), then the rights set forth in subdivision (a) shall terminate.

(f)(1) A successor in interest to the rights of a deceased personality under

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this section or a licensee thereof shall not recover damages for a use prohibited by this section that occurs before the successor in interest or licensee registers a claim of the rights under paragraph (2).

(2) Any person claiming to be a successor in interest to the rights of a deceased personality under this section or a licensee thereof may register that claim with the Secretary of State on a form prescribed by the Secretary of State and upon payment of a fee as set forth in subdivision (d) of Section 12195 of the Government Code. The form shall be verified and shall include the name and date of death of the deceased personality, the name and address of the claimant, the basis of the claim, and the rights claimed.

(3) Upon receipt and after filing of any document under this section, the Secretary of State shall post the document along with the entire registry of persons claiming to be a successor in interest to the rights of a deceased personality or a registered licensee under this section upon the World Wide Web, also known as the Internet. The Secretary of State may microfilm or reproduce by other techniques any of the filings or documents and destroy the original filing or document. The microfilm or other reproduction of any document under this section shall be admissible in any court of law. The microfilm or other reproduction of any document may be destroyed by the Secretary of State 70 years after the death of the personality named therein.

(4) Claims registered under this subdivision shall be public records.

(g) No action shall be brought under this section by reason of any use of a deceased personality's name, voice, signature, photograph, or likeness occurring after the expiration of 70 years after the death of the deceased personality.

(h) As used in this section, “deceased personality” means any natural person whose name, voice, signature, photograph, or likeness has commercial value at the time of his or her death, whether or not during the lifetime of that natural person the person used his or her name, voice, signature, photograph, or likeness on or in products, merchandise, or goods, or for purposes of advertising or selling, or solicitation of purchase of, products, merchandise, goods, or services. A “deceased personality” shall include, without limitation, any such natural person who has died within 70 years prior to January 1, 1985.

(i) As used in this section, “photograph” means any photograph or photographic reproduction, still or moving, or any video recording or live

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television transmission, of any person, such that the deceased personality is readily identifiable. A deceased personality shall be deemed to be readily identifiable from a photograph when one who views the photograph with the naked eye can reasonably determine who the person depicted in the photograph is.

(j) For purposes of this section, a use of a name, voice, signature, photograph, or likeness in connection with any news, public affairs, or sports broadcast or account, or any political campaign, shall not constitute a use for which consent is required under subdivision (a).

(k) The use of a name, voice, signature, photograph, or likeness in a commercial medium shall not constitute a use for which consent is required under subdivision (a) solely because the material containing the use is commercially sponsored or contains paid advertising. Rather, it shall be a question of fact whether or not the use of the deceased personality's name, voice, signature, photograph, or likeness was so directly connected with the commercial sponsorship or with the paid advertising as to constitute a use for which consent is required under subdivision (a).

(l) Nothing in this section shall apply to the owners or employees of any medium used for advertising, including, but not limited to, newspapers, magazines, radio and television networks and stations, cable television systems, billboards, and transit ads, by whom any advertisement or solicitation in violation of this section is published or disseminated, unless it is established that the owners or employees had knowledge of the unauthorized use of the deceased personality's name, voice, signature, photograph, or likeness as prohibited by this section.

(m) The remedies provided for in this section are cumulative and shall be in addition to any others provided for by law.

(n) This section shall apply to the adjudication of liability and the imposition of any damages or other remedies in cases in which the liability, damages, and other remedies arise from acts occurring directly in this state. For purposes of this section, acts giving rise to liability shall be limited to the use, on or in products, merchandise, goods, or services, or the advertising or selling, or soliciting purchases of, products, merchandise, goods, or services prohibited by this section.

(o) Notwithstanding any provision of this section to the contrary, if an action was taken prior to May 1, 2007, to exercise rights recognized under this section relating to a deceased personality who died prior to January 1, 1985, by a person described in subdivision (d), other than a person who was disinherited by the deceased personality in a testamentary instrument, and the exercise of those

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rights was not challenged successfully in a court action by a person described in subdivision (b), that exercise shall not be affected by subdivision (b). In such a case, the rights that would otherwise vest in one or more persons described in subdivision (b) shall vest solely in the person or persons described in subdivision (d), other than a person disinherited by the deceased personality in a testamentary instrument, for all future purposes.

(p) The rights recognized by this section are expressly made retroactive, including to those deceased personalities who died before January 1, 1985.

(2) In Martin H. Greene Archives, Inc. v. Marilyn Monroe, LLC, 692 F.3d 983 (9th Cir. 2012), the district court had originally granted summary judgment to the declaratory judgment plaintiff in 2007, finding that the Monroe Estate did not own her right of publicity because none of the states in which she might conceivably have been domiciled (New York, California and Indiana) recognized a descendable, posthumous right of publicity in 1962, the year of Monroe's death. After Civil Code § 3344.1 was amended to grant the posthumous right of publicity to celebrities who died prior to 1985, the Estate moved for reconsideration in the district court, arguing that the statute applied retroactively and therefore Monroe did, in fact, have a descendable right of publicity which the Estate had inherited. The district court agreed that the provisions of § 3344.1 were retroactive and that if Monroe was domiciled in California at the time of her death then the Estate did indeed own her descended right of publicity. However, the district court held that, in light of the fact that the Estate had frequently and repeatedly contended in other court and administrative proceedings that Monroe was domiciled in New York at the time of her death and had obtained a determination in California tax proceedings Monroe was domiciled in New York, not California, thereby reducing the inheritance tax paid to California, it was judicially estopped from claiming California as her domicile at death. Accordingly, because New York had no descendable right of publicity in 1962, the court held, and the Ninth Circuit affirmed, that the Estate did not own Monroe's publicity rights.

[1] Preemption and Conflict with Copyright Law

USAGE: On page 465, SUBSTITUTE the following case and text for *Wendt v. Host Int'l, Inc.*:

LAWS v. SONY MUSIC ENTERTAINMENT, INC.
448 F.3d 1134 (9th Cir. 2006)

BYBEE, Circuit Judge.

Plaintiff Debra Laws ("Laws") brought suit against defendant Sony Music Entertainment,

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Inc. ("Sony") for misappropriating her voice and name in the song "All I Have" by Jennifer Lopez and L.L. Cool J. The district court found that Sony had obtained a license to use a sample of Laws's recording of "Very Special" and held that Laws's claims for violation of her common law right to privacy and her statutory right of publicity were preempted by the Copyright Act, 17 U.S.C. § 101-1332. We agree with the district court that the Copyright Act preempts Laws's claims, and we affirm.

I. FACTS AND PROCEEDINGS

In 1979, professional vocalist and recording artist Debra Laws and Spirit Productions ("Spirit") entered into a recording agreement with Elektra/Asylum Records ("Elektra") to produce master recordings of Laws's vocal performances for Elektra. The agreement gave Elektra the "sole and exclusive right to copyright such master recordings" and "the exclusive worldwide right in perpetuity ... to lease, license, convey or otherwise use or dispose of such master recordings." Elektra also secured the right "to use and to permit others to use your name, the Artist's name ... likeness, other identification, and biographical material concerning the Artist ... in connection with such master recordings." Notwithstanding these provisions, Elektra agreed that "we shall not, without your prior written consent, utilize or authorize others to utilize the Masters in any so-called 'audio-visual' or 'sight and sound' devices intended primarily for home use," and "we or our licensees shall not, without your prior written consent, sell records embodying the Masters hereunder for use as premiums or in connection with the sale, advertising or promotion of any other product or service." In 1981, Laws recorded the song "Very Special," which was released on Laws's album on the Elektra label. Elektra copyrighted the song that same year.

In November 2002, Elektra's agent, Warner Special Products, Inc., entered into an agreement with Sony Music Entertainment, Inc. ("Sony") to grant Sony a non-exclusive license to use a sample of Debra Laws's recording of "Very Special" in the song "All I Have," performed by recording artists Jennifer Lopez and L.L. Cool J. The agreement required Sony to include a credit stating, "Featuring samples from the Debra Laws recording 'Very Special' " in any reproduction. Warner, Elektra's agent, did not seek permission from Laws or Spirit before it released the disc and video, and neither Laws nor Spirit was compensated.

Sony subsequently released a Jennifer Lopez compact disc and music video incorporating brief samples of "Very Special" into her recording of "All I Have." The sampled portions include a segment approximately ten seconds in length at the beginning of "All I Have," and shorter segments repeated in the background throughout the song. Sony included the required credit in the booklet accompanying the compact disc. The song and Lopez's album, "This is Me ... Then," became a huge commercial success, netting over forty-million dollars. At one time "All I Have" was the number one song in the United States.

In February 2003, Laws brought an action in the Superior Court of California, County of Los Angeles, alleging multiple claims. The two claims relevant to this appeal were: (1) a

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common law claim for invasion of privacy for the misappropriation of Laws's name and voice and (2) a claim for misappropriation of Laws's name and voice for a commercial purpose under California Civil Code § 3344. The complaint sought injunctive and monetary relief.

Sony removed the case to the United States District Court for the Central District of California and sought to join Elektra as a necessary party. The court denied the motion. Sony filed a summary judgment motion, which the district court granted, ruling that both of Laws's misappropriation claims were preempted by the Copyright Act. Laws filed a timely appeal. . . .

III. ANALYSIS

The Copyright Clause of the U.S. Constitution provides that "Congress shall have the Power ... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries...." U.S. Const. art. I, § 8, cl. 8. Pursuant to this authority, Congress enacted the Copyright Act, 17 U.S.C. § 101-1332, to define and protect the rights of copyright holders. Under the Act, "the owner of copyright ... has the exclusive rights to do and to authorize" others to display, perform, reproduce or distribute copies of the work, and to prepare derivative works. Id. § 106. The copyright is the right to control the work, including the decision to make the work available to or withhold it from the public.

Sections 301(a) and (b) of Title 17 describe when the Act preempts legal and equitable rights granted by state common law or statute. Section (a) states:

> On and after January 1, 1978, all legal and equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . . are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

Id. § 301(a). Section (b) states:

> Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to ... subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression. . . .

Id. § 301(b). Congress explained what the statute made obvious: "[t]he intention of section 301 is to preempt and abolish any rights under the common law or statutes of a State that are equivalent to copyright and that extend to works, within the scope of the Federal copyright law." H.R.Rep. No. 94-1476, at 130 (1976); see also Maljack Prods. v. GoodTimes Home Video Corp., 81 F.3d

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881, 888 (9th Cir.1996).

We have adopted a two-part test to determine whether a state law claim is preempted by the Act. We must first determine whether the "subject matter" of the state law claim falls within the subject matter of copyright as described in 17 U.S.C. §§ 102[74] and 103.[75] Second, assuming that it does, we must determine whether the rights asserted under state law are equivalent to the rights contained in 17 U.S.C. § 106, which articulates the exclusive rights of copyright holders.[76]

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[74]§ 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;
(2) musical works, including any accompanying words;
(3) dramatic works, including any accompanying music;
(4) pantomimes and choreographic works;
(5) pictorial, graphic, and sculptural works;
(6) motion pictures and other audiovisual works;
(7) sound recordings; and
(8) architectural works.

[75]§ 103. Subject matter of copyright: Compilations and derivative works

(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully.

(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

[76]§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;
(2) to prepare derivative works based upon the copyrighted work;
(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

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See Downing v. Abercrombie & Fitch, 265 F.3d 994, 1003 (9th Cir.2001).

Laws alleges two causes of action. First, she asserts a claim for protection of her voice, name and likeness under California's common law right of privacy. To sustain this action, Laws must prove: "(1) the defendant's use of the plaintiff's identity; (2) the appropriation of plaintiff's name or likeness to defendant's advantage, commercially or otherwise; (3) lack of consent; and (4) resulting injury." Eastwood v. Superior Court, 149 Cal.App.3d 409, 198 Cal.Rptr. 342, 347 (1983), *superseded by statute on other grounds as stated in KNB Enters. v. Matthews,* 78 Cal.App.4th 362, 92 Cal.Rptr.2d 713 (2000); see also Downing, 265 F.3d at 1001. Second, Laws asserts a statutory misappropriation or "right of publicity" claim under California Civil Code § 3344(a), which provides that:

> Any person who knowingly uses another's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods or services, without such person's prior consent ... shall be liable for any damages sustained by the person or persons injured as a result thereof.

We have observed that "[t]he remedies provided for under California Civil Code § 3344 complement the common law cause of action; they do not replace or codify the common law." Downing, 265 F.3d at 1001. Nevertheless, for purposes of our preemption analysis, section 3344 includes the elements of the common law cause of action. See id. ("Under section 3344, a plaintiff must prove all the elements of the common law cause of action" plus "knowing use" and "a direct connection between the alleged use and the commercial purpose."). For convenience's sake, we will refer to Laws's claims as "right of publicity" claims.

Sony does not argue that common law privacy actions and statutory claims under section 3344 are preempted generally by section 301; rather, it argues that they are preempted as applied to the facts of this case. We thus turn to (1) whether the subject matter of Laws's right of publicity claims comes within the subject matter of copyright, and (2) whether the rights Laws asserts under California law are equivalent to those created under the Copyright Act.

A. *The "Subject Matter" of Copyright*

We first consider whether the subject matter of Laws's misappropriation claim is within the subject matter of the Copyright Act. We conclude that it is. Sections 102 and 103 of the Act identify the works of authorship that constitute the "subject matter" of copyright. Section 102 of the Act extends copyright protection to "original works of authorship fixed in any tangible medium of expression ... from which they can be ... reproduced, ... either directly or with the aid of a machine or device." 17 U.S.C. § 102(a). That section defines a "work of authorship" to include "sound recordings." Id. § 102(a)(7). "A work is 'fixed' in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise

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communicated for a period of more than transitory duration." Id. § 101. Laws's master recordings held by Elektra are plainly within these definitions.

Laws nevertheless contends that the subject matter of a copyright claim and a right of publicity claim are substantively different. She argues that a copyright claim protects ownership rights to a work of art, while a right of publicity claim concerns the right to protect one's persona and likeness. Sony, by contrast, contends that the subject matter of a right of publicity in one's voice is not different from a copyright claim when the voice is embodied within a copyrighted sound recording. Sony argues that once a voice becomes part of a sound recording in a fixed tangible medium it comes within the subject matter of copyright law.

Our jurisprudence provides strong guidance to the resolution of this question. In Sinatra v. Goodyear Tire & Rubber Co., 435 F.2d 711 (9th Cir.1970), Nancy Sinatra filed suit against Goodyear Tire on the basis of an advertising campaign that featured "These Boots Are Made for Walkin'," a song that Sinatra made famous. Goodyear Tire had obtained a license from the copyright proprietor for the use of music, lyrics, and arrangement of the composition. Goodyear Tire subsequently used the music and lyrics in its ads, which were sung by unknown vocalists. She alleged the song had taken on a "secondary meaning" that was uniquely injurious to her. We rejected her claim:

> [A]ppellant's complaint is not that her sound is uniquely personal; it is that the sound in connection with the music, lyrics and arrangement, which made her the subject of popular identification, ought to be protected. But as to these latter copyrightable items she had no rights. Presumably, she was required to obtain permission of the copyright owner to sing "Boots", and to make an arrangement of the song to suit her own tastes and talents. Had she desired to exclude all others from use of the song so that her "secondary meaning" with the song could not be imitated she could have purchased those rights from the copyright proprietor. One wonders whether her voice ... would have been identifiable if another song had been presented, and not "her song," which unfortunately for her was owned by others and licensed to the defendants.

Id. at 716. Although *Sinatra* was decided prior to passage of the modern-day preemption provision in section 301, we nonetheless ruled that the Copyright Act impliedly preempted Sinatra's state law claim. Id. at 717-18. We later confirmed this holding in Midler v. Ford Motor Co., 849 F.2d 460, 462 (9th Cir.1988), when we observed that "[t]o give Sinatra damages for [defendants'] use of the song would clash with federal copyright law."

In *Midler,* recording and performing artist Bette Midler filed suit against an advertising agency and its client when a professional "sound alike" was used to imitate Midler's voice from her hit song "Do You Want to Dance." The agency did not acquire a license to use Midler's recording; instead, it had obtained a license from the song's copyright holder and then attempted to get Midler to do the commercial. When Midler's agent advised the agency that she was not

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interested, the agency hired someone who had been a backup singer for Midler and could imitate her voice and style. Indeed, the singer was instructed to sound as much like Bette Midler as possible. We held that Midler's common law misappropriation claim was not preempted by copyright law because the "thing" misappropriated, her voice, was not copyrightable in that instance. We explained:

> Midler does not seek damages for [the defendant's] use of "Do You Want To Dance," and thus her claim is not preempted by federal copyright law. Copyright protects "original works of authorship fixed in any tangible medium of expression." A voice is not copyrightable. The sounds are not "fixed." What is put forward as protectible here is more personal than any work of authorship.

Id. at 462 (citation omitted). What Midler sought was relief from an unauthorized vocal imitation for advertising purposes, and that was not the subject of copyright.

We subsequently applied *Midler* in Waits v. Frito-Lay, Inc., 978 F.2d 1093 (9th Cir.1992). The voice of Tom Waits, a professional singer, songwriter, and actor, was imitated and then broadcast in a commercial for Frito-Lay. Waits filed a right of publicity claim under California law. We held that the claim was not preempted by copyright law because it was "for infringement of voice, not for infringement of a copyrightable subject such as sound recording or musical composition." Id. at 1100. Thus, the issues in *Waits* were "whether the defendants had deliberately imitated Waits' voice rather than simply his style and whether Waits' voice was sufficiently distinctive and widely known to give him a protectible right in its use. These elements are 'different in kind' from those in a copyright infringement case challenging the unauthorized use of a song or recording." Id.

In this case, Laws's voice misappropriation claim is plainly different from the claims in *Midler* and *Waits* and falls within the subject matter of copyright. In contrast to *Midler* and *Waits,* where the licensing party obtained only a license to the song and then imitated the artist's voice, here Sony obtained a license to use Laws's recording itself. Sony was not imitating "Very Special" as Laws might have sung it. Rather, it used a portion of "Very Special" as sung by Debra Laws. See also Brown v. Ames, 201 F.3d 654, 658 (5th Cir.2000) ("The crucial difference between [this case and Daboub v. Gibbons, 42 F.3d 285 (5th Cir.1995)] is that in *Daboub* the basis of the misappropriation claim ... was the song itself, bringing it within section 301's ambit, whereas here the basis of the misappropriation claim was defendants' use of plaintiffs' names and/or likenesses.").

Laws does not dispute Sony's contention that the recording of "Very Special" was a copyrighted sound recording fixed in a tangible medium of expression. Laws's right of publicity claim is based exclusively on what she claims is an unauthorized duplication of her vocal performance of the song "Very Special." Although California law recognizes an assertable interest in the publicity associated with one's voice, we think it is clear that federal copyright law preempts a claim alleging misappropriation of one's voice when the entirety of the allegedly

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misappropriated vocal performance is contained within a copyrighted medium. Our conclusion is consistent with our holdings in *Midler* and *Waits,* where we concluded that the voice misappropriation claim was not preempted, because the alleged misappropriation was the imitation of the plaintiffs' voices. Neither of those imitations was contained in a copyrighted vocal performance. Moreover, the fact that the vocal performance was copyrighted demonstrates that what is put forth here as protectible is *not* "more personal than any work of authorship." Midler, 849 F.2d at 462.

Laws points to two cases for support. Both cases, however, involve photographs used in advertising, and are distinguishable from this case. In Downing, 265 F.3d 994, we held that a claim based on the right of publicity was not preempted by the Copyright Act. In *Downing,* retailer Abercrombie & Fitch was developing a surfing theme-"Surf Nekkid"-for its subscription catalog. Abercrombie published a photo of the plaintiffs, who were participants in a surf championship in Hawaii in 1965. Abercrombie ran the photo, which it had purchased from the photographer (who held the copyright), and it identified the plaintiffs by name. Abercrombie went well beyond mere republication of the photograph. Without obtaining plaintiffs' consent to use their names and images, it also offered t-shirts exactly like those worn by the plaintiffs in the photo. We noted that the photograph itself was within the subject matter protected by the Copyright Act. But Abercrombie had not merely published the photograph. Rather, it published the photo in connection with a broad surf-themed advertising campaign, identified the plaintiffs-surfers by name, and offered for sale the same t-shirts worn by the plaintiffs in the photo. By doing so, it had suggested that the surfers had endorsed Abercrombie's t-shirts. Accordingly, we concluded that "it is not the publication of the photograph itself, as a creative work of authorship, that is the basis for[plaintiffs'] claims, but rather, it is the use of the [plaintiffs'] likenesses and their names pictured in the published photograph." Id. at 1003; see also Brown, 201 F.3d at 656-57 (no preemption where the record company used the names and likenesses of musicians, song writers, and producers on compact disks, tapes, catalogs and posters). We thus concluded that the claim was not within the subject matter of copyright because "[a] person's name or likeness is not a work of authorship within the meaning of 17 U.S.C. § 102." Downing, 265 F.3d at 1004.

Laws also relies on a second case, Toney v. L'Oreal USA, Inc., 406 F.3d 905 (7th Cir.2005), in which the Seventh Circuit held that a claim under the Illinois Right of Publicity Act was not preempted by the Copyright Act. Toney was a model who had posed for photographs used to promote hair-care products on packaging and in national advertisements. Defendants owned the copyright for the photograph of Toney that was used, and had a right to use it from November 1995 to November 2000; any other use would be negotiated separately. In apparent violation of their understanding, defendants continued to use the photographs in their advertising beyond 2000. Toney alleged that this use violated her right of publicity under Illinois law. The Seventh Circuit concluded that

> Toney's identity is not fixed in a tangible medium of expression. There is no "work of authorship" at issue in Toney's right of publicity claim. A person's likeness-her persona-is not authored and it is not fixed. The fact that an image of

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> the person might be fixed in a copyrightable photograph does not change this.... The fact that the photograph itself could be copyrighted, and that defendants owned the copyright to the photograph that was used, is irrelevant to the [right of publicity] claim. . . . The defendants did not have her consent to continue to use the photograph. . . .

Id. at 910. The fact that the photograph was copyrighted could not negate the fact that Toney had reserved artistic control over her image for any period beyond the contractual time frame. The Seventh Circuit concluded that Toney's claim was not preempted.[77]

In contrast, Jennifer Lopez's song "All I Have" incorporated samples of Deborah Laws's "Very Special" and gave her the attribution negotiated by Elektra and Sony. Sony did not use Laws's image, name, or the voice recording in any promotional materials. Her state tort action challenges control of the artistic work itself and could hardly be more closely related to the subject matter of the Copyright Act.

We find more to the point, and quite persuasive, the California Court of Appeal's decision in Fleet v. CBS, Inc., 50 Cal.App.4th 1911, 58 Cal.Rptr.2d 645 (1996). There, defendant CBS owned the exclusive rights to distribute a motion picture in which plaintiffs performed. A third party who financed the operation of the movie refused to pay plaintiffs their previously agreed-to salaries. Plaintiffs brought suit against CBS alleging, *inter alia,* that by airing the motion picture using their names, pictures, and likenesses without their consent, CBS had violated their statutory right of publicity. The Court of Appeal held that the Copyright Act preempted the action. As the court observed, "it was not merely [plaintiffs'] likenesses which were captured on film-it was their dramatic performances which are ... copyrightable." Id. at 651. "[O]nce [plaintiffs'] performances were put on film, they became 'dramatic work[s]' 'fixed in[a] tangible medium of expression....' At that point, the performances came within the scope or subject matter of copyright law protection," and the claims were preempted. Id. at 650; see also Downing, 265 F.3d at 1005 n. 4 ("In *Fleet,* the plaintiffs were actors in a copyrighted film. The claims of the plaintiffs were based on their dramatic performance in a film CBS sought to distribute. ... This is clearly distinguishable from this case where the Appellants' claim is based on the use of their names and likenesses, which are not copyrightable."). In effect, the plaintiffs' right of publicity claim was a question of control over the distribution, display or performance of a movie CBS owned. Since CBS's use of plaintiffs' likenesses did not extend beyond the use of the copyrighted material it held, there was no right of publicity at issue, aside from the actors' performances. Had the court held otherwise, each actor could claim that any showing of the film violated his right to control his image and persona.

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[77]*Toney* differs from this case in a significant way: Toney brought her right of publicity claim against L'Oreal U.S.A., Inc., the Wella Corp., and Wella Personal Care of North America, Inc., which each at some point held the copyright and had agreed not to use Toney's likeness after 2000. The facts of this case would be analogous to *Toney* if Laws had brought her right of publicity claim against Elektra, which holds the copyright to the song and may have agreed to licensing limitations. We express no views on the correctness of *Toney* or its application to any claims against Elektra.

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Laws makes much of the fact that she possessed a right of first refusal in all future uses of "Very Special" under the original production agreement with Elektra. She contends that this right expressly gives her control over the use of her name and voice in connection with any use of "Very Special." She also contends that "[i]f the copyright holder itself, Elektra/ Asylum, was not ceded such rights, then as a matter of law its licensee does not possess those rights." In effect, Laws contends that her contractual reservation gives her an interest in the copyright and, concomitantly, renders Elektra's copyright partially subject to her control.

We express no view as to the effect of Laws's reservation in the production agreement and no view as to any remedies that Laws may have against Elektra. Whether or not the two parties contracted around the actual use of a copyright does not affect our preemption analysis. To the extent that Laws has enforceable, contractual rights regarding the use of Elektra's copyright, her remedy may lie in a breach of contract claim against Elektra for licensing "Very Special" without her authorization. See Grosso v. Miramax Film Corp., 383 F.3d 965, 968 (9th Cir.2004).[78]

In sum, we hold that Laws's cause of action is within the subject matter of copyright.

B. *Equivalent Rights*

We must next determine whether the rights she asserts under California law are equivalent to the rights protected under the Copyright Act. We conclude that they are. In Del Madera Props. v. Rhodes & Gardner, 820 F.2d 973 (9th Cir.1987), *overruled on other grounds, Fogerty v. Fantasy, Inc.,* 510 U.S. 517, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994), we outlined the test for determining whether state rights were "equivalent" to those under the Copyright Act:

> To satisfy the "equivalent rights" part of the preemption test ... the ... alleged misappropriation ... must be equivalent to rights within the general scope of copyright as specified by section 106 of the Copyright Act. Section 106 provides a copyright owner with the exclusive rights of reproduction, preparation of derivative works, distribution, and display. To survive preemption, the state cause of action must protect rights which are qualitatively different from the copyright rights. The state claim must have an extra element which changes the nature of the action.

Id. at 977 (quotations and citations omitted). In Del Madera Properties, the plaintiff alleged that the defendants had allegedly misappropriated a copyrighted land map to plan a new development. Plaintiff advanced an unfair competition claim and argued that it was qualitatively different from copyright because the unfair competition claim required the breach of a fiduciary

[78]Counsel represented to this Court during oral argument that it had in fact filed a breach of contract claim in state court.

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duty, an element not required under copyright. We squarely rejected Del Madera's argument:

> This argument . . . does not add any "extra element" which changes the nature of the action. The argument is constructed upon the premise that the documents and information . . . belonged to Del Madera and were misappropriated by the defendants. Del Madera's ownership of this material, and the alleged misappropriation by the defendants, are part and parcel of the copyright claim.

Id.; see also Harper & Row, Publishers, Inc. v. Nation Enters., 501 F.Supp. 848, 853-54 (S.D.N.Y.1980) ("[T]he contract claim is redundant because the additional elements ... do not afford plaintiff rights that are 'different in kind' from those protected by the copyright laws."), *rev'd on other grounds,* 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985).

Laws contends that her right of publicity claim under California Civil Code § 3344 requires proof of a use for a "commercial purpose," which is not an element of a copyright infringement claim. She concedes that a right which is the "equivalent to copyright" is one that is infringed by the mere act of reproduction; however, she argues that her claim is not based on Sony's mere act of reproduction, but "is for the use of ... Laws'[s] voice, the combination of her voice with another artist, and the commercial exploitation of her voice and name in a different product without her consent."

Sony argues that Laws's claims are based exclusively on the reproduction of "Very Special" in "All I Have." It asserts that the rights protected under Laws's voice misappropriation claim are not qualitatively different from the rights protected under copyright law because the sole basis for her voice misappropriation claim is the unauthorized reproduction of her copyrighted vocal performance.

The essence of Laws's claim is, simply, that she objects to having a sample of "Very Special" used in the Jennifer Lopez-L.L. Cool J recording. But Laws gave up the right to reproduce her voice-at least insofar as it is incorporated in a recording of "Very Special"-when she contracted with Elektra in 1981 and acknowledged that Elektra held the "sole and exclusive right to copyright such master recordings," including the right "to lease, license, convey or otherwise use or dispose of such master recordings." At that point, Laws could have either retained the copyright, or reserved contractual rights in Elektra's use of the recording. Indeed, Laws claims that the latter is precisely what she did. But if Elektra licensed "Very Special" to Sony in violation of its contract with Laws, her remedy sounds in contract against Elektra, not in tort against Sony.

The mere presence of an additional element ("commercial use") in section 3344 is not enough to qualitatively distinguish Laws's right of publicity claim from a claim in copyright. The extra element must transform the nature of the action. Although the elements of Laws's state law claims may not be identical to the elements in a copyright action, the underlying nature of Laws's state law claims is part and parcel of a copyright claim. *See Fleet,* 58 Cal.Rptr.2d at 649. Under

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the Act, a copyright owner has the exclusive right "to reproduce the copyrighted work." 17 U.S.C. § 106(1). Laws's claims are based on the premise that Sony reproduced a sample of "Very Special" for commercial purposes without her permission. But Sony obtained a limited license from the copyright holder to use the copyrighted work for the Lopez album. The additional element of "commercial purpose" does not change the underlying nature of the action. See Motown Record Corp. v. George A. Hormel & Co., 657 F.Supp. 1236, 1239-40 (C.D. Cal.1987).

IV. CONCLUSION

Both copyright and the right of publicity are means of protecting an individual's investment in his or her artistic labors. As the Court said of copyright:

> The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in "Science and useful Arts." Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.

Mazer v. Stein, 347 U.S. 201, 219, 74 S.Ct. 460, 98 L.Ed. 630 (1954). Similarly, the Supreme Court has said that the

> right of publicity . . . rests on more than a desire to compensate the performer for the time and effort invested in his act; the protection provides an economic incentive for him to make the investment required to produce a performance of interest to the public.

Zacchini v. Scripps-Howard Broad. Co., 433 U.S. 562, 576, 97 S.Ct. 2849, 53 L.Ed.2d 965 (1977). On the one hand, we recognize that the holder of a copyright does not have "a license to trample on other people's rights." *See* J. Thomas McCarthy, The Rights of Publicity and Privacy § 11:60, at 788 (2d ed.2005). On the other hand, however, the right of publicity is not a license to limit the copyright holder's rights merely because one disagrees with decisions to license the copyright. We sense that, left to creative legal arguments, the developing right of publicity could easily supplant the copyright scheme. This, Congress has expressly precluded in § 301. Were we to conclude that Laws's voice misappropriation claim was not preempted by the Copyright Act, then virtually every use of a copyrighted sound recording would infringe upon the original performer's right of publicity. We foresaw this distinct possibility in *Sinatra:*

> An added clash with the copyright laws is the potential restriction which recognition of performers' "secondary meanings" places upon the potential market of the copyright proprietor. If a proposed licensee must pay each artist who has played or sung the composition and who might therefore claim unfair competition-performer's protection, the licensee may well be discouraged to the point of complete loss of interest.

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Sinatra, 435 F.2d at 718. It is hard to imagine how a copyright would remain meaningful if its licensees were potentially subject to suit from any performer anytime the copyrighted material was used.

To be clear, we recognize that not every right of publicity claim is preempted by the Copyright Act. Our holding does not extinguish common law or statutory rights of privacy, publicity, and trade secrets, as well as the general law of defamation and fraud (or any other similar causes of action), so long as those causes of action do not concern the subject matter of copyright and contain qualitatively different elements than those contained in a copyright infringement suit. Elektra copyrighted Laws's performance of "Very Special" and licensed its use to Sony. If Laws wished to retain control of her performance, she should (and may) have either retained the copyright or contracted with the copyright holder, Elektra, to give her control over its licensing. In any event, her remedy, if any, lies in an action against Elektra, not Sony.

We therefore agree with the district court's conclusion that Laws's right of publicity claims are preempted by the Copyright Act. The judgment is

AFFIRMED.

Notes

(1) Why didn't Debra Laws sue Elektra/Asylum Records for breach of contract? Is the Ninth Circuit's decision in *Laws* likely to increase the number of breach of contract actions against record companies? See Clause 7.03 in the Exclusive Recording Artist Agreement (Form 39) in the Document Supplement.

(2) An employee of a video game manufacturer filed a complaint for copyright infringement, violation of her right of publicity and *quantum meruit* against the company for using her voice in a toy based on the company's "World of Warcraft" video games in Lewis v. Activision Blizzard, Inc., 2012 U.S. Dist. LEXIS 151739 (N.D. Ca. 2012). The manufacturer moved to dismiss the publicity and *quantum meruit* claims on the grounds that they were preempted by the Copyright Act. Applying *Laws,* the district court agreed and held that because the claims were based wholly on the manufacturer's use of her voice recordings, they were equivalent to one of the exclusive rights under copyright and the claims must therefore be dismissed as preempted.

[2] Conflict with the First Amendment

USAGE: On page 471, SUBSTITUTE the following case for *Guglielmi v. Spelling-Goldberg Productions* and *Comedy III Productions, Inc. v. Gary Saderup, Inc.*:

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HART v. ELECTRONIC ARTS

717 F.3d 141 (3d Cir. 2013)

GREENAWAY, JR., Circuit Judge.

In 2009, Appellant Ryan Hart ("Appellant" or "Hart")[79] brought suit against Appellee Electronic Arts, Inc. ("Appellee" or "EA") for allegedly violating his right of publicity as recognized under New Jersey law. Specifically, Appellant's claims stemmed from Appellee's alleged use of his likeness and biographical information in its *NCAA Football* series of videogames. The District Court granted summary judgment in favor of Appellee on the ground that its use of Appellant's likeness was protected by the First Amendment. For the reasons set forth below, we will reverse the grant of summary judgment and remand the case back to the District Court for further proceedings.

I. Facts

Hart was a quarterback, player number 13, with the Rutgers University NCAA Men's Division I Football team for the 2002 through 2005 seasons. As a condition of participating in college-level sports, Hart was required to adhere to the National Collegiate Athletic Association's ("NCAA") amateurism rules as set out in Article 12 of the NCAA bylaws. See, e.g., NCAA, *2011-12 NCAA Division I Manual* § 12.01.1 (2011) ("Only an amateur student-athlete is eligible for inter-collegiate athletics participation in a particular sport."). In relevant part, these rules state that a collegiate athlete loses his or her "amateur" status if (1) the athlete "[u]ses his or her athletics skill (directly or indirectly) for pay in any form in that sport," id. § 12.1.2, or (2) the athlete "[a]ccepts any remuneration or permits the use of his or her name or picture to advertise, recommend or promote directly the sale or use of a commercial product or service of any kind," id. § 12.5.2.1.2[80] In comporting with these bylaws, Hart purportedly refrained from seizing on various commercial opportunities.[81] On the field, Hart excelled. At 6'2", weighing 197 pounds, and typically wearing a visor and armband on his left wrist, Hart amassed an impressive list of achievements as the Scarlet Knights' starting quarterback. As of this writing, Hart still holds the

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[79]Appellant's action purports to be a class action on behalf of similarly situated individuals. Because the putative class members all face the same issues with regard to the First Amendment we will focus our attention and analysis on Appellant in particular.

[80]The NCAA Manual also states that where a collegiate athlete's

> name or picture appears on commercial items . . . or is used to promote a commercial product sold by an individual or agency without the student-athlete's knowledge or permission, the student athlete (or the institution acting on behalf of the student-athlete) is required to take steps to stop such an activity in order to retain his or her eligibility for intercollegiate athletics.

NCAA, *2011-12 NCAA Division I Manual* § 12.5.2.2 (2011).

[81]NCAA bylaws limit college athletes like Hart to receiving only non-athletic financial aid, either through academic scholarships or need-based aid, or athletic scholarships, which cover only tuition and various school-related expenses. See NCAA, *2011-12 NCAA Division I Manual* § 15 (2011).

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Scarlet Knights' records for career attempts, completions, and interceptions.[82] Hart's skill brought success to the team and during his senior year the Knights were invited to the Insight Bowl, their first Bowl game since 1978.

Hart's participation in college football also ensured his inclusion in EA's successful *NCAA Football* videogame franchise. EA, founded in 1982, is "one of the world's leading interactive entertainment software companies," and "develops, publishes, and distributes interactive software worldwide" for consoles, cell phones, and PCs. (App. at 529-30.) EA's catalogue includes *NCAA Football*, the videogame series at issue in the instant case. The first edition of the game was released in 1993 as *Bill Walsh College Football*. EA subsequently changed the name first to *College Football USA* (in 1995), and then to the current *NCAA Football* (in 1997). New editions in the series are released annually, and "allow[] users to experience the excitement and challenge of college football" by interacting with "over 100 virtual teams and thousands of virtual players." (Id. at 530.)

A typical play session allows users the choice of two teams. "Once a user chooses two college teams to compete against each other, the video game assigns a stadium for the match-up and populates it with players, coaches, referees, mascots, cheerleaders and fans."[83] (Id.) In addition to this "basic single-game format," EA has introduced a number of additional game modes that allow for "multi-game" play. (Id. at 530-31.) Thus, with the release of *NCAA Football 98*, EA introduced the "Dynasty Mode," which allows users to "control[] a college program for up to thirty seasons," including "year-round responsibilities of a college coach such as recruiting virtual high school players out of a random-generated pool of athletes." (Id. at 531.) Later, in *NCAA Football 2006*, EA introduced the "Race for the Heisman" (later renamed "Campus Legend"), which allows users to "control a single [user-made] virtual player from high school through his collegiate career, making his or her own choices regarding practices, academics and social activities." (Id. at 531-32.)

In no small part, the *NCAA Football* franchise's success owes to its focus on realism and detail -- from realistic sounds, to game mechanics, to team mascots.[84] This focus on realism also ensures that the "over 100 virtual teams" in the game are populated by digital avatars that resemble their real-life counterparts and share their vital and biographical information. Thus, for example, in *NCAA Football 2006*, Rutgers' quarterback, player number 13, is 6'2" tall, weighs 197 pounds and resembles Hart. Moreover, while users can change the digital avatar's

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[82]Until his recent displacement by Mike Teel, Hart also held the team records for career yards and touchdowns.

[83]Appellee licenses, from the Collegiate Licensing Company (the NCAA's licensing agent), "the right to use member school names, team names, uniforms, logos, stadium fight songs, and other game elements." (App. at 532.) Unlike certain of its other videogame franchises, EA does not license the likeness and identity rights for intercollegiate players.

[84]For example, an article on the EA Sports blog explained that "[e]ach year, *NCAA Football* playbook designer Anthony White strives to make each team's playbook accurately represent their system and play style. . . . [E]ach year, Anthony adds in actual plays run by teams that can only be found in specific playbooks." (App. at 663.).

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appearance and most of the vital statistics (height, weight, throwing distance, etc.), certain details remain immutable: the player's home state, home town, team, and class year.

Appellant filed suit against EA in state court for, among other things, violation of his right of publicity. Appellant's first amended complaint, filed in October 2009, alleged that Appellee violated his right of publicity by appropriating his likeness for use in the *NCAA Football* series of videogames. Appellee subsequently removed the action to federal court, and the District Court subsequently dismissed all but one of the claims.[85] Thereafter, on October 12, 2010, Appellant filed his second amended complaint, again alleging a claim pursuant to the right of publicity based on Appellee's purported misappropriation of Appellant's identity and likeness to enhance the commercial value of *NCAA Football*. Specifically, Appellant alleges that (1) Appellee replicated his likeness in *NCAA Football 2004*, *2005*, and *2006* (complete with biographical and career statistics)[86] and that (2) Appellee used Appellant's image "in the promotion for [*NCAA Football*] wherein [Appellant] was throwing a pass with actual footage from Rutgers University's Bowl Game against Arizona State University."[87] (App. at 370.)

On November 12, 2010, Appellee filed a motion to dismiss the claim pursuant to Federal Rule of Civil Procedure 12(b)(6) or, in the alternative, summary judgment pursuant to Federal Rule of Civil Procedure 56(c). While conceding, for purposes of the motion only, that it had violated Appellant's right of publicity, Appellee argued that it was entitled to dismissal or summary judgment on First Amendment grounds. Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757, 766 (D.N.J. 2011). The motion was accompanied by a Statement of Undisputed Fact and various supporting materials, including declarations. Appellant opposed the motion, arguing that "discovery [was] still in it's [sic] infancy." (App. at 9.) The court below rejected this argument, noting that Appellant had "fail[ed] to identify how discovery would assist the Court in deciding this speech-based tort case." Hart, 808 F. Supp. 2d at 764. The District Court then construed the motion as one for summary judgment, citing its intent to "rely on the affidavits and exhibits submitted by the parties," id., and ruled in favor of Appellee, holding that *NCAA Football* was entitled to protection under the First Amendment. Appellant timely appealed, arguing that the District Court erred in granting summary judgment prematurely and, in the alternative, erred in holding that *NCAA Football* was shielded from right of publicity claims by the First Amendment. The matter is now before us for review.

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[85]The District Court had diversity jurisdiction over the case pursuant to 28 U.S.C. § 1332(a)(1).

[86]Appellant alleges that the physical attributes exhibited by the virtual avatar in *NCAA Football* are his own (i.e., he attended high school in Florida, measures 6'2" tall, weighs 197 pounds, wears number 13, and has the same left wrist band and helmet visor) and that the avatar's speed, agility, and passer rating reflected actual footage of Appellant during his tenure at Rutgers. (App. at 369-71.).

[87]It is unclear from the complaint what exactly this allegation covers. However, Appellee concedes that "[a] photograph of [Appellant] is included in a photo montage of actual players within *NCAA Football 09* which is visible only when the game is played on certain game platforms by those users who select Rutgers as their team." (App. at 475.).

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III. Discussion

We begin our analysis by noting the self-evident: video games are protected as expressive speech under the First Amendment. Brown v. Entm't Merchs. Ass'n, 131 S. Ct. 2729, 2733 (2011). As the Supreme Court has noted, "video games communicate ideas -- and even social messages -- through many familiar literary devices (such as characters, dialogue, plot, and music) and through features distinctive to the medium (such as the player's interaction with the virtual world)." Id. As a result, games enjoy the full force of First Amendment protections. As with other types of expressive conduct, the protection afforded to games can be limited in situations where the right of free expression necessarily conflicts with other protected rights.

The instant case presents one such situation. Here, Appellee concedes, for purposes of the motion and appeal, that it violated Appellant's right of publicity; in essence, misappropriating his identity for commercial exploitation. (Appellant's Br. at 8, 34; Tr. at 50:12-:16.) However, Appellee contends that the First Amendment shields it from liability for this violation because *NCAA Football* is a protected work. To resolve the tension between the First Amendment and the right of publicity, we must balance the interests underlying the right to free expression against the interests in protecting the right of publicity. See Zacchini v. Scripps-Howard Broad. Co., 433 U.S. 562, 574-75.[88]

Courts have taken varying approaches in attempting to strike a balance between the competing interests in right of publicity cases, some more appealing than others. In our discussion below, we first consider the nature of the interests we must balance and then analyze the different approaches courts have taken to resolving the tension between the First Amendment and the right of publicity.

A. The Relevant Interests at Issue

Before engaging with the different analytical schemes, we first examine the relevant interests underlying the rights of free expression and publicity.

1. Freedom of Expression

Freedom of expression is paramount in a democratic society, for "[i]t is the function of speech to free men from the bondage of irrational fears." Whitney v. California, 274 U.S. 357, 376 (1927) (Brandeis, J., concurring). As Justice Louis Brandeis wrote nearly a century ago:

> Those who won our independence believed that the final end of the state was to make men free to develop their faculties . . . . They valued liberty both as an end and as a means. They believed liberty to [be] the secret of happiness and courage to be the secret of liberty. They believed that freedom to think as you will

[88]While it is true that the right of publicity is a creature of state law and precedent, its intersection with the First Amendment presents a federal issue, and, thus, permits us to engage in the sort of balancing inquiry at issue here. See, e.g., Zacchini, 433 U.S. at 566-68.

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> and to speak as you think are means indispensable to the discovery and spread of political truth; that without free speech and assembly discussion would be futile; that with them, discussion affords ordinarily adequate protection against the dissemination of noxious doctrine; that the greatest menace to freedom is an inert people; that public discussion is a political duty; and that this should be a fundamental principle of the American government.

Id. at 375.

In keeping with Justice Brandeis' eloquent analysis, the great legal minds of generations past and present have recognized that free speech benefits both the individual and society. The Supreme Court in Procunier v. Martinez noted that the protection of free speech serves the needs "of the human spirit—a spirit that demands self-expression," adding that "[s]uch expression is an integral part of the development of ideas and a sense of identity." 416 U.S. 396, 427 (1974), overruled on other grounds by Thornburgh v. Abbott, 490 U.S. 401 (1989). Suppressing such expression, therefore, is tantamount to rejecting "the basic human desire for recognition and [would] affront the individual's worth and dignity." Id. Indeed, First Amendment protections have been held applicable to not only political speech, but to "entertainment [including, but certainly not limited to,] motion pictures, programs broadcast by radio and television, and live entertainment, such as musical and dramatic works." Tacynec v. City of Phila., 687 F.2d 793, 796 (3d Cir.1982). Thus, "[t]he breadth of this protection evinces recognition that freedom of expression is not only essential to check tyranny and foster self-government but also intrinsic to individual liberty and dignity and instrumental in society's search for truth." Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc., 472 U.S. 749, 787 (1985) (Brennan, J., dissenting).

The interest in safeguarding the integrity of these protections therefore weighs heavily in any balancing inquiry. Still, instances can and do arise where First Amendment protections yield in the face of competing interests. See, e.g., Eldred v. Ashcroft, 537 U.S. 186, 219-20 (2003) (discussing the interplay between copyright law and First Amendment protections); Dun & Bradstreet, Inc., 472 U.S. at 757-61 (determining that a state may allow recovery of damages in certain defamation cases after balancing "the State's interest in compensating private individuals for injury to their reputation against the First Amendment interest in protecting this type of expression"). Ultimately, we must determine whether the interest in safeguarding the right of publicity overpowers the interest in safeguarding free expression.

2. The Right of Publicity[89]

The right of publicity grew out of the right to privacy torts, specifically, from the tort of "invasion of privacy by appropriation." J. Thomas McCarthy, The Rights of Publicity and Privacy §1:23 (2d ed. 2012). Thus, when New Jersey first recognized the concept in 1907, its

[89]As we have noted, Appellee concedes that *NCAA Football* infringes on the right of publicity as recognized in New Jersey. Our inquiry, therefore, does not concern the elements of the tort or whether Appellee's actions satisfy this standard. Rather, we are concerned only with whether the right to freedom of expression overpowers the right of publicity.

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analysis looked to the "so-called right of privacy" and the limits on that concept. Edison v. Edison Polyform Mfg. Co., 73 N.J. Eq. 136, 67 A. 392, 394 (N.J. Ch. 1907) (enjoining a company from using the name or likeness of Thomas Edison to promote its products). Additionally, we note that, even at this early stage the New Jersey court recognized that an individual enjoyed a property interest in his or her identity. Id. ("[I]t is difficult to understand why the peculiar cast of one's features is not . . . one's property, and why its pecuniary value, if it has one, does not belong to its owner, rather than to the person seeking to make an unauthorized use of it.").

However, this early conceptualization had limitations, particularly when it came to protecting the property interests of celebrities and people already in the public eye. See id. ("It is certain that a man in public life may not claim the same immunity from publicity that a private citizen may."); see also McCarthy, supra, at § 1:25. Faced with this limitation on the legal doctrine, courts began to recognize a "right of publicity," which protected publicly known persons from the misappropriation of their identities. The first case to describe this protection as a "right of publicity" was Haelan Labs., Inc. v. Topps Chewing Gum, Inc., 202 F.2d 866 (2d Cir. 1953) (concerning baseball cards in gum packages). There, the Second Circuit held that "in addition to and independent of that right of privacy . . . , a man has a right in the publicity value of his photograph . . . . This right might be called a 'right of publicity.'" Id. at 868. New Jersey courts, which had long recognized a "right of privacy [and] a right of property," were not far behind in voicing their support for this concept. Ettore v. Philco Television Broad. Corp., 229 F.2d 481, 491 (3d Cir. 1956). . . .

The current incarnation of the right of publicity in New Jersey is that set forth in the Restatement (Second) of Torts (1977). See, e.g., Bisbee v. John C. Conover Agency, Inc., 186 N.J. Super. 335, 452 A.2d 689, 690-91 (N.J. Super. Ct. App. Div. 1982) (looking to the Restatement (Second) of Torts for the "four areas of invasion of privacy," including "appropriation of the other's name or likeness"); see also G.D. v. Kenny, 205 N.J. 275, 15 A.3d 300, 311 (N.J. 2011). According to the Restatement, "[o]ne who appropriates to his own use or benefit the name or likeness of another is subject to liability to the other for invasion of privacy." Restatement (Second) of Torts § 652C. The comments also make clear that "the right created by [the rule in §652C] is in the nature of a property right." Id. § 652C cmt a.[90]

New Jersey law therefore recognizes that "[t]he right to exploit the value of [an individual's] notoriety or fame belongs to the individual with whom it is associated," for an individual's "name, likeness, and endorsement carry value and an unauthorized use harms the person both by diluting the value of the name and depriving that individual of compensation."

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[90]In 1995 the Restatement (Third) of Unfair Competition set forth the elements of a free-standing right of publicity claim, unconnected to the right of privacy torts. See Restatement (Third) of Unfair Competition § 46-49 (1995). While we discuss this version of the tort further below, we decline to address it here because New Jersey has yet to adopt the Restatement (Third)'s version of the tort and the accompanying comments. Accord Castro v. NYT Television, 370 N.J. Super. 282, 851 A.2d 88, 96-97 (N.J. Super. Ct. App. Div. 2004) (citing to Restatement (Second) of Torts § 652C (1977) in discussing a right of publicity claim).

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McFarland v. Miller, 14 F.3d 912, 919, 923 (3d Cir. 1994). As such, the goal of maintaining a right of publicity is to protect the property interest that an individual gains and enjoys in his identity through his labor and effort. Additionally, as with protections for intellectual property, the right of publicity is designed to encourage further development of this property interest. Accord Zacchini, 433 U.S. at 573 ("[T]he State's interest in permitting a 'right of publicity' . . . is closely analogous to the goals of patent and copyright law, focusing on the right of the individual to reap the reward of his endeavors . . . .").

Since neither the New Jersey courts nor our own circuit have set out a definitive methodology for balancing the tension between the First Amendment and the right of publicity, we are presented with a case of first impression. We must therefore consult the approaches of other courts in the first instance.

B. How Courts Balance the Interests

We begin our inquiry by looking at *Zacchini v. Scripps-Howard Broadcasting Co.*, the only Supreme Court case addressing the First Amendment in a right of publicity context. In this case, the Court called for a balancing test to weigh the interest underlying the First Amendment against those underpinning the right of publicity. 433 U.S. at 574-75. This decision sets the stage for our analysis of three systematized analytical frameworks that have emerged as courts struggle with finding a standardized way for performing this balancing inquiry.

* * * * *

2. The Modern Balancing Tests

Following *Zacchini*, courts began developing more systematized balancing tests for resolving conflicts between the right of publicity and the First Amendment. Of these, three tests are of particular note: the commercial-interest-based Predominant Use Test, the trademark-based *Rogers* Test, and the copyright-based Transformative Use Test. The *Rogers* and Transformative Use tests are the most well-established, while the Predominant Use Test is addressed below only because Appellant argues in favor of its adoption. We consider each test in turn, looking at its origins, scope of application, and possible limitations. For the reasons discussed below, we adopt the Transformative Use Test as being the most appropriate balancing test to be applied here.

a. Predominant Use Test

Appellant urges us to adopt the Predominant Use Test, which first appeared in Doe v. TCI Cablevision, 110 S.W.3d 363 (Mo. 2003) (en banc), a case that considered a hockey player's right of publicity claim against a comic book publishing company. In TCI, Anthony "Tony" Twist, a hockey player, brought suit against a number of individuals and entities involved in producing and publishing the Spawn comic book series after the introduction of a villainous character named Anthony "Tony Twist" Twistelli.

In balancing Twist's property interests in his own name and identity against the First Amendment interests of the comic book creators, the *TCI* court rejected both the Transformative Use and *Rogers* tests, noting that they gave "too little consideration to the fact that many uses of

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a person's name and identity have both expressive and commercial components." Id. at 374. The Supreme Court of Missouri considered both tests to be too rigid, noting that they operated "to preclude a cause of action whenever the use of the name and identity is in any way expressive, regardless of its commercial exploitation." Id. The court instead applied what it called a "sort of predominant use test" :

> If a product is being sold that predominantly exploits the commercial value of an individual's identity, that product should be held to violate the right of publicity and not be protected by the First Amendment, even if there is some 'expressive' content in it that might qualify as 'speech' in other circumstances. If, on the other hand, the predominant purpose of the product is to make an expressive comment on or about a celebrity, the expressive values could be given greater weight.

Id. (quoting Mark S. Lee, Agents of Chaos: Judicial Confusion in Defining the Right of Publicity-Free Speech Interface, 23 Loy. L.A. Ent. L. Rev. 471, 500 (2003)). The *TCI* court considered this to be a "more balanced balancing test [particularly for] cases where speech is both expressive and commercial." Id. After applying the test, the court ruled for Twist, holding that "the metaphorical reference to Twist, though a literary device, has very little literary value compared to its commercial value." Id.

We decline Appellant's invitation to adopt this test. By our reading, the Predominant Use Test is subjective at best, arbitrary at worst, and in either case calls upon judges to act as both impartial jurists and discerning art critics. These two roles cannot co-exist. Indeed, Appellant suggests that pursuant to this test we must evaluate "what value [Appellee is] adding to the First Amendment expressiveness [of *NCAA Football*] by appropriating the commercially valuable likeness?" (Tr. at 14:15-:18.) Since "[t]he game would have the exact same level of First Amendment expressiveness if [Appellee] didn't appropriate Mr. Hart's likeness," Appellant urges us to find that *NCAA Football* fails the Predominant Use Test and therefore is not shielded by the First Amendment. (Tr. at 7:10-12.) Such reasoning, however, leads down a dangerous and rightly-shunned road: adopting Appellant's suggested analysis would be tantamount to admitting that it is proper for courts to analyze select elements of a work to determine how much they contribute to the entire work's expressiveness. Moreover, as a necessary (and insidious) consequence, the Appellant's approach would suppose that there exists a broad range of seemingly expressive speech that has no First Amendment value.[91]

Appellee rightly argues that the Predominant Use Test is antithetical to our First Amendment precedent, (Tr. at 25:2: 9), and we likewise reject the Test.[92] We instead turn our attention to the *Rogers* Test, which was proposed by Appellee and which draws its inspiration

[91]This concept is almost wholly foreign to free expression save for highly circumscribed categories of speech: obscenity, incitement, and fighting words. See Brown v. Entm't Merchs. Ass'n, 131 S. Ct. 2729, 2733 (2011).

[92]We also agree with Chief Justice Bird's rejection of an identical argument: "The right of publicity derived from public prominence does not confer a shield to ward off caricature, parody and satire. Rather, prominence invites creative comment." Guglielmi, 603 P.2d at 460.

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from trademark law.

b. The *Rogers* Test

The *Rogers* Test looks to the relationship between the celebrity image and the work as a whole.[93] As the following discussion demonstrates, however, adopting this test would potentially immunize a broad swath of tortious activity. We therefore reject the *Rogers* Test as inapposite in the instant case.

i. Origins and Scope of the *Rogers* Test

Various commentators have noted that right of publicity claims–at least those that address the use of a person's name or image in an advertisement–are akin to trademark claims because in both instances courts must balance the interests in protecting the relevant property right against the interest in free expression. See, e.g., ETW Corp. v. Jireh Publ'g, Inc., 332 F.3d 915, 924 (6th Cir. 2003) (noting that "a Lanham Act false endorsement claim is the federal equivalent of the right of publicity" (citing Bruce P. Keller, The Right of Publicity: Past, Present, and Future, 1207 PLI Corp. Law & Prac. Handbook 159, 170 (2000))). It is little wonder, then, that the inquiry championed by Appellee originated in a case that also focused upon alleged violations of the trademark-specific Lanham Act. Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989).

In that case, Ginger Rogers brought suit against the producers and distributors of, *Ginger and Fred*, a film that was alleged to infringe on Rogers' right of publicity and confuse consumers in violation of the Act. (Despite its title, the film was not about either Ginger Rogers or Fred Astaire.) In analyzing the right of publicity claim under Oregon law, the Second Circuit noted Oregon's "concern for the protection of free expression," and held that Oregon would not "permit the right of publicity to bar the use of a celebrity's name in a movie title unless the title was wholly unrelated to the movie or was simply a disguised commercial advertisement for the sale of goods or services." Id. at 1004 (internal quotation marks omitted).[94] After applying this test, the *Rogers* court concluded that the right of publicity claim merited dismissal because "the title 'Ginger and Fred' is clearly related to the content of the movie and is not a disguised advertisement for the sale of goods and services or a collateral commercial product." Id. at 1004-05.[95]

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[93]The various cases and scholarly sources refer to this test in three different ways: the Relatedness Test, the Restatement Test, and the *Rogers* Test. The "Relatedness" moniker should be self-explanatory even at this early point in our discussion; the propriety of the other two names will become clear shortly. For our purposes, we will refer to the test as the *Rogers* Test.

[94]For support, the *Rogers* court looked to California and New York case law. Frosch v. Grosset & Dunlap, Inc., 75 A.D.2d 768, 427 N.Y.S.2d 828, 829 (App. Div. 1980) ("It is enough that the book is a literary work and not simply a disguised commercial advertisement for the sale of goods or services."); Guglielmi v. Spelling-Goldberg Prods., 25 Cal. 3d 860, 160 Cal. Rptr. 352, 603 P.2d 454, 457 n.6 (Cal. 1979) ("Such statements establish that this is not a case in which the use is wholly unrelated to the individual. . . . [T]his is not a case in which a celebrity's name is used to promote or endorse a collateral commercial product or is otherwise associated with a product or service in an advertisement.").

[95]Still, it bears noting that while the *Rogers* Test was arguably forged in the crucible of trademark law–and the *Rogers* court appeared to consult trademark principles for inspiration–the court also pointed out that "the right of publicity, unlike the Lanham Act, has no likelihood of confusion requirement" and is therefore "potentially more expansive than the Lanham Act." Rogers v. Grimaldi, 875 F.2d 994, 1004 (2d Cir. 1989).

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But while the test, as articulated in *Rogers*, arguably applied only to the use of celebrity identity in a work's title, Appellee suggests that the test can -- and should -- be applied more broadly. For support, Appellee looks to the Restatement (Third) of Unfair Competition, released in 1995, which characterizes the tort as follows:

> One who appropriates the commercial value of a person's identity by using without consent the person's name, likeness, or other indicia of identity for purposes of trade is subject to liability for [appropriate relief].

Restatement (Third) of Unfair Competition § 46. In explaining the term "use for purposes of trade," the Restatement notes that it does not "ordinarily include the use of a person's identity in news reporting, commentary, entertainment, works of fiction or nonfiction, or in advertising that is incidental to such uses." Id. § 47.

Moreover, the comments to Section 47 of the Restatement also note that:

> [t]he right of publicity as recognized by statute and common law is fundamentally constrained by *the public and constitutional interest in freedom of expression*. The use of a person's identity primarily for purpose of communicating information or expressing ideas is not generally actionable as a violation of the person's right of publicity. . . . Thus the use of a person's name or likeness in news reporting, whether in newspapers, magazines, or broadcast news, does not infringe the right of publicity. The interest in freedom of expression also extends to use in entertainment and other creative works, including both fiction and nonfiction. The use of a celebrity's name or photograph as part of an article published in a fan magazine or in a feature story broadcast on an entertainment program, for example, will not infringe the celebrity's right of publicity. Similarly, the right of publicity is not infringed by the dissemination of an unauthorized print or broadcast biography. Use of another's identity in a novel, play, or motion picture is also not ordinarily an infringement. . . . *However, if the name or likeness is used solely to attract attention to a work that is not related to the identified person, the user may be subject to liability for a use of the other's identity in advertising.*

Id. at § 47 cmt. c (emphasis added). Appellee argues that the above language adopts the *Rogers* Test and applies it to right of publicity claims dealing with any part of a work, not only its title. Appellee also cites to a number of cases purportedly supporting its position. See, e.g., Parks v. LaFace Records, 329 F.3d 437 (6th Cir. 2003); Matthews v. Wozencraft, 15 F.3d 432 (5th Cir. 1994). We do not find any of these cases particularly persuasive.

In *Matthews*, for example, the Fifth Circuit considered whether a fictional novel incorporating events from the life of an undercover narcotics officer violated the officer's right of publicity. In setting out the legal standard for a right of publicity claim, the court noted that it

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made no difference "whether [the book] is viewed as an historical or a fictional work, so long as it is not simply a disguised commercial advertisement for the sale of goods or services." Matthews, 15 F.3d at 440 (quotation marks and internal citations omitted). This single, cryptic quotation notwithstanding, the court ultimately held in favor of the book's author after applying a wholly different -- and seemingly inapposite -- First Amendment analysis: actual malice.[96] See id. ("[A]bsent a showing of actual malice . . . [the book] is protected by the First Amendment.").

But where *Matthews* took an ambivalent position, the Sixth Circuit seemed–at least for a short time– to embrace the *Rogers* Test. In Parks v. LaFace Records, the Sixth Circuit was asked to determine whether a rap song entitled Rosa Parks infringed on the Civil Rights icon's right of publicity. Parks, 329 F.3d at 441-42. After noting that *Rogers* was decided in the context of a movie, the Sixth Circuit held that an expansion of the test to "the context of other expressive works [was supported] by comment c of § 47 of the Restatement (Third) of Unfair Competition." Id. at 461. Consequently, the Sixth Circuit ruled that there was an issue of material fact as to whether the title of the song ("Rosa Parks") was "wholly unrelated" to the lyrics. Id. We find *Parks* to be less than persuasive given that just over a month later another panel of the Sixth Circuit decided ETW Corp. v. Jireh Publishing, Inc., a right of publicity case where the Circuit applied the Transformative Use Test. See 332 F.3d 915, 937 (6th Cir. 2003).[97]

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ii. Analysis of the Rogers Test

Ultimately, we find that the *Rogers* Test does not present the proper analytical approach for cases such as the one at bar. While the Test may have a use in trademark-like right of publicity cases, it is inapposite here. We are concerned that this test is a blunt instrument, unfit for widespread application in cases that require a carefully calibrated balancing of two fundamental protections: the right of free expression and the right to control, manage, and profit from one's own identity.

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c. **The Transformative Use Test**

Looking to intellectual property law for guidance on how to balance property interests against the First Amendment has merit. We need only shift our gaze away from trademark, to the broader vista of copyright law. Thus, we come to the case of Comedy III Prods., Inc. v. Gary Saderup, Inc., which imported the concept of "transformative" use from copyright law into the right of publicity context. 25 Cal. 4th 387, 106 Cal. Rptr. 2d 126, 21 P.3d 797, 804-08 (Cal. 2001). This concept lies at the core of a test that both Appellant and Appellee agree is applicable

[96]In Hustler Magazine, Inc. v. Falwell, 485 U.S. 46 (1988), the Supreme Court clarified its holding in Zacchini v. Scripps-Howard Broadcasting Co., 433 U.S. 562 (1977), as standing for the proposition that "the 'actual malice' standard does not apply to the tort of appropriation of a right of publicity." Hustler, 485 U.S. at 52.

[97]To be fair, the ETW court did briefly mention the Rogers decision before engaging in a lengthy discussion of the Restatement (Third) of Unfair Competition, ultimately concluding that the Restatement stood for the rather mundane principle that a right of publicity implicates a balancing test. ETW Corp., 332 F.3d at 930-36. As we noted above, the balancing utilized by the ETW court was the Transformative Use Test.

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to this case: the Transformative Use Test.[98]

i. Genesis of the Transformative Use Test

The Transformative Use Test was first articulated by the Supreme Court of California in *Comedy III*. That case concerned an artist's production and sale of t-shirts and prints bearing a charcoal drawing of the Three Stooges. The California court determined that while "[t]he right of publicity is often invoked in the context of commercial speech," it could also apply in instances where the speech is merely expressive. Id. at 802-803. The court also noted, however, that when addressing expressive speech, "the very importance of celebrities in society means that the right of publicity has the potential of censoring significant expression by suppressing alternative versions of celebrity images that are iconoclastic, irreverent or otherwise attempt to redefine the celebrity's meaning." Id. at 803. Thus, while the "the right of publicity cannot, consistent with the First Amendment, be a right to control the celebrity's image by censoring disagreeable portrayals," id. at 807, the right, like copyright, nonetheless offers protection to a form of intellectual property that society deems to have social utility, id. at 804. . . .

Restating its newly-articulated test, the Supreme Court of California held that the balance between the right of publicity and First Amendment interests turns on

> [w]hether the celebrity likeness is one of the "raw materials" from which an original work is synthesized, or whether the depiction or imitation of the celebrity is the very sum and substance of the work in question. We ask, in other words, *whether the product containing a celebrity's likeness is so transformed that it has become primarily the defendant's own expression rather than the celebrity's likeness.* And when we use the word "expression," we mean expression of something other than the likeness of the celebrity.

Id. (emphasis added).

Applying this test, the court concluded that charcoal portraits of the Three Stooges did violate the Stooges' rights of publicity, holding that the court could "discern no significant transformative or creative contribution" and that "the marketability and economic value of [the work] derives primarily from the fame of the celebrities depicted." Id. at 811.

[98]Unlike in New Jersey, California's right of publicity is a matter of both the state's statutory law and its common law. Laws v. Sony Music Entm't, Inc., 448 F.3d 1134, 1138 (9th Cir. 2006) (discussing both the statutory and the common law cause of action); see also Cal. Civ. Code § 3344; Eastwood v. Superior Court, 149 Cal. App. 3d 409, 198 Cal. Rptr. 342, 347 (Cal. Ct. App. 1983). This difference notwithstanding, the laws are strikingly similar–and protect similar interests. Under California law, "any person who knowingly uses another's name . . . or likeness, in any manner, or in any products, merchandise, or goods, or for the purposes of advertising or selling, or soliciting purchases of . . . shall be liable for any damages sustained by the person or persons injured as a result thereof." Cal. Civ. Code § 3344(a). In the words of the California Supreme Court, "the right of publicity is essentially an economic right. What the right of publicity holder possesses is not a right of censorship, but a right to prevent others from misappropriating the economic value generated by the celebrity's fame . . . ." Comedy III, 21 P.3d at 807. This is analogous to the conceptualization of the right of publicity in New Jersey, and we consequently see no issue in applying balancing tests developed in California to New Jersey.

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ii. Application of the Transformative Use Test

Given its relative recency, few courts have applied the Transformative Use Test, and consequently there is not a significant body of case law related to its application. Nonetheless, a handful of cases bear mention as they help frame our inquiry.

In 2003, the Supreme Court of California revisited the Transformative Use Test when two musicians, Johnny and Edgar Winter, who both possessed long white hair and albino features, brought suit against a comic book company over images of two villainous half-man, half-worm creatures, both with long white hair and albino features, named Johnny and Edgar Autumn. Winter v. DC Comics, 30 Cal. 4th 881, 134 Cal. Rptr. 2d 634, 69 P.3d 473, 476 (Cal. 2003). As the brothers' right of publicity claims necessarily implicated DC Comics' First Amendment rights, the *Winter* court looked to the Transformative Use Test. In summarizing the test, the court explained that "[a]n artist depicting a celebrity must contribute something more than a 'merely trivial' variation, [but must create] something recognizably 'his own,' in order to qualify for legal protection." Id. at 478 (alteration in original) (quoting Comedy III, 21 P.3d at 810-11). Thus, in applying the test, the *Winter* court held that

> [a]lthough the fictional characters Johnny and Edgar Autumn are less-than-subtle evocations of Johnny and Edgar Winter, the books do not depict plaintiffs literally. Instead, plaintiffs are merely part of the raw materials from which the comic books were synthesized. To the extent the drawings of the Autumn brothers resemble plaintiffs at all, they are distorted for purposes of lampoon, parody, or caricature. And the Autumn brothers are but cartoon characters–half-human and half-worm–in a larger story, which is itself quite expressive.

Id. at 479. The court therefore found that "fans who want to purchase pictures of [the Winter brothers] would find the drawing of the Autumn brothers unsatisfactory as a substitute for conventional depictions." Id.[99] Consequently, the court rejected the brothers' claims for a right of publicity violation.

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iv. Analysis of the Transformative Use Test

Like the Predominant Use and *Rogers* tests, the Transformative Use Test aims to balance the interest protected by the right of publicity against those interests preserved by the First Amendment. In our view, the Transformative Use Test appears to strike the best balance because it provides courts with a flexible–yet uniformly applicable–analytical framework. Specifically, the Transformative Use Test seems to excel precisely where the other two tests falter. Unlike the *Rogers* Test, the Transformative Use Test maintains a singular focus on

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[99]The *Winter* court also found unpersuasive arguments that the comic books were marketed by "trading on [the brothers'] likenesses and reputations to generate interest in the comic book series." Winter v. DC Comics, 30 Cal. 4th 881, 134 Cal. Rptr. 2d 634, 69 P.3d 473, 479 (Cal. 2003). The court held that considerations of marketing strategy were "irrelevant" because the "question is whether the work is transformative, not how it is marketed." Id.

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whether the work sufficiently transforms the celebrity's identity or likeness, thereby allowing courts to account for the fact that misappropriation can occur in any market segment, including those related to the celebrity.

On the other hand, unlike the Predominant Use Test, applying the Transformative Use Test requires a more circumscribed inquiry, focusing on the specific aspects of a work that speak to whether it was merely created to exploit a celebrity's likeness. This test therefore recognizes that if First Amendment protections are to mean anything in right of publicity claims, courts must *begin* by considering the extent to which a work is the creator's own expression.[100]

Additionally, the Transformative Use Test best comports with the cautionary language present in various right of publicity cases. Specifically, we believe that an initial focus on the creative aspects of a work helps address our own concern from Facenda, where we noted that "courts must circumscribe the right of publicity." Facenda, 542 F.3d at 1032. As our discussion below demonstrates, the Transformative Use Test effectively restricts right of publicity claims to a very narrow universe of expressive works. Moreover, we believe that the Transformative Use Test best exemplifies the methodology suggested by Justice Powell's dissent in *Zacchini*:

> Rather than begin with a quantitative analysis of the performer's behavior–is this or is this not his entire act?–we should direct initial attention to the actions of the news media: what use did the station make of the film footage? When a film is used, as here, for a routine portion of a regular news program, I would hold that the First Amendment protects the station from a "right of publicity" or "appropriation" suit, absent a strong showing by the plaintiff that the news broadcast was a subterfuge or cover for private or commercial exploitation.

Zacchini, 433 U.S. at 581 (Powell, J., dissenting). Consistent with Justice Powell's argument, the Transformative Use Test begins by asking "what use did the [defendant] make of the [celebrity identity]?" Id.[101]

Finally, we find that of the three tests, the Transformative Use Test is the most consistent with other courts' ad hoc approaches to right of publicity cases. For example, a majority of the Supreme Court of California in *Guglielmi v. Spelling-Goldberg Productions* argued[102] that the

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[100]While we acknowledge that the test in *Comedy III* included a question as to whether the "marketability and economic value of [the work] derive primarily from the fame of the celebrities depicted," *Comedy III*, 21 P.3d at 810, we note that this is a secondary question. The court in *Comedy III* rightly recognized that the balancing inquiry suggested by the Supreme Court in *Zacchini* cannot start and stop with commercial purpose or value.

[101]While the Predominant Use Test may appear to accomplish the same task, we think it does not. In point of fact, it merely looks to the expressive "value" of a celebrity's identity, not its use, vis-à-vis the challenged work.

[102]The Supreme Court of California affirmed the lower court's decision to dismiss the case without engaging with the right of publicity claim beyond noting that the right "expires upon the death of the person so protected." Guglielmi, 603 P.2d at 455. The Chief Justice's concurring opinion, joined by a majority of the court, provided a full analysis of the issue, and in subsequent years has been treated as the Court's majority opinion. See Comedy III, 21 P.3d at 803 (citing the *Guglielmi* concurrence while noting that "[a] majority of this court" had agreed to its reasoning); see also Guglielmi, 603 P.2d at 464 (Newman, J., concurring) ("I concur in the discussion in the Chief Justice's opinion that sets forth principles for determining whether an action based on the invasion of an

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"fictionalized version" of a late actor's life, "depicting the actor's name, likeness and personality without obtaining . . . prior consent" was entitled to protection from a right of publicity claim. 603 P.2d at 455, 457-59.[103] In essence, the actor's identity was sufficiently transformed by the fictional elements in the book so as to tip the balance of interests in favor of the First Amendment. See id. at 457 (Bird, C.J., concurring). Likewise, in Estate of Presley v. Russen, 513 F. Supp. 1339 (D.N.J. 1981), the United States District Court for the District of New Jersey held that an Elvis impersonator's act was subject to right of publicity claims because "entertainment that is merely a copy or imitation, even if skillfully and accurately carried out, does not really have its *own creative component* and does not have a significant value as pure entertainment." Id. at 1359 (emphasis added). Seen through the lens of the Transformative Use Test, the *Russen* decision demonstrates that where no additional transformative elements are present–i.e., the work contains "merely a copy or imitation" of the celebrity's identity– then there can be no First Amendment impediment to a right of publicity claim.[104] Additionally, in Cardtoons, L.C. v. Major League Baseball Players Ass'n, 95 F.3d 959 (10th Cir. 1996), which focused on the use of baseball players' identities for parody trading cards, the transformative nature of the caricatures on the cards (and the parodic text about the players' "statistics") was sufficient to quash any right of publicity claim. Id. at 972-73 ("Because celebrities are an important part of our public vocabulary, a parody of a celebrity does not merely lampoon the celebrity, but exposes the weakness of the idea or value that the celebrity symbolizes in society.").[105]

It is little wonder, then, that the *Comedy III* decision looked to all three of these cases for guidance in defining the Transformative Use Test. See Comedy III, 21 P.3d at 806-09.[106] The fact that such prior holdings can be reconciled with the Test not only bolsters our views as to its

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individual's right of publicity may be maintained in the face of a claim that the challenged use is an exercise of freedom of expression.").

[103]After noting that the movie was protected despite being a work of fiction that was made for profit, Guglielmi, 603 P.2d at 458-59, Chief Justice Bird rejected the contention that defendants "could have expressed themselves without using [the actor's] name and likeness," arguing that "[n]o author should be forced into creating mythological worlds or characters wholly divorced from reality. The right of publicity derived from public prominence does not confer a shield to ward off caricature, parody and satire. Rather, prominence invites creative comment." Id. at 459-60.

[104]The court's "recognition that defendant's production has some [First Amendment] value," did not diminish its conclusion that "the primary purpose of defendant's activity [was] to appropriate the commercial value of the likeness of Elvis Presley." Russen, 513 F. Supp. at 1360. In this regard the court analogized the case to *Zacchini*, holding that the Elvis impersonator had "appropriated the 'very activity [live stage show] by which [Presley initially] acquired his reputation." Id. at 1361 (alteration in original).

[105]The Tenth Circuit also considered the economic incentives underlying the right of publicity. See Cardtoons, 95 F.3d at 973-74. After a close examination, the court recognized only one principal benefit for celebrities from having control over works of parody: "control over the potential effect the parody would have on the market for nonparodic use of one's identity." Id. at 974. However, the court quickly added that parody "*rarely acts as a market substitute for the original*." Id. As a consequence, the court ruled in favor of the card manufacturer.

[106]We note here that, by our reading, the Transformative Use Test best comports with the language in Restatement (Third) of Unfair Competition § 47 cmt. c. While we acknowledge that other courts have read the Restatement as adopting the *Rogers* Test, we believe that the various examples listed in Comment C all exemplify the sort of transformative uses that would generally pass the analysis set forth in *Comedy III*.

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propriety, but also ensures that adopting the Transformative Use Test does not result in the sort of backward-looking jurisprudential revision that might disturb prior protections for expressive speech.[107] Quite to the contrary, adopting the Test ensures that already-existing First Amendment protections in right of publicity cases apply to video games with the same force as to "biographies, documentaries, docudramas, and other expressive works depicting real-life figures." (Dissent Op. at 173.)

In light of the above discussion, we find that the Transformative Use Test is the proper analytical framework to apply to cases such as the one at bar. Consequently, we now apply the test to the facts of the instance case.

C. Application

In applying the Transformative Use Test to the instant case, we must determine whether Appellant's identity is sufficiently transformed in *NCAA Football*. As we mentioned earlier, we use the term "identity" to encompass not only Appellant's likeness, but also his biographical information. It is the combination of these two parts–which, when combined, identify the digital avatar as an in-game recreation of Appellant–that must be sufficiently transformed.[108]

Having thus cabined our inquiry to the appropriate form of Appellant's identity, we note that– based on the combination of both the digital avatar's appearance and the biographical and identifying information–the digital avatar does closely resemble the genuine article. Not only does the digital avatar match Appellant in terms of hair color, hair style and skin tone, but the avatar's accessories mimic those worn by Appellant during his time as a Rutgers player. The information, as has already been noted, also accurately tracks Appellant's vital and biographical details. And while the inexorable march of technological progress may make some of the graphics in earlier editions of *NCAA Football* look dated or overly-computerized, we do not believe that video game graphics must reach (let alone cross) the uncanny valley to support a right of publicity claim.[109] If we are to find some transformative element, we must look somewhere other than just the in-game digital recreation of Appellant.[110] Cases such as *ETW*

[107]Indeed, in compiling its non-exhaustive list of "transformative elements or creative components," the *Comedy III* court looked for examples from previous decisions–including *Guglielmi*, *Cardtoons*, and even *Parks*. See Comedy III, 21 P.3d at 809-10.

[108]This joint focus on both likeness and identifying information avoids a conflict with C.B.C. Distribution & Mktg., Inc. v. Major League Baseball Advanced Media, L.P., 505 F.3d 818 (8th Cir. 2007), which held that use of major league baseball players' records in a fantasy baseball game was protected by the First Amendment even against right of publicity claims because such information was publicly available. Id. at 823-24. The presence of a digital avatar that recreates Appellant in a digital medium differentiates this matter from *C.B.C.*

[109]It remains an open question, however, whether right of publicity claims can extend into the bygone days of 8-bit graphics and pixilated representations.

[110]It is no answer to say that digitizing Appellant's appearance in and of itself works a transformative use. Recreating a celebrity's likeness or identity in some medium other than photographs or video cannot, without more, satisfy the test; this would turn the inquiry on its head–and would contradict the very basis for the Transformative Use Test. See, e.g., Comedy III, 21 P.3d at 809 (applying the Transformative Use Test to charcoal drawings of the Three Stooges); see also Estate of Presley v. Russen, 513 F. Supp. 1339, 1359 (D.N.J. 1981) ("[E]ntertainment that is merely a copy or imitation, even if skillfully and accurately carried out, does not really have its own creative component and does not have a significant value as pure entertainment.").

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and *No Doubt*, both of which address realistic digital depictions of celebrities, point to the next step in our analysis: context.

Considering the context within which the digital avatar exists–effectively, looking at how Appellant's identity is "incorporated into and transformed by" NCAA Football, (Dissent Op. at 173)–provides little support for Appellee's arguments. The digital Ryan Hart does what the actual Ryan Hart did while at Rutgers: he plays college football, in digital recreations of college football stadiums, filled with all the trappings of a college football game. This is not transformative; the various digitized sights and sounds in the video game do not alter or transform the Appellant's identity in a significant way. See No Doubt, 122 Cal. Rptr. 3d at 410-11 ("[N]o matter what else occurs in the game during the depiction of the No Doubt avatars, the avatars perform rock songs, the same activity by which the band achieved and maintains its fame."). Indeed, the lack of transformative context is even more pronounced here than in *No Doubt*, where members of the band could perform and sing in outer space.

Even here, however, our inquiry is not at an end. For as much as the digital representation and context evince no meaningful transformative element in *NCAA Football*, a third avatar-specific element is also present: the users' ability to alter the avatar's appearance. This distinguishing factor ensures that we cannot dispose of this case as simply as the court in *No Doubt*. See No Doubt, 122 Cal. Rptr. 3d at 410 (noting that the digital avatars representing No Doubt were "at all times immutable images of the real celebrity musicians"). Indeed, the ability for users to change the avatar accounted, in large part, for the District Court's deciding that *NCAA Football* satisfied the Transformative Use Test. See Hart, 808 F. Supp. 2d at 785.[111] We must therefore consider to what extent the ability to alter a digital avatar represents a transformative use of Appellant's identity.

At the outset, we note that the mere presence of this feature, without more, cannot satisfy the Transformative Use Test. True, interactivity is the basis upon which First Amendment protection is granted to video games in the first instance.[112] See Brown, 131 S. Ct. at 2733. However, the balancing test in right of publicity cases does not look to whether a particular work loses First Amendment protection. Rather, the balancing inquiry looks to see whether the interests protected by the right of publicity are sufficient to surmount the already-existing First Amendment protections. See, e.g., Guglielmi, 603 P.2d at 458 (considering whether right of

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[111]To be clear, the District Court focused specifically on the *ability* to alter the digital avatars, not on the alterations themselves:

> [I]t is not the user's alteration of Hart's image that is critical. What matters for my analysis of EA's First Amendment right is that EA created the mechanism by which the virtual player may be altered, as well as the multiple permutations available for each virtual player image.

Hart, 808 F. Supp. 2d at 785. That is, the court below did not look to the users' creations as proxies for Appellee's expression. While we disagree with its final decision, we agree with the District Court's careful navigation of this point.

[112]We note, too, that all games are interactive–that is a product of the medium. Identifying an interactive feature that acts upon the celebrity's likeness, therefore, is only the *first step* in the analysis.

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publicity protections "outweigh[] any protection [the] expression would otherwise enjoy under the [First Amendment]"). As *Zacchini* demonstrated, the right of publicity can triumph even when an essential element for First Amendment protection is present. In that case, the human cannonball act was broadcast *as part of the newscast*. See Zacchini, 433 U.S. at 563. To hold, therefore, that a video game should satisfy the Transformative Use Test simply because it includes a particular interactive feature would lead to improper results. Interactivity cannot be an end onto itself.[113]

Moreover, we are wary of converting the ability to alter a digital avatar from mere feature to talisman, thereby opening the door to cynical abuse. If the mere presence of the feature were enough, video game companies could commit the most blatant acts of misappropriation only to absolve themselves by including a feature that allows users to modify the digital likenesses. We cannot accept that such an outcome would adequately balance the interests in right of publicity cases. As one amicus brief noted:

> [U]nder [Appellee's] application of the transformative test [sic], presumably no infringement would be found if individuals such as the Dalai Lama and the Pope were placed within a violent "shoot-em-up" game, so long as the game include[d] a "mechanism" by which the user could manipulate their characteristics.

(Screen Actors Guild, Inc. et al., Amicus Br. at 21.[114]) With this concern in mind, therefore, we consider whether the type and extent of interactivity permitted is sufficient to transform the Appellant's likeness into the Appellee's own expression. We hold that it does not.

In *NCAA Football*, Appellee seeks to create a realistic depiction of college football for the users. Part of this realism involves generating realistic representations of the various college teams–which includes the realistic representations of the players. Like Activision in *No Doubt*, therefore, Appellee seeks to capitalize on the respective fan bases for the various teams and players. Indeed, as the District Court recognized, "it seems ludicrous to question whether video game consumers enjoy and, as a result, purchase more EA-produced video games as a result of the heightened realism associated with actual players." Hart, 808 F. Supp. 2d at 783 (quoting James J.S. Holmes & Kanika D. Corley, Defining Liability for Likeness of Athlete Avatars in Video Games, L.A. LAW., May 2011, at 17, 20). Moreover, the realism of the games–including the depictions and recreations of the players–appeals not just to home-team fans, but to bitter rivals as well. Games such as *NCAA Football* permit users to recreate the setting of a bitter defeat and, in effect, achieve some cathartic readjustment of history; realistic depictions of the players are a necessary element to this.[115] That Appellant's likeness is the default position only

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[113]The other side of this coin is equally true: interactivity is not the sine qua non of transformative use. Works involving video games may still be transformative even where no specific interactive features affect the celebrity likeness. See, e.g., Kirby v. Sega of Am., Inc., 144 Cal. App. 4th 47, 50 Cal. Rptr. 3d 607 (Cal. Ct. App. 2006).

[114]We do not discount the possibility that such a game–given the juxtaposition of spiritual leaders and the hyper violence of certain modern video games–could still pass the Transformative Use Test on other grounds.

[115]We set aside the "Dynasty" and "Campus Legends" game modes in this inquiry. We see no legally significant difference between these modes and the ability in Band Hero to select alternative avatars to represent the

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serves to support our conclusion that realistic depictions of the players are the "sum and substance" of these digital facsimiles.[116] See Kirby, 50 Cal. Rptr. 3d at 617-18. Given that Appellant's unaltered likeness is central to the core of the game experience, we are disinclined to credit users' ability to alter the digital avatars in our application of the Transformative Use Test to this case.

We are likewise unconvinced that *NCAA Football* satisfies the Transformative Use Test because Appellee created various in-game assets to support the altered avatars (e.g., additional hair styles, faces, accessories, et al.). In the first instance, the relationship between these assets and the digital avatar is predicated on the users' desire to alter the avatar's appearance, which, as we have already noted, is insufficient to satisfy the Test. The ability to make minor alterations–which substantially maintain the avatar's resemblance to Appellant (e.g., modifying only the basic biographical information, playing statistics, or uniform accessories)–is likewise insufficient, for "[a]n artist depicting a celebrity must contribute something more than a 'merely trivial' variation." Winter, 69 P.3d at 478-79. Indeed, the ability to modify the avatar counts for little where the appeal of the game lies in users' ability to play "as, or alongside" their preferred players or team. See No Doubt, 122 Cal. Rptr. 3d at 411. Thus, even avatars with superficial modifications to their appearance can count as a suitable proxy or market "substitute" for the original. See Comedy III, 21 P.3d at 808; Winter, 69 P.3d at 479; Cardtoons, 95 F.3d at 974. For larger potential changes, such as a different body type, skin tone, or face, Appellant's likeness is not transformed; it simply ceases to be. Therefore, once a user has made major changes to the avatar, it no longer represents Appellant, and thus it no longer qualifies as a "use" of the Appellant's identity for purposes of our inquiry. Such possibilities therefore fall beyond our inquiry into how *Appellant's likeness* is used in *NCAA Football*. That the game may lend itself to uses wholly divorced from the appropriation of Appellant's identity is insufficient to satisfy the Transformative Use Test. See No Doubt, 192 Cal. App. 4th 1018, 122 Cal. Rptr. 3d 397 (focusing on the use of the No Doubt avatars, not alternative avatars or custom-made characters).

In an attempt to salvage its argument, Appellee suggests that other creative elements of *NCAA Football*, which do not affect Appellant's digital avatar, are so numerous that the videogames should be considered transformative. We believe this to be an improper inquiry. Decisions applying the Transformative Use Test invariably look to how the *celebrity's identity* is used in or is altered by other aspects of a work. Wholly unrelated elements do not bear on this inquiry. Even *Comedy III*, in listing potentially "transformative or creative contributions" focused on elements or techniques that affect the celebrity identity. See Comedy III, 21 P.3d at 809 (discussing factual reporting, fictionalized portrayal, heavy-handed lampooning, and subtle social criticism); see also Winter, 69 P.3d at 478-79 (noting that "[a]n artist depicting a celebrity must contribute something more than a 'merely trivial' variation" before proceeding to discuss

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players or to allow members of No Doubt to play with other bands or sing other musicians' songs. See No Doubt, 122 Cal. Rptr. 3d at 401.

[116]Admittedly, just as the presence of a photorealistic depiction of a celebrity cannot be the end of the inquiry, the mere fact that Appellant's likeness is the default appearance of the avatar cannot, without more, end our analysis. It is merely another factor to consider in the balancing exercise.

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how the Winter brothers' likenesses were altered directly and through context); Kirby, 50 Cal. Rptr. 3d at 616-18. To the extent that any of these cases considered the broader context of the work (e.g., whether events took place in a "fanciful setting"), this inquiry was aimed at determining whether this context acted upon the celebrity identity in a way that transformed it or imbued it with some added creativity beyond providing a "merely trivial variation."[117] Thus, while we recognize the creative energies necessary for crafting the various elements of *NCAA Football* that are not tied directly to reality, we hold that they have no legal significance in our instant decision.

* * * * *

IV. Conclusion

We therefore hold that the *NCAA Football 2004*, *2005* and *2006* games at issue in this case do not sufficiently transform Appellant's identity to escape the right of publicity claim and hold that the District Court erred in granted summary judgment in favor of Appellee.[118] While we do hold that the only apparent use of Appellant's likeness in *NCAA Football 2009* (the photograph) is protected by the First Amendment, Appellant's overall claim for violation of his right of publicity should have survived Appellee's motion for summary judgment. Consequently, we need not address Appellant's desire for additional discovery. We shall reverse the District Court's grant of summary judgment and remand this case back to the court below for further proceedings consistent with this opinion.

[E] Limitations: Life Story Rights/Waivers/Releases

USAGE: On page 520, ADD the following case after *Kelly v. William Morrow & Co.*:

BOSLEY v. WILDWETT.COM

310 F. Supp. 2d 914 (N.D. Ohio 2004)

GWIN, District Judge.

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[117]As we have already discussed, the broader context of NCAA Football does not transform Appellant's likeness into anything other than a digital representation of Appellant playing the sport for which he is known, while surrounded by the trappings of real-world competition.

[118]There can be no doubt that video games such as *NCAA Football* are the product of great effort, skill, and creative and technical prowess. As the Supreme Court noted in Brown, video games convey messages and expressive content in a way that is similar to prior media for expression. Brown v. Entm't Merchs. Ass'n, 131 S. Ct. 2729, 2733 (2011). At the same time, games open new avenues through which artists and speakers can express their opinions and observations–by playing the game, a user is integrated into the expressive work in a way that has never before been achieved. Surely, then, the First Amendment protects video games in the first instance, and nothing in our decision today should be read to diminish this fact. Rather, our inquiry looked to whether other interests may surmount the First Amendment protection–as they can surmount protections for other modes of expression. In finding that NCAA Football failed to satisfy the Transformative Use Test, we do not hold that the game loses First Amendment protection. We merely hold that the interest protected by the right of publicity in this case outweighs the Constitutional shield.

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Pending before the Court is Plaintiffs' motion for a preliminary injunction. For the reasons described below, the Court grants the motion, and requires that Plaintiffs post a bond of one hundred dollars ($100).

I. BACKGROUND

Plaintiff Catherine Balsley (known in the reporting business as "Catherine Bosley") previously worked as a television news reporter for WKBN, Channel 27, the CBS television affiliate in Youngstown, Ohio. She worked for WKBN as a news anchor for approximately ten years, leading to her status as regional celebrity.

In March of 2003, while she was on vacation, Plaintiff Bosley and her husband went to a Florida nightclub. On that night, the nightclub held a "wet t-shirt" contest. Plaintiff Bosley participated. While participating in the contest, Plaintiff Bosley removed her clothing. Plaintiffs assert that, without notice, or consent, Dream Girls Inc. ("Dream Girls") videotaped Plaintiff Bosley's performance for publication and reproduction in the form of videos and DVDs. Dream Girls is a video production company based out of Tampa, Florida. Jim Faile, President of Dream Girls, describes the productions of Dream Girls as being similar to *Girls Gone Wild.*

Since the incident, images of the Plaintiff have been displayed on the internet through a series of web sites, advertising pictures and videos of the "naked anchor woman." In May of 2003, Defendant Dream Girls, d/b/a DreamGirlsVideos.com, released a video of the wet t-shirt contest, entitled "Dream Girls' Spring Break 2003, volume one." Thereafter, Defendant Dream Girls, d/b/a WildWetT.com, released a second version of the video, emphasizing the appearance of Catherine Bosley or the "naked anchor woman" on the tape.

The Spring Break 2003 video displays wet t-shirt contests, with no commentary or script other than the emcee soliciting contestants to take their clothes off. The WildWett video shows the wet t-shirt contest that Bosley participated in, a montage of pictures of Bosley in various states of undress, and additional film clips of women (not Bosley) masturbating and engaging in other sexual acts. Again, the tapes have no plot or commentary apart from pictures of naked women engaged in sexual acts or displays.

On February 5, 2004, Marvad Corporation ("Marvad"), d/b/a SexBrat.com, states that it obtained a license of the video of Plaintiff Bosley's performance from Defendant Dream Girls (collectively "Defendants"). SexBrat.com is a website involved in the distribution of adult entertainment material through a subscription service on the Internet. Defendant Marvad allowed members who paid the SexBrat.com membership fee ($ 37.12 per month) to see portions of Plaintiff Bosley's performance, as well as other images available on the "members only" portion of their website.

For a period of time, website searches related to Catherine Bosley outnumbered those related to Paris Hilton as the most popular search on the World Wide Web. Indeed, Defendant

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Marvad reports a significantly greater number of hits during the time it presented the images of Plaintiff Bosley. For example, on February 23, 2004, there were 9,457 hits on SexBrat.com. Yet, on February 24, 2004, the day after the images of Plaintiff Bosley were posted, there were 111,663 hits on SexBrat.com. The number of hits subsequently diminished.

Finally, Plaintiffs claim that Defendants, especially Defendants Marvad and Dream Girls, used depictions of her as an advertisement to promote the sexually-related materials marketed by Defendants. Plaintiff Bosley asserts that she did not give her consent for such an endorsement.

Due to the publicity generated by this incident, in December of 2003, Plaintiff Bosley resigned from her position as an anchor at WKBN. Plaintiff Bosley asserts that Defendants' unauthorized use of her image caused her employer to request that she resign. In addition, she says that Defendants' continued use of her image prevents other employment in the television news field, the only career she has had.

On March 8, 2004, this Court issued a temporary restraining order ("TRO"), prohibiting Defendants from selling the video of Plaintiff Bosley's performance or otherwise using depictions of Plaintiff Bosley on their websites. On March 19, 2004, the Court issued a revised TRO, clarifying that the TRO only prohibits Defendants from selling images of Plaintiff Bosley or otherwise using images of her to promote the sale of Defendants' sexually-related goods. Importantly, the Court did not enjoin Defendants from mentioning Plaintiff Bosley or engaging in a public discourse about the incident in question. For example, the Court clarified that Defendants could post on their websites links to newspaper articles about the Bosley incident.

On March 24, 2002, the Sixth Circuit issued a stay with regard to the TRO. This Court proceeded to consider Plaintiffs' motion for a preliminary injunction. On March 29, 2004, the Court concluded its hearing with respect to the preliminary injunction. The Court now rules on the merits of that motion.

II. LEGAL STANDARD AND ANALYSIS

The Court applies the traditional four-part test for determining whether a preliminary injunction under Fed.R.Civ.P. 65(a) is appropriate: (1) whether there is a substantial likelihood of success on the merits, (2) whether the injunction is necessary to prevent irreparable injury, (3) whether the injury to the plaintiff outweighs any harm to the nonmovant, and (4) whether the injunction would serve the public interest. *In re DeLorean Motor Co.,* 755 F.2d 1223, 1228 (6th Cir.1985). The Court will analyze each factor in turn.

A. Likelihood of Success on the Merits

Plaintiff Bosley alleges that Defendants' sale of the video tape of her performance and Defendants' use of her images of her on their websites violated her statutory and common law rights.[119] To determine if Plaintiffs have established substantial likelihood of success on the

[119]Plaintiff Bosley's spouse, Richard Brown, also joins in this action. Defendant Dream Girls argues that

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merits, this Court delves into the applicable law. Since there is no significant difference between Ohio and Florida law as to the issues of concern at this stage of the litigation, the Court does not find it necessary to engage in a choice of law analysis at this time.[120]

1. Applicable Law

* * * * *

Ohio and Florida statutes protect one's right of publicity, stating that an individual has the right to own, protect, and commercially exploit his or her own name, likeness, or persona. This right has its roots in the fourth type of invasion of privacy described above--appropriation of one's name or likeness. *Id.* In establishing a statutory right to publicity, Ohio Revised Code § 2741.02 provides, in pertinent part:

> (A) Except as otherwise provided in this section, a person shall not use any aspect of an individual's persona for a commercial purpose during the individual's lifetime or for a period of sixty years after the date of the individual's death.
> (B) A person may use an individual's persona for a commercial purpose during the individual's lifetime if the person first obtains the written consent to use the individual's persona from a person specified in section 2741.05 of the Revised Code.

OHIO REV. CODE § 2741.02. Meanwhile, Florida Statute § 540.08 provides, in pertinent part:

> (1) No person shall publish, print, display or otherwise publicly use for purposes of trade or for any commercial or advertising purpose the name, portrait, photograph, or other likeness of any natural person without the express written or oral consent ...

FLA. STAT. § 540.08. It is notable that Plaintiff Bosley's rights under either the Ohio or the Florida statute deal with challenging "commercial" uses of her image.

* * * * *

Applying statutory and common law, at first blush, Plaintiff Bosley's assertions create a substantial likelihood of success on the merits. Plaintiff Bosley avers that she gave no written or oral permission for the use of her likeness. The Defendants come forward with no strong

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Plaintiffs have not established a loss of consortium claim. However, the matter is not directly before the Court at this stage of the proceedings. The Court reserves discussion of the matter for the dispositive motion stage.

[120]It is notable that Ohio law only accepts written consent to authorize the use of one's persona, whereas Florida law accepts either written or oral consent. However, as described *infra,* this difference in the statutes would not affect the outcome of the Court's decision.

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evidence that she did. Plaintiff Bosley alleges that Defendants sold, and promoted for sale, images of her performance. Further, Plaintiff Bosley claims that Defendants used images of her to promote the sale of Defendants' other sexually-related goods.

* * * * *

5. Consent

Additionally, Defendant Dream Girls alleges that Plaintiff Bosley consented to the commercial use of her likeness or image. Defendants state that there were signs posted around the dressing room, stage, entrances, and exits notifying participants about the future commercial use of their image:

> "NOTICE: The event you have entered is being filmed by a video production company. By entering the 'stage' beyond this sign, you are hereby consenting and agreeing to your picture and image being used for any reproduction of any type and sale without any further compensation."

Defendant Dream Girl claims that the emcee of the contest at issue, Mr. James Hayden, announced for the loudspeaker that the event was being filmed for a Dream Girls production.

Defendant Dream Girl comes forward with strong evidence that Plaintiff Bosley impliedly consented to being photographed. Dream Girl shows a large number of pictures with Bosley positioned within feet of Dream Girl's camera and looking directly into the camera's lens. Given the relatively large size of the camera, Dream Girls shows evidence that Bosley impliedly consented to being photographed.

However, this does not constitute a defense under the law. Assuming arguendo that the more lenient Florida standard for consent applies, Defendants, at the very least, must establish *explicit* oral consent from the plaintiff. See FLA. STAT. § 540.08. Tacit consent is not sufficient as a matter of law. The face of the statute specifically requires "*express* written or oral consent." FLA. STAT. § 540.08(1) (emphasis added). See, Restatement (Third) of Unfair Competition, § 46, cmt. f (1995) ("*In the absence of an applicable statute* requiring consent in writing, consent can also be implied from conduct or inaction reasonably interpreted as manifesting consent.")

Defendant Dream Girls argues that "Florida case law interpreting the statute relaxes" the requirements of the statute, citing to *Lane,* 242 F. Supp. 2d 1205. (Def. Dream Girls br. at 18). In *Lane,* individuals with a video camera requested two minor girls expose themselves in exchange for beaded necklaces. *Id.* at 1209. The minors agreed and the individuals filmed the encounter. Before the minors removed their clothing, Lane's companion noted that, in a similar incident, she had been photographed at Mardi Gras and the pictures had been published in *Maxim,* a popular men's magazine. Subsequent to the encounter, Lane began seeing images of herself on *Girls Gone Wild* advertisements. As a result, Lane brought suit alleging, in part, a violation of her right to publicity. Lane alleged that she consented to the filming for the camera man's personal use, but was unaware that she would become part of productions like *Girls Gone*

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Wild. Id. at 1220.

The Middle District of Florida found that "no reasonable jury could conclude that Lane's consent limited the viewing ..." *Id.* The Court emphasized the fact that Lane's companion had put her on notice that the cameramen might use the images for commercial use. *Id.* Thus, the Court held that there was no dispute of fact that Lane had consented to the broad use of her images.

Lane differs from the present case. In *Lane,* there was no dispute of fact that the plaintiff expressly consented to being video taped. In contrast, Plaintiff Bosley asserts that she did not view any video cameras or otherwise receive notice that Dream Girls filmed the contest. Therefore, *Lane* merely dealt with the narrow issue of how far-reaching the plaintiff's consent was once given: Did the consent to be video taped extend to all foreseeable uses of that video tape? The *Lane* court answered that question affirmatively. Meanwhile, the present matter deals with a much more fundamental question: Did the Plaintiff Bosley consent to be video taped?

Moreover, the holding in *Lane* does not trump Florida statutory law. As a procedural matter, this Court notes that it may not rely on a case out of the Middle District of Florida to determine the status of Florida law. Rather, only the decisions of the Florida Supreme Court are determinative. The Court especially proceeds with caution, in a situation such as this, where defense counsel argues for an interpretation of the law which directly contradicts the language of the statute. In the absence of any compelling evidence to the contrary, this Court holds that the requirement of "express written or oral consent" FLA. STAT. § 540.08(1) means just what it says. Tacit consent is insufficient as a matter of law.

The Court is similarly unpersuaded by Defendant Dream Girls' argument that one's right to publicity is somehow confined to areas where one has a reasonable expectation of privacy. Defendant argues that consent to the commercial use of one's persona somehow can be presumed in areas where one does not have an expectation of privacy. As described, *supra,* the United States Supreme Court has flatly rejected this proposition. *Zacchini,* 433 U.S. 562.

* * * * *

III. CONCLUSION AND ORDER

The Court hereby enjoins Defendants from selling, distributing for sale, promoting for sale, or placing on "members only" websites any and all images of Plaintiff Catherine Bosley, in the form of videotapes, DVD recordings, pictures, photographs, or other likeness or depiction of Plaintiff Bosley. The Court enjoins Defendants Dream Girls and Marvad from using any other image, picture, photograph, likeness, or depiction of Plaintiff Bosley in a manner which promotes the sale of Defendants' goods or services.

IT IS SO ORDERED.

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§ 3.02 Intellectual Property Rights

[A] Copyright

[4] Exclusive Rights

USAGE: On page 587, ADD the following cases after *Download Derby Pits Studios vs. Vidtailers*:

CARTOON NETWORK LP, LLLP v. CSC HOLDINGS, INC.
536 F.3d 121 (2d Cir. 2008)

JOHN M. WALKER, JR., Circuit Judge:

Defendant–Appellant Cablevision Systems Corporation ("Cablevision") wants to market a new "Remote Storage" Digital Video Recorder system ("RS–DVR"), using a technology akin to both traditional, set-top digital video recorders, like TiVo ("DVRs"), and the video-on-demand ("VOD") services provided by many cable companies. Plaintiffs–Appellees produce copyrighted movies and television programs that they provide to Cablevision pursuant to numerous licensing agreements. They contend that Cablevision, through the operation of its RS–DVR system as proposed, would directly infringe their copyrights both by making unauthorized reproductions, and by engaging in public performances, of their copyrighted works. The material facts are not in dispute. Because we conclude that Cablevision would not directly infringe plaintiffs' rights under the Copyright Act by offering its RS–DVR system to consumers, we reverse the district court's award of summary judgment to plaintiffs, and we vacate its injunction against Cablevision.

BACKGROUND

Today's television viewers increasingly use digital video recorders ("DVRs") instead of video cassette recorders ("VCRs") to record television programs and play them back later at their convenience. DVRs generally store recorded programming on an internal hard drive rather than a cassette. But, as this case demonstrates, the generic term "DVR" actually refers to a growing number of different devices and systems. Companies like TiVo sell a stand-alone DVR device that is typically connected to a user's cable box and television much like a VCR. Many cable companies also lease to their subscribers "set-top storage DVRs," which combine many of the functions of a standard cable box and a stand-alone DVR in a single device.

In March 2006, Cablevision, an operator of cable television systems, announced the advent of its new "Remote Storage DVR System." As designed, the RS–DVR allows Cablevision customers who do not have a stand-alone DVR to record cable programming on central hard drives housed and maintained by Cablevision at a "remote" location. RS–DVR customers may then receive playback of those programs through their home television sets, using only a remote control and a standard cable box equipped with the RS–DVR software.

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Cablevision notified its content providers, including plaintiffs, of its plans to offer RS–DVR, but it did not seek any license from them to operate or sell the RS–DVR.

Plaintiffs, which hold the copyrights to numerous movies and television programs, sued Cablevision for declaratory and injunctive relief. They alleged that Cablevision's proposed operation of the RS–DVR would directly infringe their exclusive rights to both reproduce and publicly perform their copyrighted works. Critically for our analysis here, plaintiffs alleged theories only of direct infringement, not contributory infringement, and defendants waived any defense based on fair use.

Ultimately, the United States District Court for the Southern District of New York (Denny Chin, Judge), awarded summary judgment to the plaintiffs and enjoined Cablevision from operating the RS–DVR system without licenses from its content providers. See Twentieth Century Fox Film Corp. v. Cablevision Sys. Corp. (Cablevision I), 478 F. Supp. 2d 607 (S.D.N.Y.2007). At the outset, we think it helpful to an understanding of our decision to describe, in greater detail, both the RS–DVR and the district court's opinion.

I. Operation of the RS–DVR System

Cable companies like Cablevision aggregate television programming from a wide variety of "content providers"—the various broadcast and cable channels that produce or provide individual programs—and transmit those programs into the homes of their subscribers via coaxial cable. At the outset of the transmission process, Cablevision gathers the content of the various television channels into a single stream of data. Generally, this stream is processed and transmitted to Cablevision's customers in real time. Thus, if a Cartoon Network program is scheduled to air Monday night at 8pm, Cartoon Network transmits that program's data to Cablevision and other cable companies nationwide at that time, and the cable companies immediately re-transmit the data to customers who subscribe to that channel.

Under the new RS–DVR, this single stream of data is split into two streams. The first is routed immediately to customers as before. The second stream flows into a device called the Broadband Media Router ("BMR"), id. at 613, which buffers the data stream, reformats it, and sends it to the "Arroyo Server," which consists, in relevant part, of two data buffers and a number of high-capacity hard disks. The entire stream of data moves to the first buffer (the "primary ingest buffer"), at which point the server automatically inquires as to whether any customers want to record any of that programming. If a customer has requested a particular program, the data for that program move from the primary buffer into a secondary buffer, and then onto a portion of one of the hard disks allocated to that customer. As new data flow into the primary buffer, they overwrite a corresponding quantity of data already on the buffer. The primary ingest buffer holds no more than 0.1 seconds of each channel's programming at any moment. Thus, every tenth of a second, the data residing on this buffer are automatically erased and replaced. The data buffer in the BMR holds no more than 1.2 seconds of programming at any time. While buffering occurs at other points in the operation of the RS–DVR, only the BMR buffer and the primary ingest buffer are utilized absent any request from an individual subscriber.

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As the district court observed, “the RS–DVR is not a single piece of equipment,” but rather “a complex system requiring numerous computers, processes, networks of cables, and facilities staffed by personnel twenty-four hours a day and seven days a week.” Id. at 612. To the customer, however, the processes of recording and playback on the RS–DVR are similar to that of a standard set-top DVR. Using a remote control, the customer can record programming by selecting a program in advance from an on-screen guide, or by pressing the record button while viewing a given program. A customer cannot, however, record the earlier portion of a program once it has begun. To begin playback, the customer selects the show from an on-screen list of previously recorded programs. See id. at 614–16. The principal difference in operation is that, instead of sending signals from the remote to an on-set box, the viewer sends signals from the remote, through the cable, to the Arroyo Server at Cablevision's central facility. See id. In this respect, RS–DVR more closely resembles a VOD service, whereby a cable subscriber uses his remote and cable box to request transmission of content, such as a movie, stored on computers at the cable company's facility. Id. at 612. But unlike a VOD service, RS–DVR users can only play content that they previously requested to be recorded.

Cablevision has some control over the content available for recording: a customer can only record programs on the channels offered by Cablevision (assuming he subscribes to them). Cablevision can also modify the system to limit the number of channels available and considered doing so during development of the RS–DVR. Id. at 613.

II. The District Court's Decision

In the district court, plaintiffs successfully argued that Cablevision's proposed system would directly infringe their copyrights in three ways. First, by briefly storing data in the primary ingest buffer and other data buffers integral to the function of the RS–DVR, Cablevision would make copies of protected works and thereby directly infringe plaintiffs' exclusive right of reproduction under the Copyright Act. Second, by copying programs onto the Arroyo Server hard disks (the “playback copies”), Cablevision would again directly infringe the reproduction right. And third, by transmitting the data from the Arroyo Server hard disks to its RS–DVR customers in response to a “playback” request, Cablevision would directly infringe plaintiffs' exclusive right of public performance. See id. at 617. Agreeing with all three arguments, the district court awarded summary declaratory judgment to plaintiffs and enjoined Cablevision from operating the RS–DVR system without obtaining licenses from the plaintiff copyright holders.

As to the buffer data, the district court rejected defendants' arguments 1) that the data were not “fixed” and therefore were not “copies” as defined in the Copyright Act, and 2) that any buffer copying was de minimis because the buffers stored only small amounts of data for very short periods of time. In rejecting the latter argument, the district court noted that the “aggregate effect of the buffering” was to reproduce the entirety of Cablevision's programming, and such copying “can hardly be called de minimis.” Id. at 621.

On the issue of whether creation of the playback copies made Cablevision liable for direct infringement, the parties and the district court agreed that the dispositive question was “who makes the copies”? Id. at 617. Emphasizing Cablevision's “unfettered discretion” over the

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content available for recording, its ownership and maintenance of the RS–DVR components, and its "continuing relationship" with its RS–DVR customers, the district court concluded that "the copying of programming to the RS–DVR's Arroyo servers ... would be done not by the customer but by Cablevision, albeit at the customer's request." Id. at 618, 620, 621. . . .

Finding that the operation of the RS–DVR would infringe plaintiffs' copyrights, the district court awarded summary judgment to plaintiffs and enjoined Cablevision from copying or publicly performing plaintiffs' copyrighted works "in connection with its proposed RS–DVR system," unless it obtained the necessary licenses. Cablevision I, 478 F. Supp. 2d at 624. Cablevision appealed.

DISCUSSION

We review a district court's grant of summary judgment de novo. Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 607 (2d Cir.2006).

"Section 106 of the Copyright Act grants copyright holders a bundle of exclusive rights...." Id. at 607–08. This case implicates two of those rights: the right "to reproduce the copyrighted work in copies," and the right "to perform the copyrighted work publicly." 17 U.S.C. § 106(1), (4). As discussed above, the district court found that Cablevision infringed the first right by 1) buffering the data from its programming stream and 2) copying content onto the Arroyo Server hard disks to enable playback of a program requested by an RS–DVR customer. In addition, the district court found that Cablevision would infringe the public performance right by transmitting a program to an RS–DVR customer in response to that customer's playback request. We address each of these three allegedly infringing acts in turn.

I. The Buffer Data

It is undisputed that Cablevision, not any customer or other entity, takes the content from one stream of programming, after the split, and stores it, one small piece at a time, in the BMR buffer and the primary ingest buffer. As a result, the information is buffered before any customer requests a recording, and would be buffered even if no such request were made. The question is whether, by buffering the data that make up a given work, Cablevision "reproduce[s]" that work "in copies," 17 U.S.C. § 106(1), and thereby infringes the copyright holder's reproduction right.[1] "Copies," as defined in the Copyright Act, "are material objects ... in which a work is fixed by any method ... and from which the work can be ... reproduced." Id. § 101. The Act also provides that a work is " 'fixed' in a tangible medium of expression when its embodiment ... is sufficiently permanent or stable to permit it to be ... reproduced ... for a period of more than transitory duration." Id. (emphasis added). We believe that this language plainly imposes two distinct but related requirements: the work must be embodied in a medium, i.e., placed in a medium such that it can be perceived, reproduced, etc., from that medium (the "embodiment requirement"), and it must remain thus embodied "for a period of more than transitory duration" (the "duration requirement"). See 2 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.02[B][3], at 8–32 (2007). Unless both requirements are met, the work is not "fixed" in the buffer, and, as a result, the buffer data is not a "copy" of the original work whose data is buffered.

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The district court mistakenly limited its analysis primarily to the embodiment requirement. As a result of this error, once it determined that the buffer data was "[c]learly ... capable of being reproduced," i.e., that the work was embodied in the buffer, the district court concluded that the work was therefore "fixed" in the buffer, and that a copy had thus been made. Cablevision I, 478 F. Supp. 2d at 621–22. In doing so, it relied on a line of cases beginning with MAI Systems Corp. v. Peak Computer Inc., 991 F.2d 511 (9th Cir.1993). It also relied on the United States Copyright Office's 2001 report on the Digital Millennium Copyright Act, which states, in essence, that an embodiment is fixed "[u]nless a reproduction manifests itself so fleetingly that *it cannot be copied*." U.S. Copyright Office, DMCA Section 104 Report 111 (Aug.2001) ("DMCA Report ") (emphasis added), available at http:// www. copyright. gov/ reports/ studies/ dmca/ sec– 104– report– vol– 1. pdf.

The district court's reliance on cases like MAI Systems is misplaced. In general, those cases conclude that an alleged copy is fixed without addressing the duration requirement; it does not follow, however, that those cases assume, much less establish, that such a requirement does not exist. Indeed, the duration requirement, by itself, was not at issue in MAI Systems and its progeny. As a result, they do not speak to the issues squarely before us here: If a work is only "embodied" in a medium for a period of transitory duration, can it be "fixed" in that medium, and thus a copy? And what constitutes a period "of more than transitory duration"?

In *MAI Systems*, defendant Peak Computer, Inc., performed maintenance and repairs on computers made and sold by MAI Systems. In order to service a customer's computer, a Peak employee had to operate the computer and run the computer's copyrighted operating system software. See MAI Sys., 991 F.2d at 513. The issue in MAI Systems was whether, by loading the software into the computer's RAM,FN1 the repairman created a "copy" as defined in § 101. See id. at 517. The resolution of this issue turned on whether the software's embodiment in the computer's RAM was "fixed," within the meaning of the same section. The Ninth Circuit concluded that[121] by showing that Peak loads the software into the RAM and is then able to view the system error log and diagnose the problem with the computer, MAI has adequately shown that the representation created in the RAM is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." Id. at 518 (quoting 17 U.S.C. § 101).

The MAI Systems court referenced the "transitory duration" language but did not discuss or analyze it. The opinion notes that the defendants "vigorously" argued that the program's embodiment in the RAM was not a copy, but it does not specify the arguments defendants made. Id. at 517. This omission suggests that the parties did not litigate the significance of the "transitory duration" language, and the court therefore had no occasion to address it. This is unsurprising, because it seems fair to assume that in these cases the program was embodied in the RAM for at least several minutes.

[121]To run a computer program, the data representing that program must be transferred from a data storage medium (such as a floppy disk or a hard drive) to a form of Random Access Memory ("RAM") where the data can be processed. The data buffers at issue here are also a form of RAM.

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Accordingly, we construe MAI Systems and its progeny as holding that loading a program into a computer's RAM can result in copying that program. We do not read MAI Systems as holding that, as a matter of law, loading a program into a form of RAM always results in copying. Such a holding would read the "transitory duration" language out of the definition, and we do not believe our sister circuit would dismiss this statutory language without even discussing it. It appears the parties in MAI Systems simply did not dispute that the duration requirement was satisfied; this line of cases simply concludes that when a program is loaded into RAM, the embodiment requirement is satisfied—an important holding in itself, and one we see no reason to quibble with here.[122]

At least one court, relying on MAI Systems in a highly similar factual setting, has made this point explicitly. In Advanced Computer Services of Michigan, Inc. v. MAI Systems Corp., the district court expressly noted that the unlicensed user in that case ran copyrighted diagnostic software "for minutes or longer," but that the program's embodiment in the computer's RAM might be too ephemeral to be fixed if the computer had been shut down "within seconds or fractions of a second" after loading the copyrighted program. 845 F. Supp. 356, 363 (E.D. Va. 1994). We have no quarrel with this reasoning; it merely makes explicit the reasoning that is implicit in the other MAI Systems cases. Accordingly, those cases provide no support for the conclusion that the definition of "fixed" does not include a duration requirement. See Webster v. Fall, 266 U.S. 507, 511 (1924) ("Questions which merely lurk in the record, neither brought to the attention of the court nor ruled upon, are not to be considered as having been so decided as to constitute precedents.").

Nor does the Copyright Office's 2001 DMCA Report, also relied on by the district court in this case, explicitly suggest that the definition of "fixed" does not contain a duration requirement. However, as noted above, it does suggest that an embodiment is fixed "[u]nless a reproduction manifests itself so fleetingly that it cannot be copied, perceived or communicated." DMCA Report, supra, at 111. As we have stated, to determine whether a work is "fixed" in a given medium, the statutory language directs us to ask not only 1) whether a work is "embodied" in that medium, but also 2) whether it is embodied in the medium "for a period of more than transitory duration." According to the Copyright Office, if the work is capable of being copied from that medium *for any amount of time*, the answer to both questions is "yes." The problem with this interpretation is that it reads the "transitory duration" language out of the statute.

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[122]The same reasoning also distinguishes this court's opinion in Matthew Bender & Co. v. West Publishing Co., 158 F.3d 693 (2d Cir.1998). Language in that opinion, taken out of context, suggests that the definition of "fixed" imposes only an embodiment requirement: "Under § 101's definition of 'copies,' a work satisfies the fixation requirement when it is fixed in a material object from which it can be perceived or communicated directly or with the aid of a machine." Id. at 702. Like the MAI Systems cases, Matthew Bender only addresses the embodiment requirement: specifically, whether West's copyrighted arrangement of judicial opinions was "embedded" in a CD–ROM compilation of opinions when the cases were normally arranged differently but could be manipulated by the user to replicate West's copyrighted arrangement. Id. at 703. The opinion merely quotes the duration language without discussing it, see id. at 702; that case therefore does not compel us to conclude that the definition of "fixed" does not impose a duration requirement.

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We assume, as the parties do, that the Copyright Office's pronouncement deserves only *Skidmore* deference, deference based on its "power to persuade." Skidmore v. Swift & Co., 323 U.S. 134, 140 (1944). And because the Office's interpretation does not explain why Congress would include language in a definition if it intended courts to ignore that language, we are not persuaded.

In sum, no case law or other authority dissuades us from concluding that the definition of "fixed" imposes both an embodiment requirement and a duration requirement. Accord CoStar Group Inc. v. LoopNet, Inc., 373 F.3d 544, 551 (4th Cir. 2004) (while temporary reproductions "may be made in this transmission process, they would appear not to be 'fixed' in the sense that they are 'of more than transitory duration' "). We now turn to whether, in this case, those requirements are met by the buffer data.

Cablevision does not seriously dispute that copyrighted works are "embodied" in the buffer. Data in the BMR buffer can be reformatted and transmitted to the other components of the RS–DVR system. Data in the primary ingest buffer can be copied onto the Arroyo hard disks if a user has requested a recording of that data. Thus, a work's "embodiment" in either buffer "is sufficiently permanent or stable to permit it to be perceived, reproduced," (as in the case of the ingest buffer) "or otherwise communicated" (as in the BMR buffer). 17 U.S.C. § 101. The result might be different if only a single second of a much longer work was placed in the buffer in isolation. In such a situation, it might be reasonable to conclude that only a minuscule portion of a work, rather than "a work" was embodied in the buffer. Here, however, where every second of an entire work is placed, one second at a time, in the buffer, we conclude that the work is embodied in the buffer.

Does any such embodiment last "for a period of more than transitory duration"? Id. No bit of data remains in any buffer for more than a fleeting 1.2 seconds. And unlike the data in cases like *MAI Systems*, which remained embodied in the computer's RAM memory until the user turned the computer off, each bit of data here is rapidly and automatically overwritten as soon as it is processed. While our inquiry is necessarily fact-specific, and other factors not present here may alter the duration analysis significantly, these facts strongly suggest that the works in this case are embodied in the buffer for only a "transitory" period, thus failing the duration requirement.

Against this evidence, plaintiffs argue only that the duration is not transitory because the data persist "long enough for Cablevision to make reproductions from them." Br. of Pls.-Appellees the Cartoon Network et al. at 51. As we have explained above, however, this reasoning impermissibly reads the duration language out of the statute, and we reject it. Given that the data reside in no buffer for more than 1.2 seconds before being automatically overwritten, and in the absence of compelling arguments to the contrary, we believe that the copyrighted works here are not "embodied" in the buffers for a period of more than transitory duration, and are therefore not "fixed" in the buffers. Accordingly, the acts of buffering in the operation of the RS–DVR do not create copies, as the Copyright Act defines that term. Our resolution of this issue renders it unnecessary for us to determine whether any copies produced

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by buffering data would be de minimis, and we express no opinion on that question.

II. Direct Liability for Creating the Playback Copies

In most copyright disputes, the allegedly infringing act and the identity of the infringer are never in doubt. These cases turn on whether the conduct in question does, in fact, infringe the plaintiff's copyright. In this case, however, the core of the dispute is over the authorship of the infringing conduct. After an RS–DVR subscriber selects a program to record, and that program airs, a copy of the program—a copyrighted work—resides on the hard disks of Cablevision's Arroyo Server, its creation unauthorized by the copyright holder. The question is *who* made this copy. If it is Cablevision, plaintiffs' theory of direct infringement succeeds; if it is the customer, plaintiffs' theory fails because Cablevision would then face, at most, secondary liability, a theory of liability expressly disavowed by plaintiffs.

Few cases examine the line between direct and contributory liability. Both parties cite a line of cases beginning with Religious Technology Center v. Netcom On–Line Communication Services, 907 F. Supp. 1361 (N.D. Cal. 1995). In Netcom, a third-party customer of the defendant Internet service provider ("ISP") posted a copyrighted work that was automatically reproduced by the defendant's computer. The district court refused to impose direct liability on the ISP, reasoning that "[a]lthough copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party." Id. at 1370. Recently, the Fourth Circuit endorsed the Netcom decision, noting that

> to establish direct liability under ... the Act, something more must be shown than mere ownership of a machine used by others to make illegal copies. There must be actual infringing conduct with a nexus sufficiently close and causal to the illegal copying that one could conclude that the machine owner himself trespassed on the exclusive domain of the copyright owner."

CoStar Group, Inc. v. LoopNet, Inc., 373 F.3d 544, 550 (4th Cir.2004).

Here, the district court pigeon-holed the conclusions reached in Netcom and its progeny as "premised on the unique attributes of the Internet." Cablevision I, 478 F. Supp. 2d at 620. While the Netcom court was plainly concerned with a theory of direct liability that would effectively "hold the entire Internet liable" for the conduct of a single user, 907 F. Supp. at 1372, its reasoning and conclusions, consistent with precedents of this court and the Supreme Court, and with the text of the Copyright Act, transcend the Internet. Like the Fourth Circuit, we reject the contention that "the Netcom decision was driven by expedience and that its holding is inconsistent with the established law of copyright," CoStar, 373 F.3d at 549, and we find it "a particularly rational interpretation of § 106," id. at 551, rather than a special-purpose rule applicable only to ISPs.

When there is a dispute as to the author of an allegedly infringing instance of reproduction, Netcom and its progeny direct our attention to the volitional conduct that causes

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the copy to be made. There are only two instances of volitional conduct in this case: Cablevision's conduct in designing, housing, and maintaining a system that exists only to produce a copy, and a customer's conduct in ordering that system to produce a copy of a specific program. In the case of a VCR, it seems clear—and we know of no case holding otherwise—that the operator of the VCR, the person who actually presses the button to make the recording, supplies the necessary element of volition, not the person who manufactures, maintains, or, if distinct from the operator, owns the machine. We do not believe that an RS–DVR customer is sufficiently distinguishable from a VCR user to impose liability as a direct infringer on a different party for copies that are made automatically upon that customer's command.

The district court emphasized the fact that copying is "instrumental" rather than "incidental" to the function of the RS–DVR system. Cablevision I, 478 F. Supp. 2d at 620. While that may distinguish the RS–DVR from the ISPs in Netcom and CoStar, it does not distinguish the RS–DVR from a VCR, a photocopier, or even a typical copy shop. And the parties do not seem to contest that a company that merely makes photocopiers available to the public on its premises, without more, is not subject to liability for direct infringement for reproductions made by customers using those copiers. They only dispute whether Cablevision is similarly situated to such a proprietor.

The district court found Cablevision analogous to a copy shop that makes course packs for college professors. In the leading case involving such a shop, for example, "[t]he professor [gave] the copyshop the materials of which the coursepack [was] to be made up, and the copyshop [did] the rest." Princeton Univ. Press v. Mich. Document Servs., 99 F.3d 1381, 1384 (6th Cir.1996) (en banc). There did not appear to be any serious dispute in that case that the shop itself was directly liable for reproducing copyrighted works. The district court here found that Cablevision, like this copy shop, would be "doing" the copying, albeit "at the customer's behest." Cablevision I, 478 F. Supp. 2d at 620.

But because volitional conduct is an important element of direct liability, the district court's analogy is flawed. In determining who actually "makes" a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct. In cases like *Princeton University Press*, the defendants operated a copying device and sold the product they made using that device. See 99 F.3d at 1383 ("The corporate defendant ... is a commercial copyshop that reproduced substantial segments of copyrighted works of scholarship, bound the copies into 'coursepacks,' and sold the coursepacks to students...."). Here, by selling access to a system that automatically produces copies on command, Cablevision more closely resembles a store proprietor who charges customers to use a photocopier on his premises, and it seems incorrect to say, without more, that such a proprietor "makes" any copies when his machines are actually operated by his customers. See Netcom, 907 F. Supp. at 1369. Some courts have held to the contrary, but they do not explicitly explain why, and we find them unpersuasive. See, e.g., Elektra Records Co. v. Gem Elec. Distribs., Inc., 360 F. Supp. 821, 823 (E.D.N.Y.1973) (concluding that, "regardless" of whether customers or defendants' employees operated the tape-

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copying machines at defendants' stores, defendant had actively infringed copyrights).

The district court also emphasized Cablevision's "unfettered discretion in selecting the programming that it would make available for recording." Cablevision I, 478 F. Supp. 2d at 620. This conduct is indeed more proximate to the creation of illegal copying than, say, operating an ISP or opening a copy shop, where all copied content was supplied by the customers themselves or other third parties. Nonetheless, we do not think it sufficiently proximate to the copying to displace the customer as the person who "makes" the copies when determining liability under the Copyright Act. Cablevision, we note, also has subscribers who use home VCRs or DVRs (like TiVo), and has significant control over the content recorded by these customers. But this control is limited to the channels of programming available to a customer and not to the programs themselves. Cablevision has no control over what programs are made available on individual channels or when those programs will air, if at all. In this respect, Cablevision possesses far less control over recordable content than it does in the VOD context, where it actively selects and makes available beforehand the individual programs available for viewing. For these reasons, we are not inclined to say that Cablevision, rather than the user, "does" the copying produced by the RS–DVR system. As a result, we find that the district court erred in concluding that Cablevision, rather than its RS–DVR customers, makes the copies carried out by the RS–DVR system.

Our refusal to find Cablevision directly liable on these facts is buttressed by the existence and contours of the Supreme Court's doctrine of contributory liability in the copyright context. After all, the purpose of any causation-based liability doctrine is to identify the actor (or actors) whose "conduct has been so significant and important a cause that [he or she] should be legally responsible." W. Page Keeton et al., Prosser and Keeton on Torts § 42, at 273 (5th ed. 1984). But here, to the extent that we may construe the boundaries of direct liability more narrowly, the doctrine of contributory liability stands ready to provide adequate protection to copyrighted works.

Most of the facts found dispositive by the district court—e.g., Cablevision's "continuing relationship" with its RS–DVR customers, its control over recordable content, and the "instrumental[ity]" of copying to the RS–DVR system, Cablevision I, 478 F. Supp. 2d at 618–20—seem to us more relevant to the question of contributory liability. In Sony Corp. of America v. Universal City Studios, Inc., the lack of an "ongoing relationship" between Sony and its VCR customers supported the Court's conclusion that it should not impose contributory liability on Sony for any infringing copying done by Sony VCR owners. 464 U.S. 417, 437–38 (1984). The *Sony* Court did deem it "just" to impose liability on a party in a "position to control" the infringing uses of another, but as a contributory, not direct, infringer. Id. at 437. And asking whether copying copyrighted material is only "incidental" to a given technology is akin to asking whether that technology has "commercially significant noninfringing uses," another inquiry the *Sony* Court found relevant to whether imposing contributory liability was just. Id. at 442.

The Supreme Court's desire to maintain a meaningful distinction between direct and contributory copyright infringement is consistent with congressional intent. The Patent Act, unlike the Copyright Act, expressly provides that someone who "actively induces infringement

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of a patent" is "liable as an infringer," 35 U.S.C. § 271(b), just like someone who commits the underlying infringing act by "us[ing]" a patented invention without authorization, id. § 271(a). In contrast, someone who merely "sells ... a material or apparatus for use in practicing a patented process" faces only liability as a "contributory infringer." Id. § 271(c). If Congress had meant to assign direct liability to both the person who actually commits a copyright-infringing act and any person who actively induces that infringement, the Patent Act tells us that it knew how to draft a statute that would have this effect. Because Congress did not do so, the Sony Court concluded that "[t]he Copyright Act does not expressly render anyone liable for infringement committed by another." 464 U.S. at 434. Furthermore, in cases like *Sony*, the Supreme Court has strongly signaled its intent to use the doctrine of contributory infringement, not direct infringement, to "identify[ ] the circumstances in which it is just to hold one individual accountable for the actions of another." Id. at 435. Thus, although *Sony* warns us that "the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn," id. at 435 n. 17 (internal quotation marks and citation omitted), that decision does not absolve us of our duty to discern where that line falls in cases, like this one, that require us to decide the question.

The district court apparently concluded that Cablevision's operation of the RS–DVR system would contribute in such a major way to the copying done by another that it made sense to say that Cablevision was a direct infringer, and thus, in effect, was "doing" the relevant copying. There are certainly other cases, not binding on us, that follow this approach. See, e.g., Playboy Enters. v. Russ Hardenburgh, Inc., 982 F. Supp. 503, 513 (N.D. Ohio 1997) (noting that defendant ISP's encouragement of its users to copy protected files was "crucial" to finding that it was a direct infringer). We need not decide today whether one's contribution to the creation of an infringing copy may be so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy. We conclude only that on the facts of this case, copies produced by the RS–DVR system are "made" by the RS–DVR customer, and Cablevision's contribution to this reproduction by providing the system does not warrant the imposition of direct liability. Therefore, Cablevision is entitled to summary judgment on this point, and the district court erred in awarding summary judgment to plaintiffs.

* * * * *

CONCLUSION

For the foregoing reasons, the district court's award of summary judgment to the plaintiffs is REVERSED and the district court's injunction against Cablevision is VACATED. The case is REMANDED for further proceedings consistent with this opinion.

CAPITOL RECORDS, LLC v. REDIGI INC.

2013 U.S. Dist. LEXIS 48043 (S.D.N.Y. 2013)

RICHARD J. SULLIVAN, District Judge.

Capitol Records, LLC ("Capitol"), the recording label for such classic vinyls as Frank

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Sinatra's "Come Fly With Me" and The Beatles' "Yellow Submarine," brings this action against ReDigi Inc. ("ReDigi"), a twenty-first century technology company that touts itself as a "virtual" marketplace for "pre-owned" digital music. What has ensued in a fundamental clash over culture, policy, and copyright law, with Capitol alleging that ReDigi's web-based service amounts to copyright infringement in violation of the Copyright Act of 1976 (the "Copyright Act"), 17 U.S.C. § 101 et seq. Now before the Court are Capitol's motion for partial summary judgment and ReDigi's motion for summary judgment, both filed pursuant to Federal Rule of Civil Procedure 56. Because this is a court of law and not a congressional subcommittee or technology blog, the issues are narrow, technical, and purely legal. Thus, for the reasons that follow, Capitol's motion is granted and ReDigi's motion is denied.

I. BACKGROUND

A. Facts

ReDigi markets itself as "the world's first and only online marketplace for digital used music." Launched on October 13, 2011, ReDigi's website invites users to "sell their legally acquired digital music files, and buy used digital music from others at a fraction of the price currently available on iTunes." Thus, much like used record stores, ReDigi permits its users to recoup value on their unwanted music. Unlike used record stores, however, ReDigi's sales take place entirely in the digital domain.

To sell music on ReDigi's website, a user must first download ReDigi's "Media Manager" to his computer. Once installed, Media Manager analyzes the user's computer to build a list of digital music files eligible for sale. A file is eligible only if it was purchased on iTunes or from another ReDigi user; music downloaded from a CD or other file-sharing website is ineligible for sale. After this validation process, Media Manager continually runs on the user's computer and attached devices to ensure that the user has not retained music that has been sold or uploaded for sale. However, Media Manager cannot detect copies stored in other locations. If a copy is detected, Media Manager prompts the user to delete the file. The file is not deleted automatically or involuntarily, though ReDigi's policy is to suspend the accounts of users who refuse to comply.

After the list is built, a user may upload any of his eligible files to ReDigi's "Cloud Locker," an ethereal moniker for what is, in fact, merely a remote server in Arizona. ReDigi's upload process is a source of contention between the parties. ReDigi asserts that the process involves "migrating" a user's file, packet by packet—"analogous to a train"—from the user's computer to the Cloud Locker so that data does not exist in two places at any one time. Capitol asserts that, semantics aside, ReDigi's upload process "necessarily involves copying" a file from the user's computer to the Cloud Locker. Regardless, at the end of the process, the digital music file is located in the Cloud Locker and not on the user's computer. Moreover, Media Manager deletes any additional copies of the file on the user's computer and connected devices.

Once uploaded, a digital music file undergoes a second analysis to verify eligibility. If ReDigi determines that the file has not been tampered with or offered for sale by another user, the file is stored in the Cloud Locker, and the user is given the option of simply storing and

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streaming the file for personal use or offering it for sale in ReDigi's marketplace. If a user chooses to sell his digital music file, his access to the file is terminated and transferred to the new owner at the time of purchase. Thereafter, the new owner can store the file in the Cloud Locker, stream it, sell it, or download it to her computer and other devices. No money changes hands in these transactions. Instead, users buy music with credits they either purchased from ReDigi or acquired from other sales. ReDigi credits, once acquired, cannot be exchanged for money. Instead, they can only be used to purchase additional music.

To encourage activity in its marketplace, ReDigi initially permitted users to preview thirty-second clips and view album cover art of songs posted for sale pursuant to a licensing agreement with a third party. However, shortly after its launch, ReDigi lost the licenses. Accordingly, ReDigi now sends users to either YouTube or iTunes to listen to and view this promotional material. ReDigi also offers its users a number of incentives. For instance, ReDigi gives twenty-cent credits to users who post files for sale and enters active sellers into contests for prizes. ReDigi also encourages sales by advising new users via email that they can “[c]ash in” their music on the website, tracking and posting the titles of sought after songs on its website and in its newsletter, notifying users when they are low on credits and advising them to either purchase more credits or sell songs, and connecting users who are seeking unavailable songs with potential sellers.

Finally, ReDigi earns a fee for every transaction. ReDigi's website prices digital music files at fifty-nine to seventy-nine cents each. When users purchase a file, with credits, 20% of the sale price is allocated to the seller, 20% goes to an “escrow” fund for the artist, and 60% is retained by ReDigi.[123]

* * * * *

III. DISCUSSION

Section 106 of the Copyright Act grants “the owner of copyright under this title” certain “exclusive rights,” including the right “to reproduce the copyrighted work in copies or phonorecords,” “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership,” and to publicly perform and display certain copyrighted works. 17 U.S.C. §§ 106(1), (3)-(5). However, these exclusive rights are limited by several subsequent sections of the statute. Pertinently, Section 109 sets forth the “first sale” doctrine, which provides that “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.” Id. § 109(a). The novel question presented in this action is whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine. The Court determines that it cannot.

[123]On June 11, 2012, ReDigi launched ReDigi 2.0, new software that, when installed on a user's computer, purportedly directs the user's new iTunes purchases to upload from iTunes directly to the Cloud Locker. Accordingly, while access may transfer from user to user upon resale, the file is never moved from its initial location in the Cloud Locker. However, because ReDigi 2.0 launched after Capitol filed the Complaint and mere days before the close of discovery, the Court will not consider it in this action.

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A. Infringement of Capitol's Copyrights

To state a claim for copyright infringement, a plaintiff must establish that it owns a valid copyright in the work at issue and that the defendant violated one of the exclusive rights the plaintiff holds in the work. Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd., 996 F.2d 1366, 1372 (2d Cir.1993) (citing Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991)). It is undisputed that Capitol owns copyrights in a number of the recordings sold on ReDigi's website. It is also undisputed that Capitol did not approve the reproduction or distribution of its copyrighted recordings on ReDigi's website. Thus, if digital music files are "reproduce[d]" and "distribute[d]" on ReDigi's website within the meaning of the Copyright Act, Capitol's copyrights have been infringed.

1. Reproduction Rights

Courts have consistently held that the unauthorized duplication of digital music files over the Internet infringes a copyright owner's exclusive right to reproduce. See, e.g., A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1014 (9th Cir. 2001). However, courts have not previously addressed whether the unauthorized transfer of a digital music file over the Internet—where only one file exists before and after the transfer—constitutes reproduction within the meaning of the Copyright Act. The Court holds that it does.

The Copyright Act provides that a copyright owner has the exclusive right "to reproduce the copyrighted work *in . . . phonorecords*." 17 U.S.C. § 106(1) (emphasis added). Copyrighted works are defined to include, inter alia, "sound recordings," which are "works that result from the fixation of a series of musical, spoken, or other sounds." Id. § 101. Such works are distinguished from their material embodiments. These include phonorecords, which are the "*material objects* in which sounds ... are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." Id. § 101 (emphasis added). Thus, the plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new *material object*. See Matthew Bender & Co., Inc. v. W. Pub. Co., 158 F.3d 693, 703 (2d Cir.1998).

The legislative history of the Copyright Act bolsters this reading. The House Report on the Copyright Act distinguished between sound recordings and phonorecords, stating that "[t]he copyrightable work comprises the aggregation of sounds and not the tangible medium of fixation. Thus, 'sound recordings' as copyrightable subject matter are distinguished from 'phonorecords[,]' the latter being physical objects in which sounds are fixed." H.R.Rep. No. 94–1476, at 56 (1976). Similarly, the House and Senate Reports on the Act both explained:

> Read together with the relevant definitions in [S]ection 101, the right "to reproduce the copyrighted work in copies or phonorecords" means the right to produce a material object in which the work is duplicated, transcribed, imitated, or simulated in a fixed form from which it can be "perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."

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Id. at 61; S. Rep. No. 94–473, at 58 (1975). Put differently, the reproduction right is the exclusive right to embody, and to prevent others from embodying, the copyrighted work (or sound recording) in a new material object (or phonorecord). See Nimmer on Copyright § 8.02 (stating that "in order to infringe the reproduction right, the defendant must embody the plaintiff's work in a 'material object' ").

Courts that have dealt with infringement on peer-to-peer ("P2P") file-sharing systems provide valuable guidance on the application of this right in the digital domain. For instance, in London–Sire Records, Inc. v. John Doe 1, the court addressed whether users of P2P software violated copyright owners' distribution rights. 542 F. Supp.2d 153, 166 & n. 16 (D. Mass.2008). Citing the "material object" requirement, the court expressly differentiated between the copyrighted work—or digital music file—and the phonorecord—or "appropriate segment of the hard disk" that the file would be embodied in following its transfer. Id. at 171. Specifically,

> [w]hen a user on a [P2P] network downloads a song from another user, he receives into his computer a digital sequence representing the sound recording. That sequence is magnetically encoded on a segment of his hard disk (or likewise written on other media). With the right hardware and software, the downloader can use the magnetic sequence to *reproduce* the sound recording. The electronic file (or, perhaps more accurately, the appropriate segment of the hard disk) is therefore a "phonorecord" within the meaning of the statute.

Id. (emphasis added). Accordingly, when a user downloads a digital music file or "digital sequence" to his "hard disk," the file is "reproduce[d]" on a new phonorecord within the meaning of the Copyright Act. Id.

This understanding is, of course, confirmed by the laws of physics. It is simply impossible that the same "material object" can be transferred over the Internet. Thus, logically, the court in London–Sire noted that the Internet transfer of a file results in a material object being "created elsewhere at its finish." Id. at 173. Because the reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act.

This finding holds regardless of whether one or multiple copies of the file exist. London–Sire, like all of the P2P cases, obviously concerned multiple copies of one digital music file. But that distinction is immaterial under the plain language of the Copyright Act. Simply put, it is the creation of a *new* material object and not an *additional* material object that defines the reproduction right. The dictionary defines "reproduction" to mean, inter alia, "to produce again" or "to cause to exist again *or* anew." See Merriam–Webster Collegiate Edition 994 (10th ed. 1998) (emphasis added). Significantly, it is not defined as "to produce again while the original exists." Thus, the right "to reproduce the copyrighted work in ... phonorecords" is implicated

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whenever a sound recording is fixed in a new material object, regardless of whether the sound recording remains fixed in the original material object.

Given this finding, the Court concludes that ReDigi's service infringes Capitol's reproduction rights under any description of the technology. ReDigi stresses that it "migrates" a file from a user's computer to its Cloud Locker, so that the same file is transferred to the ReDigi server and no copying occurs.[124]

However, even if that were the case, the fact that a file has moved from one material object—the user's computer—to another—the ReDigi server—means that a reproduction has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created. It is beside the point that the original phonorecord no longer exists. It matters only that a new phonorecord has been created. . . .

Accordingly, the Court finds that, absent the existence of an affirmative defense, the sale of digital music files on ReDigi's website infringes Capitol's exclusive right of reproduction.

2. Distribution Rights

In addition to the reproduction right, a copyright owner also has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership." 17 U.S.C. § 106(3). Like the court in London–Sire, the Court agrees that "[a]n electronic file transfer is plainly within the sort of transaction that § 106(3) was intended to reach [and] ... fit[s] within the definition of 'distribution' of a phonorecord." London–Sire, 542 F. Supp. 2d at 173–74. For that reason, "courts have not hesitated to find copyright infringement by distribution in cases of file-sharing or electronic transmission of copyrighted works." Arista Records LLC v. Greubel, 453 F. Supp. 2d 961, 968 (N.D. Tex.2006) (collecting cases); see, e.g., Napster, 239 F.3d at 1014. Indeed, in *New York Times Co., Inc. v. Tasini*, the Supreme Court stated it was "clear" that an online news database violated authors' distribution rights by selling electronic copies of their articles for download. 533 U.S. 483, 498 (2001).

There is no dispute that sales occurred on ReDigi's website. Capitol has established that it was able to buy more than one-hundred of its own recordings on ReDigi's webite, and ReDigi itself compiled a list of its completed sales of Capitol's recordings. ReDigi, in fact, does not contest that distribution occurs on its website—it only asserts that the distribution is protected by

[124]It bears noting that ReDigi made numerous admissions to the contrary at the preliminary injunction stage. For instance, in its opposition to Capitol's motion, ReDigi stated that, "The only *copying* which takes place in the ReDigi service occurs when a user uploads music files to the ReDigi Cloud, . . . or downloads music files from the user's Cloud Locker." (See ReDigi Opp'n to PI at 9 (emphasis added).) ReDigi also stated that, after a digital music file was uploaded to the Cloud Locker, "the copy from which it was made was actually *deleted* from the user's machine." (Id. at 14 (emphasis added).) ReDigi's officers made similar statements in their depositions, and ReDigi's patent application for its upload technology states that "to be offered for sale, [a music file] is first *copied* to the remote server and stored on the disc." (See Capitol Mem. of Law, dated July 20, 2012, Doc. No. 49 ("Cap. Mem."), at 8–9, n. 6 (emphasis added).) But, as earlier stated, these semantic distinctions are immaterial as even ReDigi's most recent description of its service runs afoul of the Copyright Act.

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the fair use and first sale defenses. (See, e.g., ReDigi Opp'n 15 (noting that "any distributions . . . which occur on the ReDigi marketplace are protected").)

Accordingly, the Court concludes that, absent the existence of an affirmative defense, the sale of digital music files on ReDigi's website infringes Capitol's exclusive right of distribution.[125]

* * * * *

B. Affirmative Defenses

Having concluded that sales on ReDigi's website infringe Capitol's exclusive rights of reproduction and distribution, the Court turns to whether the fair use or first sale defenses excuse that infringement. For the reasons set forth below, the Court determines that they do not.

* * * * *

2. First Sale

The first sale defense, a common law principle recognized in Bobbs–Merrill Co. v. Straus, 210 U.S. 339, 350 (1908) and now codified at Section 109(a) of the Copyright Act, provides that:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109. Under the first sale defense, "once the copyright owner places a copyrighted item [here, a phonorecord] in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, 152 (1998); see Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351, 1354–55 (2013).

ReDigi asserts that its service, which involves the resale of digital music files lawfully purchased on iTunes, is protected by the first sale defense. The Court disagrees.

[125] Capitol argues that ReDigi also violated its distribution rights simply by making Capitol's recordings available for sale to the public, regardless of whether a sale occurred. (See Cap. Mem. 11 n. 8 (citing Hotaling v. Church of Jesus Christ of Latter–Day Saints, 118 F.3d 199, 201 (4th Cir.1997))). However, a number of courts, including one in this district, have cast significant doubt on this "make available" theory of distribution. See, e.g., Elektra Entm't Grp., Inc. v. Barker, 551 F. Supp. 2d 234, 243 (S.D.N.Y.2008) ("[T]he support in the case law for the "make available" theory of liability is quite limited."); London–Sire, 542 F. Supp.2d at 169 ("[T]he defendants cannot be liable for violating the plaintiffs' distribution right unless a 'distribution' actually occurred."). In any event, because the Court concludes that actual sales on ReDigi's website infringed Capitol's distribution right, it does not reach this additional theory of liability.

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As an initial matter, it should be noted that the fair use defense is, by its own terms, limited to assertions of the *distribution right*. 17 U.S.C. § 109 (referencing Section 106(3)); see Nimmer on Copyright § 8.12. Because the Court has concluded that ReDigi's service violates Capitol's reproduction right, the first sale defense does not apply to ReDigi's infringement of those rights. See Design Options v. BellePointe, Inc., 940 F. Supp. 86, 91 (S.D.N.Y.1996).

In addition, the first sale doctrine does not protect ReDigi's distribution of Capitol's copyrighted works. This is because, as an unlawful reproduction, a digital music file sold on ReDigi is not "lawfully made under this title." 17 U.S.C. § 109(a). Moreover, the statute protects only distribution by "the owner of a *particular* copy or phonorecord ... of *that* copy or phonorecord." Id. Here, a ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new phonorecord on the ReDigi server. Because it is therefore impossible for the user to sell her "particular" phonorecord on ReDigi, the first sale statute cannot provide a defense. Put another way, the first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing *reproductions* of the copyrighted code embedded in new material objects, namely, the ReDigi server in Arizona and its users' hard drives. The first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era.

Rejecting such a conclusion, ReDigi argues that, because " 'technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of [its] basic purpose,' " namely, to incentivize creative work for the "ultimate[ ] ... cause of promoting broad public availability of literature, music, and the other arts." Sony, 464 U.S. at 432 (quoting Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975)). Thus, ReDigi asserts that refusal to apply the first sale doctrine to its service would grant Capitol "a Court sanctioned extension of rights under the [C]opyright [A]ct ... which is against policy, and should not be endorsed by this Court."

The Court disagrees. ReDigi effectively requests that the Court amend the statute to achieve ReDigi's broader policy goals—goals that happen to advance ReDigi's economic interests. However, ReDigi's argument fails for two reasons. First, while technological change may have rendered Section 109(a) unsatisfactory to many contemporary observers and consumers, it has not rendered it ambiguous. The statute plainly applies to the lawful owner's "particular" phonorecord, a phonorecord that by definition cannot be uploaded and sold on ReDigi's website. Second, amendment of the Copyright Act in line with ReDigi's proposal is a legislative prerogative that courts are unauthorized and ill suited to attempt.

Nor are the policy arguments as straightforward or uncontested as ReDigi suggests. Indeed, when confronting this precise subject in its report on the Digital Millennium Copyright Act, 17 U.S.C. § 512, the United States Copyright Office (the "USCO") rejected extension of the first sale doctrine to the distribution of digital works, noting that the justifications for the first sale doctrine in the physical world could not be imported into the digital domain. See USCO,

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Library of Cong., DMCA Section 104 Report (2001) ("DMCA Report"); see also Cartoon Network LP v. CSC Holdings, Inc., 536 F.3d 121, 129 (2d Cir. 2008) (finding that the DMCA report is entitled to deference under Skidmore v. Swift & Co., 323 U.S. 134, 140 (1944)). For instance, the USCO stated that "the impact of the [first sale] doctrine on copyright owners [is] limited in the off-line world by a number of factors, including geography and the gradual degradation of books and analog works." DMCA Report at xi. Specifically,

> [p]hysical copies of works degrade with time and use, making used copies less desirable than new ones. Digital information does not degrade, and can be reproduced perfectly on a recipient's computer. The "used" copy is just as desirable as (in fact, is indistinguishable from) a new copy of the same work. Time, space, effort and cost no longer act as barriers to the movement of copies, since digital copies can be transmitted nearly instantaneously anywhere in the world with minimal effort and negligible cost. The need to transport physical copies of works, which acts as a natural brake on the effect of resales on the copyright owner's market, no longer exists in the realm of digital transmissions. The ability of such "used" copies to compete for market share with new copies is thus far greater in the digital world.

Id. at 82–83 (footnotes omitted). Thus, while ReDigi mounts attractive policy arguments, they are not as one-sided as it contends.

Finally, ReDigi feebly argues that the Court's reading of Section 109(a) would in effect exclude digital works from the meaning of the statute. That is not the case. Section 109(a) still protects a lawful owner's sale of her "particular" phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded. While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than, those involved in the resale of CDs and cassettes, the limitation is hardly absurd—the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons, some discussed herein, for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded.

Accordingly, the Court concludes that the first sale defense does not permit sales of digital music files on ReDigi's website.

C. Liability

Having determined that sales on ReDigi's website infringe Capitol's copyrights, the Court turns to whether ReDigi is directly and/or secondarily liable for that infringement. Direct liability requires "volitional conduct" that "causes" the reproduction or distribution to be made. See Cartoon Network, 536 F.3d at 131. Secondary infringement occurs when a defendant contributed to or benefitted from a third party's infringement such that it is "just" to hold the defendant accountable for the infringing activity. Sony, 464 U.S. at 435. For the reasons stated below, the Court finds that ReDigi directly and secondarily infringed Capitol's copyrights.

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1. Direct Infringement

To be liable for direct infringement, a defendant must have "engaged in some volitional conduct sufficient to show that [it] actively" violated one of the plaintiff's exclusive rights. Arista Records LLC v. Usenet.com, Inc., 633 F. Supp. 2d 124, 148 (S.D.N.Y.2009). In other words, " 'to establish direct liability under . . . the Act, something more must be shown than mere ownership of a machine used by others to make illegal copies. There must be actual infringing conduct with a nexus sufficiently close and causal to the illegal copying that one could conclude that the machine owner himself trespassed on the exclusive domain of the copyright owner.' " Cartoon Network, 536 F.3d at 130 (quoting CoStar Group, Inc. v. LoopNet, Inc., 373 F.3d 544, 550 (4th Cir.2004)) (citing Religious Tech. Ctr. v. Netcom On–Line Commc'n Servs., Inc., 907 F.Supp. 1361, 1370 (N.D. Cal. 1995)).

In *Cartoon Network*, the Second Circuit addressed whether the cable television provider Cablevision had directly infringed the plaintiff's copyrights by providing digital video recording devices to its customers. 536 F.3d 121. The court determined that it had not. Though Cablevision had "design[ed], hous[ed], and maintain[ed]" the recording devices, it was Cablevision's customers who "made" the copies and therefore directly infringed the plaintiff's reproduction rights. Id. at 131–32. The court reasoned that, "[i]n determining who actually 'makes' a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct." Id. at 131. However, the court allowed that a case may exist where "one's contribution to the creation of an infringing copy [is] so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy." Cartoon Network, 536 F.3d at 133.

On the record before it, the Court concludes that, if such a case could ever occur, it has occurred with ReDigi. ReDigi's founders built a service where only copyrighted work could be sold. Unlike Cablevision's programming, which offered a mix of protected and public television, ReDigi's Media Manager scans a user's computer to build a list of eligible files that consists solely of protected music purchased on iTunes. While that process is itself automated, absolving ReDigi of direct liability on that ground alone would be a distinction without a difference. The fact that ReDigi's founders programmed their software to choose copyrighted content satisfies the volitional conduct requirement and renders ReDigi's case indistinguishable from those where human review of content gave rise to direct liability. See Usenet.com, 633 F. Supp.2d at 148; Playboy Enters., Inc. v. Russ Hardenburgh, Inc., 982 F. Supp. 503, 512–13 (N.D. Ohio 1997). Moreover, unlike Cablevision, ReDigi infringed both Capitol's reproduction and distribution rights. ReDigi provided the infrastructure for its users' infringing sales and affirmatively brokered sales by connecting users who are seeking unavailable songs with potential sellers. Given this fundamental and deliberate role, the Court concludes that ReDigi's conduct "transform[ed][it] from [a] passive provider[ ] of a space in which infringing activities happened to occur to [an] active participant[ ] in the process of copyright infringement." Usenet.com, 633

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F. Supp. 2d at 148. Accordingly, the Court grants Capitol's motion for summary judgment on its claims for ReDigi's direct infringement of its distribution and reproduction rights.[126]

2. Secondary Infringement

"The Copyright Act does not expressly render anyone liable for infringement committed by another." Sony, 464 U.S. at 434. However, common law doctrines permit a court to impose secondary liability where "just" and appropriate. Id. at 435. Capitol asserts that ReDigi is secondarily liable for its users' direct infringement under three such doctrines: contributory infringement, inducement of infringement, and vicarious infringement. The Court agrees with respect to contributory and vicarious infringement, and therefore does not reach the inducement claim.

a. Contributory Infringement

Contributory infringement occurs where "one ... with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another." Arista Records, LLC v. Doe 3, 604 F.3d at 118 (quoting Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir.1971)); see, e.g., Grokster, 545 U.S. at 930. The knowledge requirement is "objective" and satisfied where the defendant knew or had reason to know of the infringing activity. See Arista Records, LLC v. Doe 3, 604 F.3d at 118. Further, the support must be "more than a mere quantitative contribution to the primary infringement ... [, it] must be substantial." Usenet.com, 633 F. Supp. 2d 124, 155 (S.D.N.Y.2009). However, even where a defendant's contribution is material, it may evade liability if its product is "capable of substantial noninfringing uses." Sony, 464 U.S. at 442 (the "Sony–Betamax rule"). In weighing the knowledge requirement, courts consider evidence of actual and constructive knowledge, including cease-and-desist letters, officer and employee statements, promotional materials, and industry experience. See, e.g., Napster, 239 F.3d at 1020–21, 1027; Arista Records LLC v. Lime Grp. LLC, 784 F. Supp. 2d at 432; Usenet.com, 633 F. Supp. 2d at 155. In addition, courts have consistently found that material support existed where file-sharing systems provided "the site and facilities" for their users' infringement. Napster, 239 F.3d at 1022; see, e.g., Usenet.com, 633 F. Supp. 2d at 155.

The Court has little difficulty concluding that ReDigi knew or should have known that its service would encourage infringement. Despite the fact that ReDigi boasted on its website that it was "The Legal Alternative" and insisted "YES, ReDigi is LEGAL," ReDigi warned investors in its subscription agreements that "the law cannot be said to be well-settled" in this area and that it could not guarantee ReDigi would prevail on its copyright defenses. The Recording Industry Association of America ("RIAA") sent ReDigi a cease-and-desist letter in November 2011, advising ReDigi that its website violated Capitol's and other RIAA members' copyrights. Further,

[126]Capitol also asserts a claim for common law copyright infringement arising from sales of its pre–1972 recordings on ReDigi's website. Capitol correctly argues in its memorandum that the elements for a direct infringement claim under federal law mirror those for infringement of common law copyright under state law. See Capitol Records, Inc. v. Naxos of Am., Inc., 4 N.Y.3d 540, 563, 797 N.Y.S.2d 352, 830 N.E.2d 250 (2005). Accordingly, the Court also Court grants Capitol's motion for summary judgment with respect to ReDigi's direct infringement of Capitol's distribution and reproduction rights in its pre–1972 recordings. However, because neither Capitol nor ReDigi addressed the question of secondary infringement of common law copyrights, the Court does not reach that claim.

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ReDigi was ensnared in a licensing dispute over song clips and cover art shortly after its launch, plainly indicating that infringement could be afoot. ReDigi was also, of course, aware that copyright protected content was being sold on its website—a fact central to its business model and promotional campaigns. Finally, ReDigi's officers claim to have "researched copyright law [and] consulted with attorneys" concerning their service, and also to have met with record companies "to get input, get marketing support[,] and enter into deals with the labels." By educating themselves, the officers presumably understood the likelihood that use of ReDigi's service would result in infringement. Indeed, though ReDigi attempts to use its consultations with counsel as a shield, it is telling that ReDigi declined to reveal any of the advice it received on the subject. ReDigi's lone rebuttal to this surfeit of evidence could only be that it "sincerely" believed in the legality of its service. However, the Court has not found and will not create a subjective, good faith defense to contributory liability's objective knowledge requirement, and therefore concludes that, based on the objective facts, ReDigi was aware of its users' infringement.

The Court also finds that ReDigi materially contributed to its users' infringement. As ReDigi has admitted, "more than any other website that permits the sale of music, ReDigi is intimately involved in examining the content that will be sold and supervising the steps involved in making the music available for sale and selling it." ReDigi thus provided the "site and facilities" for the direct infringement. See, e.g., Napster, 239 F.3d at 1022; Usenet.com, 633 F. Supp. 2d at 155; Lime Grp., 784 F. Supp. 2d at 434. Without ReDigi's Cloud Locker, no infringement could have occurred. Indeed, Media Manager ensured that only infringement occurred by limiting eligible files to iTunes tracks. Contrary to any conception of remote conduct, ReDigi's service was the hub and heart of its users' infringing activity.

The Court finally concludes that ReDigi's service is not capable of substantial noninfringing uses. The Sony–Betamax rule requires a court to determine whether a product or service is capable of substantial noninfringing uses, not whether it is currently used in a non-infringing manner. Napster, 239 F.3d at 1021 (discussing Sony, 464 U.S. at 442–43). But, put simply, ReDigi, by virtue of its design, is incapable of compliance with the law. ReDigi's business is built on the erroneous notion that the first sale defense permits the electronic resale of digital music. As such, ReDigi is built to trade only in copyright protected iTunes files. However, as determined above, ReDigi's legal argument—and therefore business model—is fundamentally flawed. Accordingly, to comply with the law, either the law or ReDigi must change. While ReDigi 2.0, 3.0, or 4.0 may ultimately be deemed to comply with copyright law—a finding the Court need not and does not now make—it is clear that ReDigi 1.0 does not. Given the fundamental disconnect between ReDigi and the Copyright Act, and ReDigi's failure to provide any evidence of present or potential noninfringing uses, the Court concludes that the Sony–Betamax rule cannot save ReDigi from contributory liability.

Accordingly, the Court grants Capitol's motion for summary judgment on its claim for ReDigi's contributory infringement of its distribution and reproduction rights.[127]

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[127]As noted above, Capitol has alleged a separate cause of action for inducement of infringement. Disagreement exists over whether "inducement of infringement" is a separate theory of liability for copyright infringement or merely a subset of contributory liability. Compare Flava Works, Inc. v. Gunter, 689 F.3d 754, 758

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b. Vicarious Infringement

Vicarious liability for copyright infringement exists where the defendant " 'has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.' " Napster, 239 F.3d at 1022 (quoting Gershwin Pub. Corp., 443 F.2d at 1162); see Grokster, 545 U.S. at 930. Unlike contributory infringement, knowledge is not an element of vicarious liability. Gershwin, 443, F.2d at 1162; see Fonovisa, Inc. v. Cherry Auction Inc., 76 F.3d 259, 262–63 (9th Cir.1996). Clearly, ReDigi Vicariously infringed Capitol's copyrights. As discussed, ReDigi exercised complete control over its website's content, user access, and sales. Indeed, ReDigi admits that it "is intimately involved in ... supervising the steps involved in making the music available for sale and selling it" on the website. [S]ee e.g., Lime Grp., 784 F. Supp. 2d at 435 (finding right to supervise where P2P file sharing system could filter content and regulate users). In addition, ReDigi financially benefitted from every infringing sale when it collected 60% of each transaction fee. See e.g., Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 308 (2d Cir.1963) (finding a direct financial benefit where the defendant received a share of the gross receipts on every infringing sale). Notably, ReDigi failed to address any of these arguments in its opposition brief, instead insisting that it was not vicariously liable for infringement that occurred outside the ReDigi service, for instance, when a user Impermissibly retained files on his computer. However, this argument is inapposite to the instant motions. Accordingly, the Court grants Capitol's motion for summary judgment on its claim for ReDigi's vicarious infringement of its distribution and reproduction rights.

IV. CONCLUSION

At base, ReDigi seeks judicial amendment of the Copyright Act to reach its desired policy outcome. However, "[s]ound policy, as well as history, supports [the Court's] consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology." Sony, 464 U.S. at 431. Such defense often counsels for a limited interpretation of copyright protection. However, here, the Court cannot of its own accord condone the wholesale application of the first sale defense to the digital sphere, particularly when Congress itself has declined to take that step. Accordingly, and for the reasons stated above, the Court GRANTS Capitol's motion for summary judgment on its claims for ReDigi's direct, contributory, and vicarious infringement of its distribution and reproduction rights. The Court also DENIES ReDigi's motion in its entirety. . . .

[6] Limitations on Grants

[b] Termination of Transfers

(7th Cir.2012) (describing inducement as "a form of contributory infringement"), with Lime Grp., 784 F. Supp. 2d at 424 ("In Grokster, the Supreme Court confirmed that inducement of copyright infringement constitutes a distinct cause of action."). Regardless, because the Court concludes that ReDigi is liable for contributing to its users' direct infringement of Capitol's copyrights, it does not reach Capitol's inducement claim.

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USAGE: On page 657, ADD the following case after *Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc.*:

PENGUIN GROUP (USA) INC. v. STEINBECK

537 F.3d 193 (2d Cir. 2008)

SACK, Circuit Judge:

This is an appeal from an order of the United States District Court for the Southern District of New York (Richard Owen, *Judge*) granting summary judgment to the appellees Thomas Steinbeck and Blake Smyle based on the court's conclusion that a "notice of termination" given in 2004 that purported to terminate, pursuant to the Copyright Act, 17 U.S.C. § 304(c) and (d), the 1938 grant of copyright licenses by the author John Steinbeck, was valid. We consider on appeal whether an agreement entered into in 1994 between Steinbeck's widow and the publisher terminated and superseded the 1938 agreement, and, if so, whether the termination notice is therefore ineffective. Because the termination right provided by section 304(d) pursuant to which the 2004 termination notice was issued applies only to pre-1978 grants of transfers or licenses of copyright, and because the 1994 agreement left intact no pre-1978 grant for the works in question, we conclude that the 2004 notice of termination is ineffective. The 1994 agreement remains in effect.

BACKGROUND

Grants of Licenses of Copyright

On September 12, 1938, the author John Steinbeck executed an agreement with The Viking Press (the "1938 Agreement") that established the terms for the latter's publication of some of Steinbeck's best-known works, including *The Long Valley, Cup of Gold, The Pastures of Heaven, To A God Unknown, Tortilla Flat, In Dubious Battle,* and *Of Mice and Men,* in all of which Steinbeck held the copyright. In 1939, the agreement was extended to apply to four later works, including *The Grapes of Wrath,* through the operation of an option clause in the agreement. The rights granted by the 1938 Agreement were later assigned by Viking to plaintiff-appellant Penguin Group (USA) Inc. ("Penguin"), and the duties thereunder assumed by Penguin. The 1938 Agreement provided to the publisher, who agreed to take out copyrights in the covered works in Steinbeck's name, the "sole and exclusive right" to publish the works in the United States and Canada, with Steinbeck receiving royalties based on net sales. The agreement would terminate if any of the covered works were not kept in print. The agreement was "binding upon [John Steinbeck's] heirs, executors, administrators or assigns."

During his lifetime, Steinbeck renewed the copyrights in the works covered by the 1938 Agreement so that they enjoyed protection under both of the consecutive 28-year copyright terms provided for by the version of the Copyright Act in effect at the time. When Steinbeck died in

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1968, he bequeathed his interest in these copyrights to his widow, Elaine Steinbeck. His sons by a previous marriage, Thomas and John IV, each received a bequest of $50,000 in a trust arrangement.

On October 24, 1994, Elaine Steinbeck and Penguin entered into a "new agreement for continued publication" (the "1994 Agreement"). It addressed the publication by Penguin of all works that were covered by the 1938 Agreement. It added several other early Steinbeck works, some of his posthumous works, and some of Elaine Steinbeck's own works. It also changed the economic terms of the 1938 Agreement, mostly to Elaine Steinbeck's benefit, by requiring Penguin to provide a far larger annual guaranteed advance, and royalties of between ten and fifteen percent of retail (rather than wholesale) sales. The 1994 Agreement further stated that "when signed by Author and Publisher, [it] will cancel and supersede the previous agreements, as amended, for the [works] covered hereunder."[128]

Elaine Steinbeck died in April 2003, bequeathing her copyright interests in the Steinbeck works at issue, as well as proceeds from the 1994 Agreement, to various testamentary heirs including her children and grandchildren from a previous marriage, but she specifically excluded Thomas Steinbeck, John Steinbeck IV, and their heirs. Her statutory termination rights expired upon her death.

On June 13, 2004, John Steinbeck's surviving son Thomas, and Blake Smyle, the sole surviving child of Steinbeck's other son, the deceased John IV, (collectively the "Steinbeck Descendants") served what purported to be a notice of termination (the "Notice of Termination") on Penguin terminating the "grants" made by the 1938 Agreement to Penguin's predecessor-in-interest (Viking).

Statutory Background

The Copyright Act gives to authors and certain enumerated family members the power to terminate prior grants of transfers or licenses of copyright. This power is based on Congressional recognition that young authors frequently enter into long-term contracts with publishers when their bargaining power is weak and their prospects for success uncertain, and discover increased leverage only when they later achieve commercial success. Indeed, in an effort to balance the interests of publishers and authors, Congress enacted provisions in the Copyright Act that "attempted to give the author a second chance to control and benefit from his work" and to "secure to the author's family the opportunity to exploit the work if the author died." Stewart v. Abend, 495 U.S. 207, 218 (1990). Congress permitted a publisher the opportunity to reap the initial rewards of an early investment in young talent, but it allowed authors to revisit the terms of earlier grants of rights once the long-term success of their works became apparent. See id.

[128]A separate agreement was executed on the same day by Penguin and by Elaine Steinbeck, acting on her own behalf and on behalf of Thomas Steinbeck. Thomas Steinbeck ratified this agreement on December 22, 1994, on behalf of the other Steinbeck Descendants. This agreement, which itself is not at issue on this appeal and which governed works of John Steinbeck that are not at issue on this appeal, obligated Penguin to pay higher royalties for these works to Elaine Steinbeck and the Steinbeck Descendants.

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When John Steinbeck entered into the 1938 Agreement with Viking Press, the Copyright Act of 1909 was in effect. Under that version of the Act, authors were entitled to a copyright in their works for an initial twenty-eight year period beginning on the date of a work's publication. After this period expired, the author had the right to renew the copyright for a second twenty-eight year term. The purpose of providing this renewal term was to permit "the author, originally in a poor bargaining position, to renegotiate the terms of the grant once the value of the work ha[d] been tested." Stewart, 495 U.S. at 218-19; accord Marvel Characters, Inc. v. Simon, 310 F.3d 280, 283 (2d Cir.2002) (quoting Stewart). Publishers could, and often did, thwart the purpose of this statutory scheme, however, by requiring authors to assign both their initial and renewal rights to the publisher at the same time and before the long-term value of an author's work could be ascertained. This practice received the legal imprimatur of the Supreme Court in *Fred Fisher Music Co. v. M. Witmark & Sons,* 318 U.S. 643 (1943), which held that renewal rights could be assigned by an author during a work's initial copyright term and before the vesting of the renewal right. Id. at 656-59; see also Marvel, 310 F.3d at 284.

The 1976 amendments to the Copyright Act, which took effect in 1978, abandoned this framework. In order to revitalize the ability of authors to revisit the terms of earlier grants of rights, the amended Act replaced the two consecutive twenty-eight year terms with a single copyright term of increased duration,[129] and it created for authors or their statutory heirs, with respect to transfers or licenses of copyright effected prior to 1978, an inalienable right to terminate the grant of a transfer or license. 17 U.S.C. § 304(c). The section provides, in pertinent part:

In the case of any copyright subsisting in either its first or renewal term on January 1, 1978, . . . the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978, by [the author or the author's heirs as specified at section 304(a)(1)(C)], otherwise than by will, is subject to termination under the following conditions:

> (1) . . . In the case of a grant executed by one or more of the authors of the work, termination of the grant may be effected . . . by the author who executed it or, if such author is dead, by the person or persons who, under clause (2) of this subsection, own and are entitled to exercise a total of more than one-half of that author's termination interest. (2) Where an author is dead, his or her termination interest is owned, and may be exercised, as follows:

[129] The consecutive-term renewal structure was retained for pre-1978 works, however, because a "great many of the present expectancies in these cases are the subject of existing contracts, and it would [have been] unfair and immensely confusing to cut off or alter these interests." H.R.Rep. No. 94-1476, at 139 (1976), *reprinted in* 1976 U.S.C.A.N. 5659, 5755. For works still in their renewal term on January 1, 1978, which include the Steinbeck works governed by the 1938 Agreement, the amendments extended the expiration date of the then-governing renewal term until "seventy-five years from the date the copyright was originally secured." 17 U.S.C. § 304(b) (1997). When the Copyright Act was amended in 1998, for works still within this seventy-five year term, the length of the term was extended again to provide those works with a total of ninety-five years of copyright protection. Pub. L. No. 105-298, 112 Stat. 2827, 2828-29 (1998).

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. . .

> (B) The author's surviving children, and the surviving children of any dead child of the author, own the author's entire termination interest unless there is a widow or widower, in which case the ownership of one-half of the author's interest is divided among them.[130]

. . .

> (3) Termination of the grant may be effected at any time during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later.

. . .

> (5) Termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant.

17 U.S.C. § 304(c).

This termination right provides authors or their statutory heirs with an opportunity to recapture some of the additional value produced by the lengthened copyright term. See H.R.Rep. No. 94-1476, at 140 (1976), U.S.Cong. Code & Admin.News 1976, pp. 5659,5756. It is worth noting that section 304(c), by its terms, does not apply to grants of a transfer or license of the renewal copyright made on or after January 1, 1978. Such grants are subject to the slightly different termination right provided at 17 U.S.C. § 203, which, among other distinctions, applies only to grants made by the author rather than to grants made by either the author or other parties.

Section 304(c) also provides only a limited five-year window of time "beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later," 17 U.S.C. § 304(c)(3), during which termination rights may be exercised. If the termination right is not exercised during this window, the original grant remains in effect. So, for *Cup of Gold,* the earliest work included in the 1938 Agreement, the termination right under section 304(c) expired on August 2, 1990, and for *The Grapes of Wrath,* the latest work, the right expired on April 14, 2000. It is undisputed, however, that no termination right under section 304(c) was ever exercised with respect to the copyrights covered by the 1938 Agreement.

When the length of the copyright term was extended in 1998, Congress provided an additional window of time corresponding to this extension, during which the same termination

[130]Prior to her death, Elaine Steinbeck held a one-half interest in the statutory termination rights under 17 U.S.C. § 304(c)(2)(A).

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right could be, had it not already been, exercised. See 17 U.S.C. § 304(d). For pre-1978 grants whose section 304(c) termination right, as of October 26, 1998, had expired without being exercised, termination could "be effected at any time during a period of 5 years beginning at the end of 75 years from the date copyright was originally secured." Id. Section 304(d) otherwise incorporated the conditions specified in section 304(c) including the statutory heirs of an author's termination right. See 17 U.S.C. § 304(d)(1). The Notice of Termination issued in 2004 by the Steinbeck Descendants purported to terminate the 1938 grants of copyright licenses within each work's section 304(d) termination period.

District Court Proceedings

Upon receiving the Termination Notice, Penguin filed a complaint in the United States District Court for the Southern District of New York seeking a declaratory judgment against Thomas Steinbeck and Blake Smyle that the notice is invalid. Penguin argued that the 1994 Agreement, to which Elaine Steinbeck was a party, superseded and itself terminated the 1938 Agreement, and that there was therefore no pre-1978 grant of a transfer or license of the renewal copyright to which section 304(d) could be applied.

In a related action, initiated by the Steinbeck Descendants, the estate and heirs of Elaine Steinbeck filed counterclaims seeking an equivalent declaration. The district court consolidated the two actions for the purposes of the summary judgment motions.

In an order issued June 8, 2006 and amended July 18, 2006, the district court disagreed, granting summary judgment against Penguin and Elaine Steinbeck's heirs and, among other things, upholding the validity of the Termination Notice served by the Steinbeck Descendants in 2004. Steinbeck v. McIntosh & Otis, Inc., 433 F. Supp. 2d 395, 401 (S.D.N.Y. 2006). The court rejected Penguin's argument that the 1994 Agreement extinguished the section 304(d) termination right, observing that the agreement explicitly contemplated the future exercise of termination rights and that it did not grant Penguin rights that were any greater or lesser than those granted by the 1938 Agreement. *Id.* The court also concluded that "to the extent that the 1994 Agreement would strip [the Steinbeck Descendants] ... of their inalienable termination rights in the pre-1978 grants, it is void as an 'agreement to the contrary' pursuant to 17 U.S.C. § 304(c)(5)." Id. at 402 (footnote omitted). In the district court's view, "[a]ny interpretation of the 1994 Agreement having the effect of disinheriting the statutory heirs to the termination interest-[the Steinbeck Descendants]-in favor of Elaine's heirs must be set aside as contrary to the very purpose of the termination statute. . . ." Id. at 402 n. 23.

Penguin, and the estate and heirs of Elaine Steinbeck, appeal from the portion of the district court's judgment addressing the validity of the 2004 Termination Notice as to those works covered by the 1938 Agreement.

DISCUSSION

* * * * *

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II. Whether the 1994 Agreement Terminated and Superseded the 1938 Agreement

The Copyright Act provides a termination right for the grant of a transfer or license of copyright made by parties other than the author only if the grant was made prior to January 1, 1978. 17 U.S.C. § 304(d). Our first inquiry, then, is whether the 1994 Agreement terminated and superseded the 1938 Agreement. We conclude that it did, leaving in effect no pre-1978 grants to which the termination rights provided by section 304(d) could be applied.

The language of the 1994 Agreement makes clear that the parties intended that the 1938 Agreement be terminated. Under New York law,[131] "parties to an agreement can mutually agree to terminate it by expressly assenting to its rescission while simultaneously entering into a new agreement dealing with the same subject matter." Jones v. Trice, 202 A.D.2d 394, 395, 608 N.Y.S.2d 688, 688 (2d Dep't 1994). Once terminated and superseded, the new contract provides all of the parties' obligations and remedies for breach. See Northville Indus. Corp. v. Fort Neck Oil Terminals Corp., 100 A.D.2d 865, 867, 474 N.Y.S.2d 122, 125 (2d Dep't 1984) ("[W]here the parties have clearly expressed or manifested their intention that a subsequent agreement supersede or substitute for an old agreement, the subsequent agreement extinguishes the old one and the remedy for any breach thereof is to sue on the superseding agreement." (internal quotation marks omitted)). The 1994 Agreement states that "[t]his agreement, when signed by Author and Publisher, will cancel and supersede the previous agreements, as amended, for the Works # 1-# 19 [including those works governed by the 1938 Agreement] covered hereunder." We see no valid reason to disregard this language and to regard the 1938 Agreement as surviving the 1994 Agreement.

Contrary to the district court's observation that "[a]t no point did Penguin lose or gain any rights other than those originally granted to it under the 1938 Agreement," Steinbeck, 433 F. Supp. 2d at 401-02, the 1994 Agreement obligated Penguin to pay larger guaranteed advance payments and royalties calculated from the "invoiced retail price of every copy sold by the Publisher," rather than "the amount which the Publishers charge for all copies sold." The 1994 Agreement also modifies the geographic limits of the publication rights as to the covered works and imposes a requirement on Penguin to keep a greater number of Steinbeck works in print.

The district court correctly observed that the 1938 Agreement, by its terms, "was to continue for as long as the publishers keep the works 'in print and for sale,' " Steinbeck, 433 F. Supp. 2d at 402 n. 22, but this has little relevance to our analysis. A contract that remains in force may still be terminated and renegotiated in exchange for, among other things, one party's forbearance of her legal right, such as a statutory right to terminate a previous grant of a copyright transfer or license. See, e.g., Trans-Orient Marine Corp. v. Star Trading & Marine, Inc., 925 F.2d 566, 573 (2d Cir.1991) ("[F]orbearance to assert a valid claim, if bargained for, is sufficient consideration to support a contract.").

[131] The parties do not dispute that New York state law governs both the 1938 and 1994 Agreements.

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It is of similarly little relevance that the 1994 Agreement might have intended that earlier created termination rights survive it, for our central inquiry is not the parties' intent to preserve these rights-which are granted by statute, not contract-but rather their intent to terminate the 1938 Agreement. The availability of termination rights under the Copyright Act is not dependent on the intent of the parties but on, among other things, the date that a grant of rights was executed and the relationship to the author of those seeking to exercise the termination right. So, even if we accept that the 1994 Agreement "explicitly carries forward possible future termination," Steinbeck, 433 F. Supp. 2d at 401, it does not matter inasmuch as the pre-1978 grant of rights no longer existed. To the extent that the 1994 Agreement might also have contemplated the potential preservation of termination rights, it does not abrogate the 1994 Agreement's clear expression of intent to terminate all prior grants of a transfer or license in the subject copyrights.

We also reject the suggestion that, notwithstanding the plain language of the 1994 Agreement, there was no effective termination of the 1938 Agreement because the 1994 Agreement provided no opportunity-no "moment of freedom"-for those holding the termination right to renegotiate the terms of the grant. Appellees draw support for this theory primarily from *Nimmer on Copyright* § 11.07 (6th ed.1978), referring to 17 U.S.C. § 304(c)(6)(D). That statutory provision reads:

> A further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid *only if it is made after the effective date of the termination.* As an exception, however, an agreement for such a further grant may be made between the author or any of the persons provided by the first sentence of clause (6) of this subsection, or between the persons provided by subclause (C) of this clause, and the original grantee or such grantee's successor in title, after the notice of termination has been served as provided by clause (4) of this subsection.

Id. (emphasis added). The appellees read the phrase "only if it is made after the effective date of the termination" to require a period of time during which holders of a termination right "know they will be free of extant agreements and can negotiate for the terminated rights." Appellees' Br. at 80; see also Nimmer on Copyright § 11.07. But the next sentence in the statute provides an exception for the original grantee, who may execute a new grant any time after the notice of termination has been served-no "moment of freedom" is required.

In any event, nothing in section 304(c)(6)(D) prevents renegotiation of a prior grant where a notice of termination has not been served. Such a succeeding grant of rights would presumably take place with the parties' knowledge that the holder of a termination right *could* exercise that right if they failed to reach a new agreement. It is undisputed that no termination right was exercised prior to the 1994 Agreement, but Elaine Steinbeck did renegotiate and cancel the 1938 Agreement while wielding the threat of termination. Indeed, this kind of renegotiation appears to be exactly what was intended by Congress. See Section III, supra.

Because we conclude that the 1994 Agreement terminated and superseded the 1938

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Agreement, it also eliminated the right to terminate the grants contained in the 1938 Agreement under sections 304(c) and (d).

III. Whether the 1994 Agreement is an "Agreement to the Contrary" under 17 U.S.C. § 304(c)(5)

The Copyright Act provides that "[t]ermination of the grant [of transfer or license rights] may be effected notwithstanding any agreement to the contrary." 17 U.S.C. § 304(c)(5). The 1994 Agreement is not invalid as an "agreement to the contrary"-and the Steinbeck Descendants' termination right under section 304(d) is therefore no longer effective-even if the agreement had the effect of eliminating a termination right that Congress did not provide until 1998.

We do not read the phrase "agreement to the contrary" so broadly that it would include any agreement that has the effect of eliminating a termination right. To do so would negate the effect of other provisions of the Copyright Act that explicitly contemplate the loss of termination rights. For example, sections 304(c) and (d) require only the consent of a simple majority in interest for the exercise of a termination right. Once the termination right is extinguished, it is extinguished with respect to all parties holding a termination interest, whether or not they agreed to its exercise. See 17 U.S.C. § 304(d) (providing a new termination right but only "where the author or owner of the termination right has not previously exercised such termination right"). Similarly, if a termination right expires without being exercised, the original grant is no longer subject to termination, and the Copyright Act specifically provides that in such a case a grant would "continue[ ] in effect for the remainder of the extended renewal term." 17 U.S.C. § 304(c)(6)(F). If the holders of a majority of an author's termination interest were to agree that they would not exercise their termination rights, this would have the effect of eliminating a termination right as to the minority termination interests. Yet such an agreement could not be held ineffective as an "agreement to the contrary" inasmuch as section 304 itself contemplates elimination of termination rights in that manner.

Moreover, the 1994 Agreement did not divest the Steinbeck Descendants of any termination right under section 304(d) when the parties entered into that agreement. In 1994, only 17 U.S.C. § 304(c) provided a termination right-section 304(d) would not become effective for another four years. It is undisputed that the Steinbeck Descendants could not have exercised their termination rights in 1994 because they lacked more than one-half of the author's termination interest. As of 1994, then, the agreement entered into by Elaine Steinbeck did not deprive the Steinbeck Descendants of any rights they could have realized at that time. None of the parties could have contemplated that Congress would create a second termination right four years later. Had Elaine Steinbeck not entered into the 1994 Agreement, the section 304(c) termination right would have expired,[132] and Penguin would have been bound only by the 1938 Agreement for the duration of the copyright terms absent (as ultimately happened) Congressional

[132]There is some question as to why Penguin agreed to terminate and renegotiate the 1938 Agreement, for without a majority termination interest, it appears that Elaine Steinbeck would have been unable to terminate the 1938 Agreement on her own. Although she possessed a power of attorney to exercise the Steinbeck Descendants' termination rights as a result of a 1983 settlement, it is unclear that her exercise of those rights would have been valid. But the resolution of these speculations is immaterial to the resolution of this appeal.

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action. We cannot see how the 1994 Agreement could be an "agreement to the contrary" solely because it had the effect of eliminating termination rights that did not yet exist.

Appellees' reliance on *Marvel Characters, Inc. v. Simon,* 310 F.3d 280 (2d Cir.2002), is misplaced. There, the parties entered into a settlement agreement that contractually recharacterized an already created work as a "work made for hire." Works for hire are exempt from section 304(c) and (d). We agreed with the author that the grantee could not use such after-the-fact relabeling of the nature of the work to eliminate a future exercise of the author's termination right under section 304(c), because the contract constituted an "agreement to the contrary" that left termination rights unaffected under section 304(c)(5). Id. at 290. We were concerned that if such an agreement was not held to be an ineffective "agreement to the contrary," authors could be coerced into recharacterizing works already created as works for hire so as to avoid subsequent application of a section 304 termination right. *Marvel* concludes only that backward-looking attempts to recharacterize existing grants of copyright so as to eliminate the right to terminate under section 304(c) are forbidden by section 304(c)(5). There was no such attempt at recharacterization here.

There is also no indication in the statutory text or the legislative history of the Copyright Act that elimination of a termination right through termination of a pre-1978 contractual grant was precluded or undesirable. The House Report for the 1976 amendments noted, for example, that "nothing in [the Copyright Act] is intended to change the existing state of the law of contracts concerning the circumstances in which an author may cancel or terminate a license, transfer, or assignment." H.R.Rep. No. 94-1476, at 128 (1976), U.S. Cong.Code & Admin.News at 5742-43. The report also noted more specifically that "parties to a transfer or license" would retain under the amendments the continued right to "voluntarily agree[ ] at any time to terminate an existing grant and negotiat[e] a new one." Id. at 127, U.S. Cong.Code & Admin.News at 57432-44. So, provided that a post-1978 agreement effectively terminates a pre-1978 grant, Congress did not manifest any intent for the earlier agreement to survive simply for purposes of exercising a termination right in the future. See Milne v. Stephen Slesinger, Inc., 430 F.3d 1036, 1046 (9th Cir.2005) (post-1978 agreement superseding pre-1978 agreement was of "the type expressly contemplated and endorsed by Congress" because it enabled an author's statutory heirs to renegotiate the terms of an original grant with full knowledge of the market value of the works at issue), *cert. denied,* 548 U.S. 904 (2006).[133]

It should be noted that under our view, authors or their statutory heirs holding termination rights are still left with an opportunity to threaten (or to make good on a threat) to exercise termination rights and extract more favorable terms from early grants of an author's copyright.

[133]We note that the passages quoted above concern the termination provision that applies to post-1978 grants, rather than the termination provisions here at issue. The Supreme Court has described the two provisions, however, as "comparable," Mills Music, Inc. v. Snyder, 469 U.S. 153, 173 n. 39 (1985), and indeed they both contain the "agreement to the contrary" clause. "The normal rule of statutory construction [is] that identical words used in different parts of the same Act are intended to have the same meaning." Gustafson v. Alloyd Co., Inc., 513 U.S. 561, 562 (1995); see also Milne v. Stephen Slesinger, Inc., 430 F.3d 1036, 1046 n.9 (9th Cir.2005) ("To the extent that the legislative record references section 304(c)(5)'s counterpart provision under section 203(a)(5), we find that history instructive given Congress's use of identical language in both provisions.").

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But nothing in the statute suggests that an author or an author's statutory heirs are entitled to more than one opportunity, between them, to use termination rights to enhance their bargaining power or to exercise them. See 17 U.S.C. § 304(d) (permitting exercise of termination right only "where the author or owner of the termination right has not previously exercised such termination right"). In this case, Elaine Steinbeck had the opportunity in 1994 to renegotiate the terms of the 1938 Agreement to her benefit, for at least some of the works covered by the agreement were eligible, or about to be eligible, for termination. By taking advantage of this opportunity, she exhausted the single opportunity provided by statute to Steinbeck's statutory heirs to revisit the terms of her late husband's original grants of licenses to his copyrights. It is no violation of the Copyright Act to execute a renegotiated contract where the Act gives the original copyright owner's statutory heirs the opportunity and incentive to do so. See Milne, 430 F.3d at 1046; cf. Classic Media, Inc. v. Mewborn, 532 F.3d 978, 989 (9th Cir.2008) (termination right preserved, notwithstanding a March 1978-i.e. post-1978-grant of rights, where termination right could not have been exercised until 1984 at the earliest, and where "[n]either party intended to revoke and replace (or even modify)" a 1976 grant of rights).

The 1994 Agreement was not an "agreement to the contrary" rendered ineffective by section 304(c)(5).

CONCLUSION

For the foregoing reasons, the judgment of the district court is reversed and the case remanded for entry of judgment in favor of Penguin.

[8] Third Party Liability

USAGE: On page 688, ADD the following case after *A&M Records, Inc. v. Napster, Inc.*:

METRO-GOLDWYN-MAYER STUDIOS INC. v. GROKSTER LTD
545 U.S. 913 (2005)

Justice SOUTER delivered the opinion of the Court.

The question is under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product. We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

I

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A

Respondents, Grokster, Ltd., and StreamCast Networks, Inc., defendants in the trial court, distribute free software products that allow computer users to share electronic files through peer-to-peer networks, so called because users' computers communicate directly with each other, not through central servers. The advantage of peer-to-peer networks over information networks of other types shows up in their substantial and growing popularity. Because they need no central computer server to mediate the exchange of information or files among users, the high-bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated. Since copies of a file (particularly a popular one) are available on many users' computers, file requests and retrievals may be faster than on other types of networks, and since file exchanges do not travel through a server, communications can take place between any computers that remain connected to the network without risk that a glitch in the server will disable the network in its entirety. Given these benefits in security, cost, and efficiency, peer-to-peer networks are employed to store and distribute electronic files by universities, government agencies, corporations, and libraries, among others.[134]

Other users of peer-to-peer networks include individual recipients of Grokster's and StreamCast's software, and although the networks that they enjoy through using the software can be used to share any type of digital file, they have prominently employed those networks in sharing copyrighted music and video files without authorization. A group of copyright holders (MGM for short, but including motion picture studios, recording companies, songwriters, and music publishers) sued Grokster and StreamCast for their users' copyright infringements, alleging that they knowingly and intentionally distributed their software to enable users to reproduce and distribute the copyrighted works in violation of the Copyright Act, 17 U.S.C. § 101 *et seq.* (2000 ed. and Supp. II). MGM sought damages and an injunction.

Discovery during the litigation revealed the way the software worked, the business aims of each defendant company, and the predilections of the users. Grokster's eponymous software employs what is known as FastTrack technology, a protocol developed by others and licensed to Grokster. StreamCast distributes a very similar product except that its software, called Morpheus, relies on what is known as Gnutella technology. A user who downloads and installs either software possesses the protocol to send requests for files directly to the computers of others using software compatible with FastTrack or Gnutella. On the FastTrack network opened by the Grokster software, the user's request goes to a computer given an indexing capacity by the software and designated a supernode, or to some other computer with comparable power and capacity to collect temporary indexes of the files available on the computers of users connected to it. The supernode (or indexing computer) searches its own index and may communicate the search request to other supernodes. If the file is found, the supernode discloses its location to the

[134]Peer-to-peer networks have disadvantages as well. Searches on peer-to-peer networks may not reach and uncover all available files because search requests may not be transmitted to every computer on the network. There may be redundant copies of popular files. The creator of the software has no incentive to minimize storage or bandwidth consumption, the costs of which are borne by every user of the network. Most relevant here, it is more difficult to control the content of files available for retrieval and the behavior of users.

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computer requesting it, and the requesting user can download the file directly from the computer located. The copied file is placed in a designated sharing folder on the requesting user's computer, where it is available for other users to download in turn, along with any other file in that folder.

In the Gnutella network made available by Morpheus, the process is mostly the same, except that in some versions of the Gnutella protocol there are no supernodes. In these versions, peer computers using the protocol communicate directly with each other. When a user enters a search request into the Morpheus software, it sends the request to computers connected with it, which in turn pass the request along to other connected peers. The search results are communicated to the requesting computer, and the user can download desired files directly from peers' computers. As this description indicates, Grokster and StreamCast use no servers to intercept the content of the search requests or to mediate the file transfers conducted by users of the software, there being no central point through which the substance of the communications passes in either direction.

Although Grokster and StreamCast do not therefore know when particular files are copied, a few searches using their software would show what is available on the networks the software reaches. MGM commissioned a statistician to conduct a systematic search, and his study showed that nearly 90% of the files available for download on the FastTrack system were copyrighted works.[135] Grokster and StreamCast dispute this figure, raising methodological problems and arguing that free copying even of copyrighted works may be authorized by the rightholders. They also argue that potential noninfringing uses of their software are significant in kind, even if infrequent in practice. Some musical performers, for example, have gained new audiences by distributing their copyrighted works for free across peer-to-peer networks, and some distributors of unprotected content have used peer-to-peer networks to disseminate files, Shakespeare being an example. Indeed, StreamCast has given Morpheus users the opportunity to download the briefs in this very case, though their popularity has not been quantified.

As for quantification, the parties' anecdotal and statistical evidence entered thus far to show the content available on the FastTrack and Gnutella networks does not say much about which files are actually downloaded by users, and no one can say how often the software is used to obtain copies of unprotected material. But MGM's evidence gives reason to think that the vast majority of users' downloads are acts of infringement, and because well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the FastTrack and Gnutella networks each month, the probable scope of copyright infringement is staggering.

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[135]By comparison, evidence introduced by the plaintiffs in A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (C.A.9 2001), showed that 87% of files available on the Napster file-sharing network were copyrighted, id., at 1013.

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Grokster and StreamCast concede the infringement in most downloads, Brief for Respondents 10, n. 6, and it is uncontested that they are aware that users employ their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks fail to reveal which files are being copied, and when. From time to time, moreover, the companies have learned about their users' infringement directly, as from users who have sent e-mail to each company with questions about playing copyrighted movies they had downloaded, to whom the companies have responded with guidance.[136] App. 559-563, 808-816, 939-954. And MGM notified the companies of 8 million copyrighted files that could be obtained using their software.

Grokster and StreamCast are not, however, merely passive recipients of information about infringing use. The record is replete with evidence that from the moment Grokster and StreamCast began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement.

After the notorious file-sharing service, Napster, was sued by copyright holders for facilitation of copyright infringement, A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896 (N.D.Cal.2000), aff'd in part, rev'd in part, 239 F.3d 1004 (C.A.9 2001), StreamCast gave away a software program of a kind known as OpenNap, designed as compatible with the Napster program and open to Napster users for downloading files from other Napster and OpenNap users' computers. Evidence indicates that "[i]t was always [StreamCast's] intent to use [its OpenNap network] to be able to capture email addresses of [its] initial target market so that [it] could promote [its] StreamCast Morpheus interface to them," App. 861; indeed, the OpenNap program was engineered " 'to leverage Napster's 50 million user base,' " id., at 746.

StreamCast monitored both the number of users downloading its OpenNap program and the number of music files they downloaded. *Id.,* at 859, 863, 866. It also used the resulting OpenNap network to distribute copies of the Morpheus software and to encourage users to adopt it. Id., at 861, 867, 1039. Internal company documents indicate that StreamCast hoped to attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster. Id., at 861. A kit developed by StreamCast to be delivered to advertisers, for example, contained press articles about StreamCast's potential to capture former Napster users, id., at 568-572, and it introduced itself to some potential advertisers as a company "which is similar to what Napster was," id., at 884. It broadcast banner advertisements to users of other Napster-compatible software, urging them to adopt its OpenNap. Id., at 586. An internal e-mail from a company executive stated: " 'We have put this network in place so that when Napster pulls the plug on their free service . . . or if the Court orders them shut down prior to that. . . . we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative.' " Id., at 588-589, 861.

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[136]The Grokster founder contends that in answering these e-mails he often did not read them fully. App. 77, 769.

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Thus, StreamCast developed promotional materials to market its service as the best Napster alternative. One proposed advertisement read: "Napster Inc. has announced that it will soon begin charging you a fee. That's if the courts don't order it shut down first. What will you do to get around it?" *Id.,* at 897. Another proposed ad touted StreamCast's software as the "# 1 alternative to Napster" and asked "[w]hen the lights went off at Napster ... where did the users go?" Id., at 836 (ellipsis in original).[137] StreamCast even planned to flaunt the illegal uses of its software; when it launched the OpenNap network, the chief technology officer of the company averred that "[t]he goal is to get in trouble with the law and get sued. It's the best way to get in the new[s]." Id., at 916.

The evidence that Grokster sought to capture the market of former Napster users is sparser but revealing, for Grokster launched its own OpenNap system called Swaptor and inserted digital codes into its Web site so that computer users using Web search engines to look for "Napster" or "[f]ree file sharing" would be directed to the Grokster Web site, where they could download the Grokster software. Id., at 992-993. And Grokster's name is an apparent derivative of Napster. . . .

In addition to this evidence of express promotion, marketing, and intent to promote further, the business models employed by Grokster and StreamCast confirm that their principal object was use of their software to download copyrighted works. Grokster and StreamCast receive no revenue from users, who obtain the software itself for nothing. Instead, both companies generate income by selling advertising space, and they stream the advertising to Grokster and Morpheus users while they are employing the programs. As the number of users of each program increases, advertising opportunities become worth more. Cf. App. 539, 804. While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking a free Decameron, and Grokster and StreamCast translated that demand into dollars.

Finally, there is no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impede the sharing of copyrighted files. Although Grokster appears to have sent e-mails warning users about infringing content when it received threatening notice from the copyright holders, it never blocked anyone from continuing to use its software to share copyrighted files. Id., at 75-76. StreamCast not only rejected another company's offer of help to monitor infringement, id., at 928-929, but blocked the Internet Protocol addresses of entities it believed were trying to engage in such monitoring on its networks, id., at 917-922.

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[137]The record makes clear that StreamCast developed these promotional materials but not whether it released them to the public. Even if these advertisements were not released to the public and do not show encouragement to infringe, they illuminate StreamCast's purposes.

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B

After discovery, the parties on each side of the case cross-moved for summary judgment. The District Court limited its consideration to the asserted liability of Grokster and StreamCast for distributing the current versions of their software, leaving aside whether either was liable "for damages arising from *past* versions of their software, or from other past activities." 259 F.Supp.2d 1029, 1033 (C.D.Cal.2003). The District Court held that those who used the Grokster and Morpheus software to download copyrighted media files directly infringed MGM's copyrights, a conclusion not contested on appeal, but the court nonetheless granted summary judgment in favor of Grokster and StreamCast as to any liability arising from distribution of the then-current versions of their software. Distributing that software gave rise to no liability in the court's view, because its use did not provide the distributors with actual knowledge of specific acts of infringement. Case No. CV 01 08541 SVW (PJWx) (C.D. Cal., June 18, 2003), App. 1213.

The Court of Appeals affirmed. 380 F.3d 1154 (C.A.9 2004). In the court's analysis, a defendant was liable as a contributory infringer when it had knowledge of direct infringement and materially contributed to the infringement. But the court read Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984), as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. The fact that the software was capable of substantial noninfringing uses in the Ninth Circuit's view meant that Grokster and StreamCast were not liable, because they had no such actual knowledge, owing to the decentralized architecture of their software. The court also held that Grokster and StreamCast did not materially contribute to their users' infringement because it was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place.

The Ninth Circuit also considered whether Grokster and StreamCast could be liable under a theory of vicarious infringement. The court held against liability because the defendants did not monitor or control the use of the software, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement. We granted certiorari. 543 U.S. 1032 (2004).

II

A

MGM and many of the *amici* fault the Court of Appeals's holding for upsetting a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement. The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an

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exercise in managing the tradeoff. See Sony Corp. v. Universal City Studios, supra, at 442; see generally Ginsburg, Copyright and Control Over New Technologies of Dissemination, 101 Colum. L.Rev. 1613 (2001); Lichtman & Landes, Indirect Liability for Copyright Infringement: An Economic Perspective, 16 Harv. J.L. & Tech. 395 (2003).

The tension between the two values is the subject of this case, with its claim that digital distribution of copyrighted material threatens copyright holders as never before, because every copy is identical to the original, copying is easy, and many people (especially the young) use file-sharing software to download copyrighted works. This very breadth of the software's use may well draw the public directly into the debate over copyright policy, Peters, Brace Memorial Lecture: Copyright Enters the Public Domain, 51 J. Copyright Soc. 701, 705-717 (2004) (address by Register of Copyrights), and the indications are that the ease of copying songs or movies using software like Grokster's and Napster's is fostering disdain for copyright protection, Wu, When Code Isn't Law, 89 Va. L.Rev. 679, 724-726 (2003). As the case has been presented to us, these fears are said to be offset by the different concern that imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies. See, e.g., Lemley & Reese, Reducing Digital Copyright Infringement Without Restricting Innovation, 56 Stan. L.Rev. 1345, 1386-1390 (2004); Brief for Innovation Scholars and Economists as *Amici Curiae* 15-20; Brief for Emerging Technology Companies as *Amici Curiae* 19-25; Brief for Intel Corporation as *Amicus Curiae* 20-22.[138]

The argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day using StreamCast's and Grokster's software. When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement. See In re Aimster Copyright Litigation, 334 F.3d 643, 645-646 (C.A.7 2003).

One infringes contributorily by intentionally inducing or encouraging direct infringement, see Gershwin Pub. Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159, 1162 (C.A.2 1971), and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it, Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (C.A.2

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[138]The mutual exclusivity of these values should not be overstated, however. On the one hand technological innovators, including those writing file-sharing computer programs, may wish for effective copyright protections for their work. See, e.g., Wu, When Code Isn't Law, 89 Va. L. Rev. 679, 750 (2003). (StreamCast itself was urged by an associate to “get [its] technology written down and [its intellectual property] protected.” App. 866.) On the other hand the widespread distribution of creative works through improved technologies may enable the synthesis of new works or generate audiences for emerging artists. See Eldred v. Ashcroft, 537 U.S. 186, 223-226 (2003) (STEVENS, J., dissenting); Van Houweling, Distributive Values in Copyright, 83 Texas L.Rev. 1535, 1539-1540, 1562-1564 (2005); Brief for Sovereign Artists et al. as *Amici Curiae* 11.

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1963).[139] Although "[t]he Copyright Act does not expressly render anyone liable for infringement committed by another," Sony Corp. v. Universal City Studios, 464 U.S., at 434, these doctrines of secondary liability emerged from common law principles and are well established in the law, id., at 486 (Blackmun, J., dissenting); Kalem Co. v. Harper Brothers, 222 U.S. 55, 62-63 (1911); Gershwin Pub. Corp. v. Columbia Artists Management, supra, at 1162; 3 M. Nimmer & D. Nimmer, Copyright § 12.04[A] (2005).

B

Despite the currency of these principles of secondary liability, this Court has dealt with secondary copyright infringement in only one recent case, and because MGM has tailored its principal claim to our opinion there, a look at our earlier holding is in order. In *Sony Corp. v. Universal City Studios, supra,* this Court addressed a claim that secondary liability for infringement can arise from the very distribution of a commercial product. There, the product, novel at the time, was what we know today as the videocassette recorder or VCR. Copyright holders sued Sony as the manufacturer, claiming it was contributorily liable for infringement that occurred when VCR owners taped copyrighted programs because it supplied the means used to infringe, and it had constructive knowledge that infringement would occur. At the trial on the merits, the evidence showed that the principal use of the VCR was for " 'time-shifting,' " or taping a program for later viewing at a more convenient time, which the Court found to be a fair, not an infringing, use. Id., at 423-424. There was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping. Id., at 438. Although Sony's advertisements urged consumers to buy the VCR to " 'record favorite shows' " or " 'build a library' " of recorded programs, id., at 459 (Blackmun, J., dissenting), neither of these uses was necessarily infringing, id., at 424, 454-455.

On those facts, with no evidence of stated or indicated intent to promote infringing uses, the only conceivable basis for imposing liability was on a theory of contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe. Id., at 439. But because the VCR was "capable of commercially significant noninfringing uses," we held the manufacturer could not be faulted solely on the basis of its distribution. Id., at 442.

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[139]We stated in *Sony Corp. of America v. Universal City Studios, Inc.,* 464 U.S. 417 (1984), that " 'the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn'. . . . [R]easoned analysis of [the *Sony* plaintiffs' contributory infringement claim] necessarily entails consideration of arguments and case law which may also be forwarded under the other labels, and indeed the parties . . . rely upon such arguments and authority in support of their respective positions on the issue of contributory infringement," id., at 435, n. 17 (quoting Universal City Studios, Inc. v. Sony Corp. of America, 480 F. Supp. 429, 457-458 (C.D. Cal.1979)). In the present case MGM has argued a vicarious liability theory, which allows imposition of liability when the defendant profits directly from the infringement and has a right and ability to supervise the direct infringer, even if the defendant initially lacks knowledge of the infringement. See, e.g., Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 308 (C.A.2 1963); Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co., 36 F.2d 354, 355 (C.A.7 1929). Because we resolve the case based on an inducement theory, there is no need to analyze separately MGM's vicarious liability theory.

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This analysis reflected patent law's traditional staple article of commerce doctrine, now codified, that distribution of a component of a patented device will not violate the patent if it is suitable for use in other ways. 35 U.S.C. § 271(c); Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 485 (1964) (noting codification of cases); id., at 486, n. 6, 84 S. Ct. 1526 (same). The doctrine was devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another's patent, and so may justly be held liable for that infringement. "One who makes and sells articles which are only adapted to be used in a patented combination will be presumed to intend the natural consequences of his acts; he will be presumed to intend that they shall be used in the combination of the patent." New York Scaffolding Co. v. Whitney, 224 F. 452, 459 (C.A.8 1915); see also James Heekin Co. v. Baker, 138 F. 63, 66 (C.A.8 1905); Canda v. Michigan Malleable Iron Co., 124 F. 486, 489 (C.A.6 1903); Thomson-Houston Electric Co. v. Ohio Brass Co., 80 F. 712, 720-721 (C.A.6 1897); Red Jacket Mfg. Co. v. Davis, 82 F. 432, 439 (C.A. 7 1897); Holly v. Vergennes Machine Co., 4 F. 74, 82 (C.C.D. Vt.1880); Renwick v. Pond, 20 F. Cas. 536, 541 (No. 11,702) (C.C.S.D.N.Y.1872).

In sum, where an article is "good for nothing else" but infringement, *Canda v. Michigan Malleable Iron Co., supra,* at 489, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe, see Henry v. A.B. Dick Co., 224 U.S. 1, 48 (1912), overruled on other grounds, Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917). Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce. See Sony Corp. v. Universal City Studios, 464 U.S., at 442; Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176, 221 (1980); Henry v. A.B. Dick Co., supra, at 48.

The parties and many of the *amici* in this case think the key to resolving it is the *Sony* rule and, in particular, what it means for a product to be "capable of commercially significant noninfringing uses." Sony Corp. v. Universal City Studios, supra, at 442. MGM advances the argument that granting summary judgment to Grokster and StreamCast as to their current activities gave too much weight to the value of innovative technology, and too little to the copyrights infringed by users of their software, given that 90% of works available on one of the networks was shown to be copyrighted. Assuming the remaining 10% to be its noninfringing use, MGM says this should not qualify as "substantial," and the Court should quantify *Sony* to the extent of holding that a product used "principally" for infringement does not qualify. See Brief for Motion Picture Studio and Recording Company Petitioners 31. As mentioned before, Grokster and StreamCast reply by citing evidence that their software can be used to reproduce public domain works, and they point to copyright holders who actually encourage copying. Even if infringement is the principal practice with their software today, they argue, the noninfringing uses are significant and will grow.

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We agree with MGM that the Court of Appeals misapplied *Sony,* which it read as limiting secondary liability quite beyond the circumstances to which the case applied. *Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. The Ninth Circuit has read *Sony's* limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it; it read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had "specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information." 380 F.3d, at 1162 (internal quotation marks and brackets omitted). Because the Circuit found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of *Sony* that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

This view of *Sony,* however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory. Because *Sony* did not displace other theories of secondary liability, and because we find below that it was error to grant summary judgment to the companies on MGM's inducement claim, we do not revisit *Sony* further, as MGM requests, to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur. It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and to leave further consideration of the *Sony* rule for a day when that may be required.

C

Sony's rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law.[140] Sony Corp. v. Universal City Studios, supra, at 439 ("If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge" of the potential for infringement). Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony's* staple-article rule will not preclude liability.

The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or "entic[es] or persuad[es] another" to infringe, Black's Law Dictionary 790 (8th ed. 2004), as by advertising. Thus at common law a copyright or patent

[140] Nor does the Patent Act's exemption from liability for those who distribute a staple article of commerce, 35 U.S.C. § 271(c), extend to those who induce patent infringement, § 271(b).

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defendant who "not only expected but invoked [infringing use] by advertisement" was liable for infringement "on principles recognized in every part of the law." Kalem Co. v. Harper Brothers, 222 U.S., at 62-63 (copyright infringement). See also Henry v. A.B. Dick Co., 224 U.S., at 48-49 (contributory liability for patent infringement may be found where a good's "most conspicuous use is one which will co-operate in an infringement when sale to such user is invoked by advertisement" of the infringing use); Thomson-Houston Electric Co. v. Kelsey Electric R. Specialty Co., 75 F. 1005, 1007-1008 (C.A.2 1896) (relying on advertisements and displays to find defendant's "willingness . . . to aid other persons in any attempts which they may be disposed to make towards [patent] infringement"); Rumford Chemical Works v. Hecker, 20 F. Cas. 1342, 1346 (No. 12,133) (C.C.D.N.J.1876) (demonstrations of infringing activity along with "avowals of the [infringing] purpose and use for which it was made" supported liability for patent infringement).

The rule on inducement of infringement as developed in the early cases is no different today.[141] Evidence of "active steps . . . taken to encourage direct infringement," Oak Industries, Inc. v. Zenith Electronics Corp., 697 F. Supp. 988, 992 (N.D.Ill.1988), such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use, see, e.g., Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660, 668 (C.A. Fed.1988) (liability for inducement where one "actively and knowingly aid [s] and abet[s] another's direct infringement" (emphasis deleted)); Fromberg, Inc. v. Thornhill, 315 F.2d 407, 412-413 (C.A.5 1963) (demonstrations by sales staff of infringing uses supported liability for inducement); Haworth Inc. v. Herman Miller Inc., 37 U.S.P.Q.2d 1080, 1090, 1994 WL 875931 (W.D.Mich.1994) (evidence that defendant "demonstrate[d] and recommend[ed] infringing configurations" of its product could support inducement liability); Sims v. Mack Trucks, Inc., 459 F. Supp. 1198, 1215 (E.D.Pa.1978) (finding inducement where the use "depicted by the defendant in its promotional film and brochures infringes the . . . patent"), overruled on other grounds, 608 F.2d 87 (C.A.3 1979). Cf. W. Keeton, D. Dobbs, R. Keeton, & D. Owen, Prosser and Keeton on Law of Torts 37 (5th ed. 1984) ("There is a definite tendency to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong").

For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device

[141]Inducement has been codified in patent law. Ibid.

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could be used to infringe, 464 U.S., at 439, n. 19, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

III

A

The only apparent question about treating MGM's evidence as sufficient to withstand summary judgment under the theory of inducement goes to the need on MGM's part to adduce evidence that StreamCast and Grokster communicated an inducing message to their software users. The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations. MGM claims that such a message is shown here. It is undisputed that StreamCast beamed onto the computer screens of users of Napster-compatible programs ads urging the adoption of its OpenNap program, which was designed, as its name implied, to invite the custom of patrons of Napster, then under attack in the courts for facilitating massive infringement. Those who accepted StreamCast's OpenNap program were offered software to perform the same services, which a factfinder could conclude would readily have been understood in the Napster market as the ability to download copyrighted music files. Grokster distributed an electronic newsletter containing links to articles promoting its software's ability to access popular copyrighted music. And anyone whose Napster or free file-sharing searches turned up a link to Grokster would have understood Grokster to be offering the same file-sharing ability as Napster, and to the same people who probably used Napster for infringing downloads; that would also have been the understanding of anyone offered Grokster's suggestively named Swaptor software, its version of OpenNap. And both companies communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials.

In StreamCast's case, of course, the evidence just described was supplemented by other unequivocal indications of unlawful purpose in the internal communications and advertising designs aimed at Napster users ("When the lights went off at Napster . . . where did the users go?" App. 836 (ellipsis in original)). Whether the messages were communicated is not to the point on this record. The function of the message in the theory of inducement is to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection (and incidentally to point to actual violators likely to be found among those who hear or read the message). See supra, at 2779-2780. Proving that a message was sent out, then, is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed. Here, the summary judgment record is replete with other evidence that Grokster and StreamCast, unlike the manufacturer and distributor in *Sony,* acted with a purpose to cause copyright violations by use of software suitable for illegal use. See supra, at 2772-2774.

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Three features of this evidence of intent are particularly notable. First, each company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users. StreamCast's internal documents made constant reference to Napster, it initially distributed its Morpheus software through an OpenNap program compatible with Napster, it advertised its OpenNap program to Napster users, and its Morpheus software functions as Napster did except that it could be used to distribute more kinds of files, including copyrighted movies and software programs. Grokster's name is apparently derived from Napster, it too initially offered an OpenNap program, its software's function is likewise comparable to Napster's, and it attempted to divert queries for Napster onto its own Web site. Grokster and StreamCast's efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.

Second, this evidence of unlawful objective is given added significance by MGM's showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. While the Ninth Circuit treated the defendants' failure to develop such tools as irrelevant because they lacked an independent duty to monitor their users' activity, we think this evidence underscores Grokster's and StreamCast's intentional facilitation of their users' infringement.[142]

Third, there is a further complement to the direct evidence of unlawful objective. It is useful to recall that StreamCast and Grokster make money by selling advertising space, by directing ads to the screens of computers employing their software. As the record shows, the more the software is used, the more ads are sent out and the greater the advertising revenue becomes. Since the extent of the software's use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.[143] This evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear.

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[142]Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.

[143]Grokster and StreamCast contend that any theory of liability based on their conduct is not properly before this Court because the rulings in the trial and appellate courts dealt only with the present versions of their software, not "past acts . . . that allegedly encouraged infringement or assisted . . . known acts of infringement." Brief for Respondents 14; see also id., at 34. This contention misapprehends the basis for their potential liability. It is not only that encouraging a particular consumer to infringe a copyright can give rise to secondary liability for the infringement that results. Inducement liability goes beyond that, and the distribution of a product can itself give rise to liability where evidence shows that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use. See Kalem Co. v. Harper Brothers, 222 U.S. 55, 62-63 (1911); Cable/Home Communication Corp. v. Network Productions, Inc., 902 F.2d 829, 846 (C.A.11 1990); A&M Records, Inc. v. Abdallah, 948 F. Supp. 1449, 1456 (C.D. Cal.1996).

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The unlawful objective is unmistakable.

B

In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement by recipients of the device, the software in this case. As the account of the facts indicates, there is evidence of infringement on a gigantic scale, and there is no serious issue of the adequacy of MGM's showing on this point in order to survive the companies' summary judgment requests. Although an exact calculation of infringing use, as a basis for a claim of damages, is subject to dispute, there is no question that the summary judgment evidence is at least adequate to entitle MGM to go forward with claims for damages and equitable relief.

* * * * *

In sum, this case is significantly different from *Sony* and reliance on that case to rule in favor of StreamCast and Grokster was error. *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product's capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.

MGM's evidence in this case most obviously addresses a different basis of liability for distributing a product open to alternative uses. Here, evidence of the distributors' words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.

There is substantial evidence in MGM's favor on all elements of inducement, and summary judgment in favor of Grokster and StreamCast was error. On remand, reconsideration of MGM's motion for summary judgment will be in order.

The judgment of the Court of Appeals is vacated, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

Justice GINSBURG, with whom THE CHIEF JUSTICE and Justice KENNEDY join, concurring

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I concur in the Court's decision, which vacates in full the judgment of the Court of Appeals for the Ninth Circuit, *ante,* at 2782-2783, and write separately to clarify why I conclude that the Court of Appeals misperceived, and hence misapplied, our holding in *Sony Corp. of America v. Universal City Studios, Inc.,* 464 U.S. 417 (1984). There is here at least a "genuine issue as to [a] material fact," Fed. Rule Civ. Proc. 56(c), on the liability of Grokster or StreamCast, not only for actively inducing copyright infringement, but also, or alternatively, based on the distribution of their software products, for contributory copyright infringement. On neither score was summary judgment for Grokster and StreamCast warranted.

At bottom, however labeled, the question in this case is whether Grokster and StreamCast are liable for the direct infringing acts of others. Liability under our jurisprudence may be predicated on actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develops) or on distributing a product distributees use to infringe copyrights, if the product is not capable of "substantial" or "commercially significant" noninfringing uses. Sony, 464 U.S., at 442; see also 3 M. Nimmer & D. Nimmer, Nimmer on Copyright § 12.04[A][2] (2005). While the two categories overlap, they capture different culpable behavior. Long coexisting, both are now codified in patent law. Compare 35 U.S.C. § 271(b) (active inducement liability) with § 271(c) (contributory liability for distribution of a product not "suitable for substantial noninfringing use").

In *Sony,* 464 U.S. 417, the Court considered Sony's liability for selling the Betamax videocassette recorder. It did so enlightened by a full trial record. Drawing an analogy to the staple article of commerce doctrine from patent law, the *Sony* Court observed that the "sale of an article . . . adapted to [a patent] infringing use" does not suffice "to make the seller a contributory infringer" if the article "is also adapted to other and lawful uses." Id., at 441 (quoting Henry v. A.B. Dick Co., 224 U.S. 1, 48 (1912), overruled on other grounds, Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 517 (1917)).

"The staple article of commerce doctrine" applied to copyright, the Court stated, "must strike a balance between a copyright holder's legitimate demand for effective-not merely symbolic-protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." Sony, 464 U.S., at 442. "Accordingly," the Court held, "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses." Ibid. Thus, to resolve the *Sony* case, the Court explained, it had to determine "whether the Betamax is capable of commercially significant noninfringing uses." Ibid.

To answer that question, the Court considered whether "a significant number of [potential uses of the Betamax were] noninfringing." Ibid. The Court homed in on one potential use-private, noncommercial time-shifting of television programs in the home (i.e., recording a broadcast TV program for later personal viewing). Time-shifting was noninfringing, the Court concluded, because in some cases trial testimony showed it was authorized by the copyright holder, id., at 443-447, and in others it qualified as legitimate fair use, id., at 447-455. Most

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purchasers used the Betamax principally to engage in time-shifting, id., at 421, 423, a use that "plainly satisfie[d]" the Court's standard, id., at 442. Thus, there was no need in *Sony* to "give precise content to the question of how much [actual or potential] use is commercially significant." Ibid.[144] Further development was left for later days and cases. . . .

The District Court declared it "undisputed that there are substantial noninfringing uses for Defendants' software," thus obviating the need for further proceedings. 259 F. Supp. 2d, at 1035. This conclusion appears to rest almost entirely on the collection of declarations submitted by Grokster and StreamCast. *Ibid.* Review of these declarations reveals mostly anecdotal evidence, sometimes obtained secondhand, of authorized copyrighted works or public domain works available online and shared through peer-to-peer networks, and general statements about the benefits of peer-to-peer technology. . . .

Even if the absolute number of noninfringing files copied using the Grokster and StreamCast software is large, it does not follow that the products are therefore put to substantial noninfringing uses and are thus immune from liability. The number of noninfringing copies may be reflective of, and dwarfed by, the huge total volume of files shared. Further, the District Court and the Court of Appeals did not sharply distinguish between uses of Grokster's and StreamCast's software products (which this case is about) and uses of peer-to-peer technology generally (which this case is not about). . . .

Justice BREYER, with whom Justice STEVENS and Justice O'CONNOR join, concurring.

I agree with the Court that the distributor of a dual-use technology may be liable for the infringing activities of third parties where he or she actively seeks to advance the infringement. *Ante,* at 2770. I further agree that, in light of our holding today, we need not now "revisit" Sony

[144]Justice BREYER finds in *Sony Corp. of America v. Universal City Studios, Inc.,* 464 U.S. 417 (1984), a "*clear*" rule permitting contributory liability for copyright infringement based on distribution of a product only when the product "will be used *almost exclusively* to infringe copyrights." Post, at 2791. But cf. Sony, 464 U.S., at 442 (recognizing "copyright holder's legitimate demand for effective-not merely symbolic-protection"). *Sony,* as I read it, contains no clear, near-exclusivity test. Nor have Courts of Appeals unanimously recognized Justice BREYER's clear rule. Compare A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1021 (C.A.9 2001) ("[E]vidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement."), with *In re Aimster Copyright Litigation,* 334 F.3d 643, 649-650 (C.A.7 2003) ("[W]hen a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement. . . . But the balancing of costs and benefits is necessary only in a case in which substantial noninfringing uses, present or prospective, are demonstrated."). See also Matthew Bender & Co. v. West Pub. Co., 158 F.3d 693, 707 (C.A.2 1998) ("The Supreme Court applied [the *Sony*] test to prevent copyright holders from leveraging the copyrights in their original work to control distribution of . . . products that might be used incidentally for infringement, but that had substantial noninfringing uses. . . . The same rationale applies here [to products] that have substantial, predominant and noninfringing uses as tools for research and citation."). All Members of the Court agree, moreover, that "the Court of Appeals misapplied *Sony,*" at least to the extent it read that decision to limit "secondary liability" to a hardly ever category, "quite beyond the circumstances to which the case applied." *Ante,* at 2778.

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Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984). *Ante,* at 2778-2779. Other Members of the Court, however, take up the *Sony* question: whether Grokster's product is "capable of 'substantial' or 'commercially significant' noninfringing uses." *Ante,* at 2783 (GINSBURG, J., concurring) (quoting Sony, supra, at 442). And they answer that question by stating that the Court of Appeals was wrong when it granted summary judgment on the issue in Grokster's favor. *Ante,* at 2784. I write to explain why I disagree with them on this matter.

I

The Court's opinion in *Sony* and the record evidence (as described and analyzed in the many briefs before us) together convince me that the Court of Appeals' conclusion has adequate legal support.

A

I begin with *Sony's* standard. In *Sony*, the Court considered the potential copyright liability of a company that did not itself illegally copy protected material, but rather sold a machine-a videocassette recorder (VCR)-that could be used to do so. A buyer could use that machine for *non*-infringing purposes, such as recording for later viewing (sometimes called " 'time-shifting,' " Sony, 464 U.S., at 421) uncopyrighted television programs or copyrighted programs with a copyright holder's permission. The buyer could use the machine for infringing purposes as well, such as building libraries of taped copyrighted programs. Or, the buyer might use the machine to record copyrighted programs under circumstances in which the legal status of the act of recording was uncertain (*i.e.,* where the copying may, or may not, have constituted a "fair use," id., at 425-426). Sony knew many customers would use its VCRs to engage in unauthorized copying and " 'library-building.' " Id., at 458-459 (Blackmun, J., dissenting). But that fact, said the Court, was insufficient to make Sony itself an infringer. And the Court ultimately held that Sony was not liable for its customers' acts of infringement.

In reaching this conclusion, the Court recognized the need for the law, in fixing *secondary* copyright liability, to "strike a balance between a copyright holder's legitimate demand for effective-not merely symbolic-protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." Id., at 442. It pointed to patent law's "staple article of commerce" doctrine, ibid., under which a distributor of a product is not liable for patent infringement by its customers unless that product is "unsuited for any commercial noninfringing use." Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176, 198 (1980). The Court wrote that the sale of copying equipment, "like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. *Indeed, it need merely be capable of substantial noninfringing uses.*" Sony, 464 U.S., at 442 (emphasis added). The Court ultimately characterized the legal "question" in the particular case as "whether [Sony's VCR] is *capable of commercially significant noninfringing uses* " (while declining to give "precise content" to these terms). *Ibid.* (emphasis added).

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It then applied this standard. The Court had before it a survey (commissioned by the District Court and then prepared by the respondents) showing that roughly 9% of all VCR recordings were of the type-namely, religious, educational, and sports programming-owned by producers and distributors testifying on Sony's behalf who did not object to time-shifting. See Brief for Respondents, O.T.1983, No. 81-1687, pp. 52-53; see also Sony, supra, at 424 (7.3% of all Sony VCR use is to record sports programs; representatives of the sports leagues do not object). A much higher percentage of VCR *users* had at one point taped an authorized program, in addition to taping unauthorized programs. And the plaintiffs-not a large class of content providers as in this case-owned only a small percentage of the total available *un* authorized programming. See *ante,* at 2786, n. 3 (GINSBURG, J., concurring). But of all the taping actually done by Sony's customers, only around 9% was of the sort the Court referred to as authorized.

The Court found that the magnitude of authorized programming was "significant," and it also noted the "significant potential for future authorized copying." 464 U.S., at 444. The Court supported this conclusion by referencing the trial testimony of professional sports league officials and a religious broadcasting representative. Id., at 444, and n. 24. It also discussed (1) a Los Angeles educational station affiliated with the Public Broadcasting Service that made many of its programs available for home taping, and (2) Mr. Rogers' Neighborhood, a widely watched children's program. Id., at 445. On the basis of this testimony and other similar evidence, the Court determined that producers of this kind had authorized duplication of their copyrighted programs "in significant enough numbers to create a *substantial* market for a noninfringing use of the" VCR. Id., at 447, n. 28 (emphasis added).

The Court, in using the key word "substantial," indicated that these circumstances alone constituted a sufficient basis for rejecting the imposition of secondary liability. See id., at 456 ("Sony demonstrated a significant likelihood that *substantial* numbers of copyright holders" would not object to time-shifting (emphasis added)). Nonetheless, the Court buttressed its conclusion by finding separately that, in any event, *un* authorized time-shifting often constituted not infringement, but "fair use." Id., at 447-456.

B

When measured against *Sony's* underlying evidence and analysis, the evidence now before us shows that Grokster passes *Sony's* test-that is, whether the company's product is capable of substantial or commercially significant noninfringing uses. Id., at 442. For one thing, petitioners' (hereinafter MGM) own expert declared that 75% of current files available on Grokster are infringing and 15% are "likely infringing." See App. 436-439, ¶¶ 6-17 (Decl. of Dr. Ingram Olkin); cf. *ante,* at 2771-2772 (opinion of the Court). That leaves some number of files near 10% that apparently are noninfringing, a figure very similar to the 9% or so of authorized time-shifting uses of the VCR that the Court faced in Sony. . . .

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Importantly, *Sony* also used the word "capable," asking whether the product is "*capable of*" substantial noninfringing uses. Its language and analysis suggest that a figure like 10%, if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time. See ibid. (noting a "significant potential for future authorized copying"). And its language also indicates the appropriateness of looking to potential future uses of the product to determine its "capability."

Here the record reveals a significant future market for noninfringing uses of Grokster-type peer-to-peer software. Such software permits the exchange of *any* sort of digital file-whether that file does, or does not, contain copyrighted material. As more and more uncopyrighted information is stored in swappable form, it seems a likely inference that lawful peer-to-peer sharing will become increasingly prevalent. . . .

II

The real question here, I believe, is not whether the record evidence satisfies *Sony*. . . .

Instead, the real question is whether we should modify the *Sony* standard, as MGM requests, or interpret *Sony* more strictly, as I believe Justice GINSBURG's approach would do in practice. Compare *ante,* at 2784-2786 (concurring opinion) (insufficient evidence in this case of both present lawful uses and of a reasonable prospect that substantial noninfringing uses would develop over time), with Sony, 464 U.S., at 442-447 (basing conclusion as to the likely existence of a substantial market for authorized copying upon general declarations, some survey data, and common sense).

As I have said, *Sony* itself sought to "strike a balance between a copyright holder's legitimate demand for effective-not merely symbolic-protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." Id., at 442. Thus, to determine whether modification, or a strict interpretation, of *Sony* is needed, I would ask whether MGM has shown that *Sony* incorrectly balanced copyright and new-technology interests. In particular: (1) Has *Sony* (as I interpret it) worked to protect new technology? (2) If so, would modification or strict interpretation significantly weaken that protection? (3) If so, would new or necessary copyright-related benefits outweigh any such weakening?

A

The first question is the easiest to answer. *Sony's* rule, as I interpret it, has provided entrepreneurs with needed assurance that they will be shielded from copyright liability as they bring valuable new technologies to market.

Sony's rule is clear. That clarity allows those who develop new products that are capable of substantial noninfringing uses to know, *ex ante,* that distribution of their product will not yield

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massive monetary liability. At the same time, it helps deter them from distributing products that have no other real function than-or that are specifically intended for-copyright infringement, deterrence that the Court's holding today reinforces (by adding a weapon to the copyright holder's legal arsenal).

Sony's rule is strongly technology protecting. The rule deliberately makes it difficult for courts to find secondary liability where new technology is at issue. It establishes that the law will not impose copyright liability upon the distributors of dual-use technologies (who do not themselves engage in unauthorized copying) unless the product in question will be used *almost exclusively* to infringe copyrights (or unless they actively induce infringements as we today describe). . . .

Sony's rule is forward looking. It does not confine its scope to a static snapshot of a product's current uses (thereby threatening technologies that have undeveloped future markets). Rather, as the VCR example makes clear, a product's market can evolve dramatically over time. . . .

Sony's rule is mindful of the limitations facing judges where matters of technology are concerned. Judges have no specialized technical ability to answer questions about present or future technological feasibility or commercial viability where technology professionals, engineers, and venture capitalists themselves may radically disagree and where answers may differ depending upon whether one focuses upon the time of product development or the time of distribution. . . .

B

The second, more difficult, question is whether a modified *Sony* rule (or a strict interpretation) would significantly weaken the law's ability to protect new technology. Justice GINSBURG's approach would require defendants to produce considerably more concrete evidence-more than was presented here-to earn *Sony's* shelter. That heavier evidentiary demand, and especially the more dramatic (case-by-case balancing) modifications that MGM and the Government seek, would, I believe, undercut the protection that *Sony* now offers. . . .

C

The third question-whether a positive copyright impact would outweigh any technology-related loss-I find the most difficult of the three. I do not doubt that a more intrusive *Sony* test would generally provide greater revenue security for copyright holders. But it is harder to conclude that the gains on the copyright swings would exceed the losses on the technology roundabouts.

For one thing, the law disfavors equating the two different kinds of gain and loss; rather, it leans in favor of protecting technology. As *Sony* itself makes clear, the producer of a technology which *permits* unlawful copying does not himself *engage* in unlawful copying-a fact

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that makes the attachment of copyright liability to the creation, production, or distribution of the technology an exceptional thing. . . .

In addition, a copyright holder has always had the legal authority to bring a traditional infringement suit against one who wrongfully copies. Indeed, since September 2003, the Recording Industry Association of America (RIAA) has filed "thousands of suits against people for sharing copyrighted material." Walker, New Movement Hits Universities: Get Legal Music, Washington Post, Mar. 17, 2005, p. E1. These suits have provided copyright holders with damages; have served as a teaching tool, making clear that much file sharing, if done without permission, is unlawful; and apparently have had a real and significant deterrent effect. . . .

Further, copyright holders may develop new technological devices that will help curb unlawful infringement. Some new technology, called "digital 'watermarking' " and "digital fingerprint[ing]," can encode within the file information about the author and the copyright scope and date, which "fingerprints" can help to expose infringers. . . .

At the same time, advances in technology have discouraged unlawful copying by making *lawful* copying (e.g., downloading music with the copyright holder's permission) cheaper and easier to achieve. Several services now sell music for less than $1 per song. (Walmart.com, for example, charges $0.88 each.) Consequently, many consumers initially attracted to the convenience and flexibility of services like Grokster are now migrating to lawful paid services (services with copying permission) where they can enjoy at little cost even greater convenience and flexibility without engaging in unlawful swapping. . . .

Finally, as *Sony* recognized, the legislative option remains available. Courts are less well suited than Congress to the task of "accommodat[ing] fully the varied permutations of competing interests that are inevitably implicated by such new technology." Sony, 464 U.S., at 431; see, e.g., Audio Home Recording Act of 1992, 106 Stat. 4237 (adding 17 U.S.C., ch. 10); Protecting Innovation and Art While Preventing Piracy: Hearing before the Senate Committee on the Judiciary, 108th Cong., 2d Sess. (2004).

I do not know whether these developments and similar alternatives will prove sufficient, but I am reasonably certain that, given their existence, a strong demonstrated need for modifying *Sony* (or for interpreting *Sony's* standard more strictly) has not yet been shown. That fact, along with the added risks that modification (or strict interpretation) would impose upon technological innovation, leads me to the conclusion that we should maintain *Sony,* reading its standard as I have read it. As so read, it requires affirmance of the Ninth Circuit's determination of the relevant aspects of the *Sony* question.

* * * * *

For these reasons, I disagree with Justice GINSBURG, but I agree with the Court and join its opinion.

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[9] Defenses

USAGE: On page 690, SUBSTITUTE *Perfect 10, Inc. v. Cybernet Ventures, Inc.* with the following case:

VIACOM INTERNATIONAL, INC. v. YOUTUBE, INC.
676 F.3d 19 (2d Cir. 2012)

JOSÉ A. CABRANES, Circuit Judge:

This appeal requires us to clarify the contours of the "safe harbor" provision of the Digital Millennium Copyright Act (DMCA) that limits the liability of online service providers for copyright infringement that occurs "by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." 17 U.S.C. § 512(c).

The plaintiffs-appellants in these related actions—Viacom International, Inc. ("Viacom"), The Football Association Premier League Ltd. ("Premier League"), and various film studios, television networks, music publishers, and sports leagues (jointly, the "plaintiffs")—appeal from an August 10, 2010 judgment of the United States District Court for the Southern District of New York (Louis L. Stanton, Judge), which granted summary judgment to defendants-appellees YouTube, Inc., YouTube, LLC, and Google Inc. (jointly, "YouTube" or the "defendants"). The plaintiffs alleged direct and secondary copyright infringement based on the public performance, display, and reproduction of approximately 79,000 audiovisual "clips" that appeared on the YouTube website between 2005 and 2008. They demanded, inter alia, statutory damages pursuant to 17 U.S.C. § 504(c) or, in the alternative, actual damages from the alleged infringement, as well as declaratory and injunctive relief.

In a June 23, 2010 Opinion and Order (the "June 23 Opinion"), the District Court held that the defendants were entitled to DMCA safe harbor protection primarily because they had insufficient notice of the particular infringements in suit. Viacom Int'l, Inc. v. YouTube, Inc., 718 F.Supp.2d 514, 529 (S.D.N.Y.2010). In construing the statutory safe harbor, the District Court concluded that the "actual knowledge" or "aware[ness] of facts or circumstances" that would disqualify an online service provider from safe harbor protection under § 512(c)(1)(A) refer to "knowledge of specific and identifiable infringements." Id. at 523. The District Court further held that item-specific knowledge of infringing activity is required for a service provider to have the "right and ability to control" infringing activity under § 512(c)(1)(B). Id. at 527. Finally, the District Court held that the replication, transmittal, and display of videos on YouTube constituted activity "by reason of the storage at the direction of a user" within the meaning of § 512(c)(1). Id. at 526–27.

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These related cases present a series of significant questions of statutory construction. We conclude that the District Court correctly held that the § 512(c) safe harbor requires knowledge or awareness of specific infringing activity, but we vacate the order granting summary judgment because a reasonable jury could find that YouTube had actual knowledge or awareness of specific infringing activity on its website. We further hold that the District Court erred by interpreting the "right and ability to control" provision to require "item-specific" knowledge. Finally, we affirm the District Court's holding that three of the challenged YouTube software functions fall within the safe harbor for infringement that occurs "by reason of" user storage; we remand for further fact-finding with respect to a fourth software function.

BACKGROUND

A. The DMCA Safe Harbors

"The DMCA was enacted in 1998 to implement the World Intellectual Property Organization Copyright Treaty," Universal City Studios, Inc. v. Corley, 273 F.3d 429, 440 (2d Cir.2001), and to update domestic copyright law for the digital age, see Ellison v. Robertson, 357 F.3d 1072, 1076 (9th Cir.2004). Title II of the DMCA, separately titled the "Online Copyright Infringement Liability Limitation Act" (OCILLA), was designed to "clarif[y] the liability faced by service providers who transmit potentially infringing material over their networks." S.Rep. No. 105–190 at 2 (1998). But "[r]ather than embarking upon a wholesale clarification" of various copyright doctrines, Congress elected "to leave current law in its evolving state and, instead, to create a series of 'safe harbors[ ]' for certain common activities of service providers." Id. at 19. To that end, OCILLA established a series of four "safe harbors" that allow qualifying service providers to limit their liability for claims of copyright infringement based on (a) "transitory digital network communications," (b) "system caching," (c) "information residing on systems or networks at [the] direction of users," and (d) "information location tools." 17 U.S.C. § 512(a)-(d).

To qualify for protection under any of the safe harbors, a party must meet a set of threshold criteria. First, the party must in fact be a "service provider," defined, in pertinent part, as "a provider of online services or network access, or the operator of facilities therefor." 17 U.S.C. § 512(k)(1)(B). A party that qualifies as a service provider must also satisfy certain "conditions of eligibility," including the adoption and reasonable implementation of a "repeat infringer" policy that "provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network." Id. § 512(i)(1)(A). In addition, a qualifying service provider must accommodate "standard technical measures" that are "used by copyright owners to identify or protect copyrighted works." Id. § 512(i)(1)(B), (i)(2).

Beyond the threshold criteria, a service provider must satisfy the requirements of a particular safe harbor. In this case, the safe harbor at issue is § 512(c), which covers infringement claims that arise "by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." Id. § 512(c)(1). The § 512(c) safe harbor will apply only if the service provider:

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(A) (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

Id. § 512(c)(1)(A)-(C). Section 512(c) also sets forth a detailed notification scheme that requires service providers to "designate[ ] an agent to receive notifications of claimed infringement," id. § 512(c)(2), and specifies the components of a proper notification, commonly known as a "takedown notice," to that agent, see id. § 512(c)(3). Thus, actual knowledge of infringing material, awareness of facts or circumstances that make infringing activity apparent, or receipt of a takedown notice will each trigger an obligation to expeditiously remove the infringing material.

With the statutory context in mind, we now turn to the facts of this case.

B. Factual Background

YouTube was founded in February 2005 by Chad Hurley ("Hurley"), Steve Chen ("Chen"), and Jawed Karim ("Karim"), three former employees of the internet company Paypal. When YouTube announced the "official launch" of the website in December 2005, a press release described YouTube as a "consumer media company" that "allows people to watch, upload, and share personal video clips at www. You Tube. com." Under the slogan "Broadcast yourself," YouTube achieved rapid prominence and profitability, eclipsing competitors such as Google Video and Yahoo Video by wide margins. In November 2006, Google acquired YouTube in a stock-for-stock transaction valued at $1.65 billion. By March 2010, at the time of summary judgment briefing in this litigation, site traffic on YouTube had soared to more than 1 billion daily video views, with more than 24 hours of new video uploaded to the site every minute.

The basic function of the YouTube website permits users to "upload" and view video clips free of charge. Before uploading a video to YouTube, a user must register and create an account with the website. The registration process requires the user to accept YouTube's Terms of Use agreement, which provides, inter alia, that the user "will not submit material that is copyrighted ... unless [he is] the owner of such rights or ha[s] permission from their rightful owner to post the material and to grant YouTube all of the license rights granted herein." When

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the registration process is complete, the user can sign in to his account, select a video to upload from the user's personal computer, mobile phone, or other device, and instruct the YouTube system to upload the video by clicking on a virtual upload "button."

Uploading a video to the YouTube website triggers a series of automated software functions. During the upload process, YouTube makes one or more exact copies of the video in its original file format. YouTube also makes one or more additional copies of the video in "Flash" format,[145] a process known as "transcoding." The transcoding process ensures that YouTube videos are available for viewing by most users at their request. The YouTube system allows users to gain access to video content by "streaming" the video to the user's computer in response to a playback request. YouTube uses a computer algorithm to identify clips that are "related" to a video the user watches and display links to the "related" clips.

* * * * *

DISCUSSION

* * * * *

A. Actual and "Red Flag" Knowledge: § 512(c)(1)(A)

The first and most important question on appeal is whether the DMCA safe harbor at issue requires "actual knowledge" or "aware[ness]" of facts or circumstances indicating "specific and identifiable infringements," Viacom, 718 F.Supp.2d at 523. We consider first the scope of the statutory provision and then its application to the record in this case.

1. The Specificity Requirement

"As in all statutory construction cases, we begin with the language of the statute," Barnhart v. Sigmon Coal Co., 534 U.S. 438, 450 (2002). Under § 512(c)(1)(A), safe harbor protection is available only if the service provider:

> (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;
> (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
> (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material. . . .

17 U.S.C. § 512(c)(1)(A). As previously noted, the District Court held that the statutory phrases "actual knowledge that the material ... is infringing" and "facts or circumstances from

[145] The "Flash" format "is a highly compressed streaming format that begins to play instantly. Unlike other delivery methods, it does not require the viewer to download the entire video file before viewing." Joint App'x IV:73.

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which infringing activity is apparent" refer to "knowledge of specific and identifiable infringements." Viacom, 718 F.Supp.2d at 523. For the reasons that follow, we substantially affirm that holding.

Although the parties marshal a battery of other arguments on appeal, it is the text of the statute that compels our conclusion. In particular, we are persuaded that the basic operation of § 512(c) requires knowledge or awareness of specific infringing activity. Under § 512(c)(1)(A), knowledge or awareness alone does not disqualify the service provider; rather, the provider that gains knowledge or awareness of infringing activity retains safe-harbor protection if it "acts expeditiously to remove, or disable access to, the material." 17 U.S.C. § 512(c)(1)(A)(iii). Thus, the nature of the removal obligation itself contemplates knowledge or awareness of specific infringing material, because expeditious removal is possible only if the service provider knows with particularity which items to remove. Indeed, to require expeditious removal in the absence of specific or awareness would be to mandate an amorphous obligation to "take commercially reasonable steps" in response to a generalized awareness of infringement. Viacom Br. 33. Such a view cannot be reconciled with the language of the statute, which requires "expeditious[ ]" action to remove or disable "*the material* " at issue. 17 U.S.C. § 512(c)(1)(A)(iii) (emphasis added).

On appeal, the plaintiffs dispute this conclusion by drawing our attention to § 512(c)(1)(A)(ii), the so-called "red flag" knowledge provision. See id. § 512(c)(1)(A)(ii) (limiting liability where, "in the absence of such actual knowledge, [the service provider] is not aware of facts or circumstances from which infringing activity is apparent"). In their view, the use of the phrase "facts or circumstances" demonstrates that Congress did not intend to limit the red flag provision to a particular type of knowledge. The plaintiffs contend that requiring awareness of specific infringements in order to establish "aware[ness] of facts or circumstances from which infringing activity is apparent," 17 U.S.C. § 512(c)(1)(A)(ii), renders the red flag provision superfluous, because that provision would be satisfied only when the "actual knowledge" provision is also satisfied. For that reason, the plaintiffs urge the Court to hold that the red flag provision "requires less specificity" than the actual knowledge provision. Pls.' Supp. Br. 1.

This argument misconstrues the relationship between "actual" knowledge and "red flag" knowledge. It is true that "we are required to 'disfavor interpretations of statutes that render language superfluous.' " Conn. ex rel. Blumenthal v. U.S. Dep't of the Interior, 228 F.3d 82, 88 (2d Cir.2000) (quoting Conn. Nat'l Bank v. Germain, 503 U.S. 249, 253, 112 S.Ct. 1146, 117 L.Ed.2d 391 (1992)). But contrary to the plaintiffs' assertions, construing § 512(c)(1)(A) to require actual knowledge or awareness of specific instances of infringement does not render the red flag provision superfluous. The phrase "actual knowledge," which appears in § 512(c)(1)(A)(i), is frequently used to denote subjective belief. See, e.g., United States v. Quinones, 635 F.3d 590, 602 (2d Cir.2011) ("[T]he belief held by the defendant need not be reasonable in order for it to defeat ... actual knowledge."). By contrast, courts often invoke the language of "facts or circumstances," which appears in § 512(c)(1)(A)(ii), in discussing an

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objective reasonableness standard. See, e.g., Maxwell v. City of New York, 380 F.3d 106, 108 (2d Cir.2004) ("Police officers' application of force is excessive ... if it is objectively unreasonable in light of the facts and circumstances confronting them, without regard to their underlying intent or motivation." (internal quotation marks omitted)).

The difference between actual and red flag knowledge is thus not between specific and generalized knowledge, but instead between a subjective and an objective standard. In other words, the actual knowledge provision turns on whether the provider actually or "subjectively" knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement "objectively" obvious to a reasonable person. The red flag provision, because it incorporates an objective standard, is not swallowed up by the actual knowledge provision under our construction of the § 512(c) safe harbor. Both provisions do independent work, and both apply only to specific instances of infringement.

The limited body of case law interpreting the knowledge provisions of the § 512(c) safe harbor comports with our view of the specificity requirement. Most recently, a panel of the Ninth Circuit addressed the scope of § 512(c) in UMG Recordings, Inc. v. Shelter Capital Partners LLC, 667 F.3d 1022 (9th Cir.2011), a copyright infringement case against Veoh Networks, a video-hosting service similar to YouTube. As in this case, various music publishers brought suit against the service provider, claiming direct and secondary copyright infringement based on the presence of unauthorized content on the website, and the website operator sought refuge in the § 512(c) safe harbor. The Court of Appeals affirmed the district court's determination on summary judgment that the website operator was entitled to safe harbor protection. With respect to the actual knowledge provision, the panel declined to "adopt[ ] a broad conception of the knowledge requirement," id. at 1038, holding instead that the safe harbor "[r]equir [es] specific knowledge of particular infringing activity," id. at 1037. The Court of Appeals "reach[ed] the same conclusion" with respect to the red flag provision, noting that "[w]e do not place the burden of determining whether [materials] are actually illegal on a service provider." Id. at 1038 (alterations in original) (quoting Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102, 1114 (9th Cir.2007)).

Although Shelter Capital contains the most explicit discussion of the § 512(c) knowledge provisions, other cases are generally in accord. See, e.g., Capitol Records, Inc. v. MP3tunes, LLC, 821 F.Supp.2d 627, 635, 2011 WL 5104616, at *14 (S.D.N.Y. Oct. 25, 2011) ("Undoubtedly, MP3tunes is aware that some level of infringement occurs. But, there is no genuine dispute that MP3tunes did not have specific 'red flag' knowledge with respect to any particular link...."); UMG Recordings, Inc. v. Veoh Networks, Inc., 665 F.Supp.2d 1099, 1108 (C.D.Cal.2009) (" UMG II ") ("[I]f investigation of 'facts and circumstances' is required to identify material as infringing, then those facts and circumstances are not 'red flags.' "). While we decline to adopt the reasoning of those decisions in toto, we note that no court has embraced the contrary proposition—urged by the plaintiffs—that the red flag provision "requires less specificity" than the actual knowledge provision.

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Based on the text of § 512(c)(1)(A), as well as the limited case law on point, we affirm the District Court's holding that actual knowledge or awareness of facts or circumstances that indicate specific and identifiable instances of infringement will disqualify a service provider from the safe harbor.

2. The Grant of Summary Judgment

The corollary question on appeal is whether, under the foregoing construction of § 512(c)(1)(A), the District Court erred in granting summary judgment to YouTube on the record presented. For the reasons that follow, we hold that although the District Court correctly interpreted § 512(c)(1)(A), summary judgment for the defendants was premature.

i. Specific Knowledge or Awareness

The plaintiffs argue that, even under the District Court's construction of the safe harbor, the record raises material issues of fact regarding YouTube's actual knowledge or "red flag" awareness of specific instances of infringement. To that end, the plaintiffs draw our attention to various estimates regarding the percentage of infringing content on the YouTube website. For example, Viacom cites that YouTube employees conducted website surveys and estimated that 75–80% of all YouTube streams contained copyrighted material. The class plaintiffs similarly claim that Credit Suisse, acting as financial advisor to Google, estimated that more than 60% of YouTube's content was "premium" copyrighted content—and that only 10% of the premium content was authorized. These approximations suggest that the defendants were conscious that significant quantities of material on the YouTube website were infringing. See Viacom Int'l, 718 F. Supp. 2d at 518 ("[A] jury could find that the defendants not only were generally aware of, but welcomed, copyright-infringing material being placed on their website."). But such estimates are insufficient, standing alone, to create a triable issue of fact as to whether YouTube actually knew, or was aware of facts or circumstances that would indicate, the existence of particular instances of infringement.

Beyond the survey results, the plaintiffs rely upon internal YouTube communications that do refer to particular clips or groups of clips. The class plaintiffs argue that YouTube was aware of specific infringing material because, inter alia, YouTube attempted to search for specific Premier League videos on the site in order to gauge their "value based on video usage." In particular, the class plaintiffs cite a February 7, 2007 e-mail from Patrick Walker, director of video partnerships for Google and YouTube, requesting that his colleagues calculate the number of daily searches for the terms "soccer," "football," and "Premier League" in preparation for a bid on the global rights to Premier League content. On another occasion, Walker requested that any "clearly infringing, official broadcast footage" from a list of top Premier League clubs—including Liverpool Football Club, Chelsea Football Club, Manchester United Football Club, and Arsenal Football Club—be taken down in advance of a meeting with the heads of "several major sports teams and leagues." YouTube ultimately decided not to make a bid for the Premier League rights—but the infringing content allegedly remained on the website.

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The record in the Viacom action includes additional examples. For instance, YouTube founder Jawed Karim prepared a report in March 2006 which stated that, "[a]s of today[,] episodes and clips of the following well-known shows can still be found [on YouTube]: Family Guy, South Park, MTV Cribs, Daily Show, Reno 911, [and] Dave Chapelle [sic]." Karim further opined that, "although YouTube is not legally required to monitor content ... and complies with DMCA takedown requests, we would benefit from *preemptively* removing content that is blatantly illegal and likely to attract criticism." He also noted that "a more thorough analysis" of the issue would be required. At least some of the TV shows to which Karim referred are owned by Viacom. A reasonable juror could conclude from the March 2006 report that Karim knew of the presence of Viacom-owned material on YouTube, since he presumably located specific clips of the shows in question before he could announce that YouTube hosted the content "[a]s of today." A reasonable juror could also conclude that Karim believed the clips he located to be infringing (since he refers to them as "blatantly illegal"), and that YouTube did not remove the content from the website until conducting "a more thorough analysis," thus exposing the company to liability in the interim.

Furthermore, in a July 4, 2005 e-mail exchange, YouTube founder Chad Hurley sent an e-mail to his co-founders with the subject line "budlight commercials," and stated, "we need to reject these too." Steve Chen responded, "can we please leave these in a bit longer? another week or two can't hurt." Karim also replied, indicating that he "added back in all 28 bud videos." Similarly, in an August 9, 2005 e-mail exchange, Hurley urged his colleagues "to start being *diligent* about rejecting copyrighted / inappropriate content," noting that "there is a cnn clip of the shuttle clip on the site today, if the boys from Turner would come to the site, they might be pissed?" Again, Chen resisted:

> but we should just keep that stuff on the site. i really don't see what will happen. what? someone from cnn sees it? he happens to be someone with power? he happens to want to take it down right away. he gets in touch with cnn legal. 2 weeks later, we get a cease & desist letter. we take the video down.

And again, Karim agreed, indicating that "the CNN space shuttle clip, I like. we can remove it once we're bigger and better known, but for now that clip is fine."

Upon a review of the record, we are persuaded that the plaintiffs may have raised a material issue of fact regarding YouTube's knowledge or awareness of specific instances of infringement. The foregoing Premier League e-mails request the identification and removal of "clearly infringing, official broadcast footage." The March 2006 report indicates Karim's awareness of specific clips that he perceived to be "blatantly illegal." Similarly, the Bud Light and space shuttle e-mails refer to particular clips in the context of correspondence about whether to remove infringing material from the website. On these facts, a reasonable juror could conclude that YouTube had actual knowledge of specific infringing activity, or was at least aware of facts or circumstances from which specific infringing activity was apparent. See § 512(c)(1)(A)(i)-(ii). Accordingly, we hold that summary judgment to YouTube on all clips-in-suit, especially in the

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absence of any detailed examination of the extensive record on summary judgment, was premature.

We hasten to note, however, that although the foregoing e-mails were annexed as exhibits to the summary judgment papers, it is unclear whether the clips referenced therein are among the current clips-in-suit. By definition, only the current clips-in-suit are at issue in this litigation. Accordingly, we vacate the order granting summary judgment and instruct the District Court to determine on remand whether any specific infringements of which YouTube had knowledge or awareness correspond to the clips-in-suit in these actions.

ii. "Willful Blindness"

The plaintiffs further argue that the District Court erred in granting summary judgment to the defendants despite evidence that YouTube was "willfully blind" to specific infringing activity. On this issue of first impression, we consider the application of the common law willful blindness doctrine in the DMCA context.

"The principle that willful blindness is tantamount to knowledge is hardly novel." Tiffany (NJ) Inc. v. eBay, Inc., 600 F.3d 93, 110 n. 16 (2d Cir.2010) (collecting cases); see In re Aimster Copyright Litig., 334 F.3d 643, 650 (7th Cir.2003) ("Willful blindness is knowledge, in copyright law ... as it is in the law generally."). A person is "willfully blind" or engages in "conscious avoidance" amounting to knowledge where the person " 'was aware of a high probability of the fact in dispute and consciously avoided confirming that fact.' " United States v. Aina-Marshall, 336 F.3d 167, 170 (2d Cir.2003) (quoting United States v. Rodriguez, 983 F.2d 455, 458 (2d Cir.1993)); cf. Global–Tech Appliances, Inc. v. SEB S.A., 131 S.Ct. 2060, 2070–71 (2011) (applying the willful blindness doctrine in a patent infringement case). Writing in the trademark infringement context, we have held that "[a] service provider is not ... permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way." Tiffany, 600 F.3d at 109.

The DMCA does not mention willful blindness. As a general matter, we interpret a statute to abrogate a common law principle only if the statute "speak[s] directly to the question addressed by the common law." Matar v. Dichter, 563 F.3d 9, 14 (2d Cir.2009) (internal quotation marks omitted). The relevant question, therefore, is whether the DMCA "speak[s] directly" to the principle of willful blindness. Id. (internal quotation marks omitted). The DMCA provision most relevant to the abrogation inquiry is § 512(m), which provides that safe harbor protection shall not be conditioned on "a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i)." 17 U.S.C. § 512(m)(1). Section 512(m) is explicit: DMCA safe harbor protection cannot be conditioned on affirmative monitoring by a service provider. For that reason, § 512(m) is incompatible with a broad common law duty to monitor or otherwise seek out infringing activity based on general awareness that infringement may be occurring. That fact does not, however, dispose of the

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abrogation inquiry; as previously noted, willful blindness cannot be defined as an affirmative duty to monitor. See Aina–Marshall, 336 F.3d at 170 (holding that a person is "willfully blind" where he "was aware of a high probability of the fact in dispute and consciously avoided confirming that fact"). Because the statute does not "speak[ ] directly" to the willful blindness doctrine, § 512(m) limits—but does not abrogate—the doctrine. Accordingly, we hold that the willful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA.

The District Court cited § 512(m) for the proposition that safe harbor protection does not require affirmative monitoring, Viacom, 718 F.Supp.2d at 524, but did not expressly address the principle of willful blindness or its relationship to the DMCA safe harbors. As a result, whether the defendants made a "deliberate effort to avoid guilty knowledge," In re Aimster, 334 F.3d at 650, remains a fact question for the District Court to consider in the first instance on remand.

B. Control and Benefit: § 512(c)(1)(B)

Apart from the foregoing knowledge provisions, the § 512(c) safe harbor provides that an eligible service provider must "not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity." 17 U.S.C. § 512(c)(1)(B). The District Court addressed this issue in a single paragraph, quoting from § 512(c)(1)(B), the so-called "control and benefit" provision, and concluding that "[t]he 'right and ability to control' the activity requires knowledge of it, which must be item-specific." Viacom, 718 F.Supp.2d at 527. For the reasons that follow, we hold that the District Court erred by importing a specific knowledge requirement into the control and benefit provision, and we therefore remand for further fact-finding on the issue of control.

1. "Right and Ability to Control" Infringing Activity

On appeal, the parties advocate two competing constructions of the "right and ability to control" infringing activity. 17 U.S.C. § 512(c)(1)(B). Because each is fatally flawed, we reject both proposed constructions in favor of a fact-based inquiry to be conducted in the first instance by the District Court.

The first construction, pressed by the defendants, is the one adopted by the District Court, which held that "the provider must know of the particular case before he can control it." Viacom, 718 F. Supp. 2d at 527. The Ninth Circuit recently agreed, holding that "until [the service provider] becomes aware of specific unauthorized material, it cannot exercise its 'power or authority' over the specific infringing item. In practical terms, it does not have the kind of ability to control infringing activity the statute contemplates." UMG Recordings, Inc. v. Shelter Capital Partners LLC, 667 F.3d 1022, 1041 (9th Cir.2011). The trouble with this construction is that importing a specific knowledge requirement into § 512(c)(1)(B) renders the control provision duplicative of § 512(c)(1)(A). Any service provider that has item-specific knowledge of infringing activity and thereby obtains financial benefit would already be excluded from the safe harbor under § 512(c)(1)(A) for having specific knowledge of infringing material and failing to effect expeditious removal. No additional service provider would be excluded by § 512(c)(1)(B)

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that was not already excluded by § 512(c)(1)(A). Because statutory interpretations that render language superfluous are disfavored, Conn. ex rel. Blumenthal, 228 F.3d at 88, we reject the District Court's interpretation of the control provision.

The second construction, urged by the plaintiffs, is that the control provision codifies the common law doctrine of vicarious copyright liability. The common law imposes liability for vicarious copyright infringement "[w]hen the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials—even in the absence of actual knowledge that the copyright mono [poly] is being impaired." Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir.1963); cf. Metro–Goldwyn–Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 930 n. 9 (2005). To support their codification argument, the plaintiffs rely on a House Report relating to a preliminary version of the DMCA: "The 'right and ability to control' language ... codifies the second element of vicarious liability.... Subparagraph (B) is intended to preserve existing case law that examines all relevant aspects of the relationship between the primary and secondary infringer." H.R.Rep. No. 105–551(I), at 26 (1998). In response, YouTube notes that the codification reference was omitted from the committee reports describing the final legislation, and that Congress ultimately abandoned any attempt to "embark[ ] upon a wholesale clarification" of vicarious liability, electing instead "to create a series of 'safe harbors' for certain common activities of service providers." S.Rep. No. 105–190, at 19.

Happily, the future of digital copyright law does not turn on the confused legislative history of the control provision. The general rule with respect to common law codification is that when "Congress uses terms that have accumulated settled meaning under the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of those terms." Neder v. United States, 527 U.S. 1, 21 (1999) (ellipsis and internal quotation marks omitted). Under the common law vicarious liability standard, " '[t]he ability to block infringers' access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.' " Arista Records LLC v. Usenet.com, Inc., 633 F.Supp.2d 124, 157 (S.D.N.Y.2009) (alteration in original) (quoting A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1023 (9th Cir.2001)). To adopt that principle in the DMCA context, however, would render the statute internally inconsistent. Section 512(c) actually presumes that service providers have the ability to "block ... access" to infringing material. Id. at 157; see Shelter Capital, 667 F.3d at 1042–43. Indeed, a service provider who has knowledge or awareness of infringing material or who receives a takedown notice from a copyright holder is *required* to "remove, or disable access to, the material" in order to claim the benefit of the safe harbor. 17 U.S.C. § 512(c)(1)(A)(iii) & (C). But in taking such action, the service provider would—in the plaintiffs' analysis—be admitting the "right and ability to control" the infringing material. Thus, the prerequisite to safe harbor protection under § 512(c)(1)(A)(iii) & (C) would at the same time be a disqualifier under § 512(c)(1)(B).

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Moreover, if Congress had intended § 512(c)(1)(B) to be coextensive with vicarious liability, "the statute could have accomplished that result in a more direct manner." Shelter Capital, 667 F.3d at 1045.

> It is conceivable that Congress ... intended that [service providers] which receive a financial benefit directly attributable to the infringing activity would not, under any circumstances, be able to qualify for the subsection (c) safe harbor. But if that was indeed their intention, it would have been far simpler and much more straightforward to simply say as much.

Id. (alteration in original) (quoting Ellison v. Robertson, 189 F. Supp. 2d 1051, 1061 (C.D.Cal.2002), aff'd in part and rev'd in part on different grounds, 357 F.3d 1072 (9th Cir.2004)).

In any event, the foregoing tension—elsewhere described as a "predicament" and a "catch22"—is sufficient to establish that the control provision a departure from the common law vicarious liability standard, Neder, 527 U.S. at 21. Accordingly, we conclude that the "right and ability to control" infringing activity under § 512(c)(1)(B) "requires something more than the ability to remove or block access to materials posted on a service provider's website." MP3tunes, LLC, 821 F. Supp. 2d at 645, 2011 WL 5104616, at *14; accord Wolk v. Kodak Imaging Network, Inc., 840 F. Supp. 2d 733, 757–58, 2012 WL 11270, at *21 (S.D.N.Y. Jan. 3, 2012); UMG II, 665 F. Supp. 2d at 1114–15; Io Grp., Inc. v. Veoh Networks, Inc., 586 F. Supp. 2d 1132, 1151 (N.D.Cal.2008); Corbis Corp. v. Amazon.com, Inc., 351 F. Supp. 2d 1090, 1110 (W.D. Wash.2004), overruled on other grounds by Cosmetic Ideas, Inc. v. IAC/Interactivecorp., 606 F.3d 612 (9th Cir.2010). The remaining—and more difficult—question is how to define the "something more" that is required.

To date, only one court has found that a service provider had the right and ability to control infringing activity under § 512(c)(1)(B).[146] In Perfect 10, Inc. v. Cybernet Ventures, Inc., 213 F. Supp. 2d 1146 (C.D. Cal.2002), the court found control where the service provider instituted a monitoring program by which user websites received "detailed instructions regard[ing] issues of layout, appearance, and content." Id. at 1173. The service provider also forbade certain types of content and refused access to users who failed to comply with its instructions. Id. Similarly, inducement of copyright infringement under Metro–Goldwyn–Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005), which "premises liability on purposeful, culpable expression and conduct," id. at 937, might also rise to the level of control under § 512(c)(1)(B). Both of these examples involve a service provider exerting substantial influence on

[146]Other courts have suggested that control may exist where the service provider is "actively involved in the listing, bidding, sale and delivery" of items offered for sale, Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082, 1094 (C.D. Cal.2001), or otherwise controls vendor sales by previewing products prior to their listing, editing product descriptions, or suggesting prices, Corbis Corp., 351 F. Supp. 2d at 1110. Because these cases held that control did not exist, however, it is not clear that the practices cited therein are individually sufficient to support a finding of control.

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the activities of users, without necessarily—or even frequently—acquiring knowledge of specific infringing activity.

In light of our holding that § 512(c)(1)(B) does not include a specific knowledge requirement, we think it prudent to remand to the District Court to consider in the first instance whether the plaintiffs have adduced sufficient evidence to allow a reasonable jury to conclude that YouTube had the right and ability to control the infringing activity and received a financial benefit directly attributable to that activity.

C. "By Reason of" Storage: § 512(c)(1)

The § 512(c) safe harbor is only available when the infringement occurs "by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." 17 U.S.C. § 512(c)(1). In this case, the District Court held that YouTube's software functions fell within the safe harbor for infringements that occur "by reason of" user storage. Viacom, 718 F. Supp. 2d at 526 (noting that a contrary holding would "confine[ ] the word 'storage' too narrowly to meet the statute's purpose"). For the reasons that follow, we affirm that holding with respect to three of the challenged software functions—the conversion (or "transcoding") of videos into a standard display format, the playback of videos on "watch" pages, and the "related videos" function. We remand for further fact-finding with respect to a fourth software function, involving the third-party syndication of videos uploaded to YouTube.

As a preliminary matter, we note that "the structure and language of OCILLA indicate that service providers seeking safe harbor under [§] 512(c) are not limited to merely storing material." Io Grp., 586 F.Supp.2d at 1147. The structure of the statute distinguishes between so-called "conduit only" functions under § 512(a) and the functions addressed by § 512(c) and the other subsections. See 17 U.S.C. § 512(n) ("Subsections (a), (b), (c), and (d) describe separate and distinct functions for purposes of applying this section."). Most notably, OCILLA contains two definitions of "service provider." 17 U.S.C. § 512(k)(1)(A)-(B). The narrower definition, which applies only to service providers falling under § 512(a), is limited to entities that "offer[ ] the transmission, routing or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, *without modification to the content of the material* as sent or received." Id. § 512(k)(1)(A) (emphasis added). No such limitation appears in the broader definition, which applies to service providers—including YouTube—falling under § 512(c). Under the broader definition, "the term 'service provider' means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A)." Id. § 512(k)(1)(B). In the absence of a parallel limitation on the ability of a service provider to modify user-submitted material, we conclude that § 512(c) "is clearly meant to cover more than mere electronic storage lockers." UMG Recordings, Inc. v. Veoh Networks, Inc., 620 F. Supp. 2d 1081, 1088 (C.D. Cal.2008) (" UMG I ").

The relevant case law makes clear that the § 512(c) safe harbor extends to software functions performed "for the purpose of facilitating access to user-stored material." Id.; see

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Shelter Capital, 667 F.3d at 1031–35. Two of the software functions challenged here—transcoding and playback—were expressly considered by our sister Circuit in Shelter Capital, which held that liability arising from these functions occurred "by reason of the storage at the direction of a user." 17 U.S.C. § 512(c); see Shelter Capital, 667 F.3d at 1027–28, 1031; see also UMG I, 620 F. Supp. 2d at 1089–91; Io Group, 586 F. Supp. 2d at 1146–48. Transcoding involves "[m]aking copies of a video in a different encoding scheme" in order to render the video "viewable over the Internet to most users." Supp. Joint App'x I:236. The playback process involves "deliver[ing] copies of YouTube videos to a user's browser cache" in response to a user request. Id. at 239. The District Court correctly found that to exclude these automated functions from the safe harbor would eviscerate the protection afforded to service providers by § 512(c). Viacom, 718 F. Supp. 2d at 526–27.

A similar analysis applies to the "related videos" function, by which a YouTube computer algorithm identifies and displays "thumbnails" of clips that are "related" to the video selected by the user. The plaintiffs claim that this practice constitutes content promotion, not "access" to stored content, and therefore falls beyond the scope of the safe harbor. Citing similar language in the Racketeer Influenced and Corrupt Organizations Act ("RICO"), 18 U.S.C. §§ 1961–68, and the Clayton Act, 15 U.S.C. §§ 12 et seq., the plaintiffs argue that the statutory phrase "by reason of" requires a finding of proximate causation between the act of storage and the infringing activity. See, e.g., Holmes v. Sec. Investor Prot. Corp., 503 U.S. 258, 267–68 (1992) (holding that the "by reason of" language in the RICO statute requires proximate causation). But even if the plaintiffs are correct that § 512(c) incorporates a principle of proximate causation—a question we need not resolve here—the indexing and display of related videos retain a sufficient causal link to the prior storage of those videos. The record makes clear that the related videos algorithm "is fully automated and operates solely in response to user input without the active involvement of YouTube employees." Supp. Joint App'x I:237. Furthermore, the related videos function serves to help YouTube users locate and gain access to material stored at the direction of other users. Because the algorithm "is closely related to, and follows from, the storage itself," and is "narrowly directed toward providing access to material stored at the direction of users," UMG I, 620 F. Supp. 2d at 1092, we conclude that the related videos function is also protected by the § 512(c) safe harbor.

The final software function at issue here—third-party syndication—is the closest case. In or around March 2007, YouTube transcoded a select number of videos into a format compatible with mobile devices and "syndicated" or licensed the videos to Verizon Wireless and other companies. The plaintiffs argue—with some force—that business transactions do not occur at the "direction of a user" within the meaning of § 512(c)(1) when they involve the manual selection of copyrighted material for licensing to a third party. The parties do not dispute, however, that none of the clips-in-suit were among the approximately 2,000 videos provided to Verizon Wireless. In order to avoid rendering an advisory opinion on the outer boundaries of the storage provision, we remand for fact-finding on the question of whether any of the clips-in-suit were in fact syndicated to any other third party. . . .

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USAGE: On page 735, ADD the following case after note (4):

LENNON v. PREMISE MEDIA CORP.
556 F. Supp. 2d 310 (S.D.N.Y. 2008)

SIDNEY H. STEIN, District Judge.

The widow and children of John Lennon bring this action against the producers of a current movie that plays fifteen seconds of the song “Imagine” without permission of the plaintiffs, who own the copyright to the song. The Lennons have moved for a preliminary injunction prohibiting the continued distribution of the movie in its present form and a recall of the existing copies. That motion is denied because plaintiffs have failed to meet the standard required for a court to grant a preliminary injunction. They have not shown a clear likelihood of success on the merits because, on the basis of the current record, defendants are likely to prevail on their affirmative defense of fair use. That doctrine provides that the fair use of a copyrighted work for purposes of criticism and commentary is not an infringement of copyright.

More specifically, plaintiffs seek a preliminary injunction pursuant to Federal Rule of Civil Procedure 65 enjoining defendants Premise Media Corp., L.P., C & S Production L.P. d/b/a Rampant Films, Premise Media Distribution, L.P., and Rocky Mountain Pictures, Inc., from further distributing their movie, “EXPELLED: No Intelligence Allowed” (the “movie”), in its present form and to recall the copies of the movie that are currently being exhibited.

Yoko Ono Lennon, Sean Lennon, and Julian Lennon are, respectively, the widow and sons of the late John Lennon, the composer of “Imagine,” and the renewal claimants for the copyright registration to the music and lyrics of “Imagine” (the “song”). EMI Blackwood Music, Inc. is the song's publishing administrator. (Compl.¶¶ 1-4.) Defendants are the producers and distributors of “Expelled,” a recently commercially released movie that concerns the theory of “intelligent design.” Plaintiffs allege that defendants' use of an approximately fifteen-second excerpt of “Imagine” in “Expelled” without plaintiffs' permission infringes their copyright in “Imagine.”

I. HISTORY OF THIS ACTION

Plaintiffs filed the complaint in this action in late April 2008, alleging claims of copyright infringement pursuant to 17 U.S.C. § 501 and trademark infringement pursuant to Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). Plaintiffs subsequently brought the present motion by order to show cause dated April 30, 2008. That same day, after an initial conference and on consent of the parties, the Court entered a temporary restraining order (“TRO”) enjoining defendants from distributing any additional copies of “Expelled” for theatrical release, or

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producing or distributing any DVDs of the movie, pending a hearing on the motion for a preliminary injunction. On May 19, 2008, the Court heard oral argument on the motion for a preliminary injunction. At the conclusion of that hearing, the Court continued the TRO pending its determination of the motion for a preliminary injunction and directed plaintiffs to post security pursuant to Fed.R.Civ.P. 65(c). Now, after considering the arguments and submissions of the parties, as well as having viewed the movie, including the excerpt at issue, the Court makes the following findings of facts and conclusions of law.

II. FINDINGS OF FACT

"Expelled" is a feature-length (one hour, thirty-nine minute long) nationally released theatrical movie that addresses what it characterizes as a debate between proponents of intelligent design and the scientific theory of evolution. (Decl. of A. Logan Craft dated May 13, 2008 ("Craft Decl.") ¶ 7.) One of the executive producers of "Expelled" contends that the movie "examines the scientific community's academic suppression of those who ask provocative questions about the origin and development of life." (Id. ¶ 7.) According to that same producer, "the film undertakes to inspire viewers to participate in the scientific, political, cultural, and religious debates surrounding this issue, to urge the scientific community to consider views that differ from those held by many members of that community, and to take action to assure that candidates for public office and elected officials take positions and action to accord free speech rights to critics of the adequacy of Darwinian evolution." (Id. ¶ 8.) The filmmakers also candidly concede that "Expelled" was "produced and distributed for the purpose of earning a financial return for the investors." (Id. ¶ 13.)

The movie is narrated by Ben Stein, a well-known actor and writer (id. ¶ 9) and consists principally of Stein's interviews with various proponents of intelligent design and defenders of Darwinian evolution, interspersed with segments of historical stock footage (Decl. of Ronald C. Rodgers dated May 14, 2008 ("Rodgers Decl.") ¶ 11). As another of the producers of "Expelled" explains it, the use of archival footage serves "to create metaphors and analogies to enhance the message [the filmmakers] are trying to convey." (Id.) The movie also features several other well known songs. Defendants obtained permission to include every one of those songs in the movie, with the exception of "Imagine." (Transcript of Preliminary Injunction Hearing dated May 19, 2008 ("Hearing Tr.") at 8.) Defendants have not used "Imagine" in promoting the movie. (Craft Decl. ¶ 20.)

John Lennon, the world-famous songwriter and former member of the Beatles, wrote the words and music of "Imagine." Plaintiffs claim, most likely without exaggeration, that Lennon is a "musical icon of the twentieth century" (Aff. of Yoko Ono Lennon dated April 29, 2008 ("Ono Aff.") ¶ 2) and that "Imagine" is one of the most recognizable songs in the world (Compl.¶ 14). Since John Lennon's death in 1980, Yoko Ono Lennon has worked actively with EMI Blackwood Music, Inc. to control the manner in which Lennon's music is licensed and used. (Ono Aff. ¶ 3.) "Imagine" has been licensed and featured in numerous contexts, including the 1984 film "The Killing Fields," the opening ceremony of the 2006 Winter Olympics, and the

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New Year's Eve festivities in New York City's Times Square. (Id. ¶ 4.) In addition, the Recording Industry Association of America has included the song in its ranking of the most historically significant recordings. (Id.)

The fifteen-second excerpt of "Imagine" used in "Expelled" comes approximately one hour and five minutes into the movie and includes ten words from the song. While the fifteen seconds of music play, the lyrics appear on screen in subtitles, as follows:

> Nothing to kill or die for/
>
> And no religion too.

(Decl. of John Sullivan dated May 13, 2008 ("Sullivan Decl.") ¶ 15.) Behind the subtitles, four brief sequences of black and white archival footage run. The first sequence features a group of children in a circle; the second is a sequence of a young girl spinning and dancing; the third sequence is of a military parade, which gives way to a close up of Joseph Stalin waving. (Id. ¶ 18.) The four sequences constitute 0.27 percent of the total movie's running time. (Id. ¶ 17.)

Immediately preceding the excerpt in the movie are short segments in which several speakers express negative views of religion and the hope that science will eventually diminish religion's role in society. (Id.) The last of these interviews, with Dr. P.Z. Myers, proceeds as follows:

> P.Z. Myers: Religion is an, is an idea that gives some people comfort, and we don't want to take it away from them. It's like, it's like knitting. People like to knit. You know, we're not going to take their knitting needles away, we're not going to take away their churches. Uh, but what we have to do is, is get it to a place where religion is treated at the level it should be treated, that is, something fun that people get together and do on the weekend and really doesn't affect their life as much as it has been so far.
>
> Ben Stein: So what would the world look like if Dr. Myers got his wish?
>
> P.Z. Myers: Greater science literacy, which is going to lead to the erosion of religion, and then we'll get this positive feedback mechanism going where, as religion slowly fades away we'll get more and more science to replace it, and that will displace more and more religion, which will allow more and more science in, and we'll eventually get to that point where religion has taken that appropriate place as, as, as side dish rather than the main course.

(Transcript of "Imagine" Clip in "Expelled," Ex. B. to Sullivan Decl.) In a voiceover, Ben Stein then intones, "Dr. Myers would like you to think he's being original but he's merely lifting a page out of John Lennon's songbook." (Id.) The excerpt of "Imagine"-virtually "a page out of John

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Lennon's songbook”-then plays. Following it, the movie cuts to a portion of an interview with David Berlinski that begins with Berlinski saying, “In part, I think Matthew Arnold put his hands on it when he spoke about ... the withdrawal of faith. There is a connection between a society that has at least a minimal commitment to certain kinds of transcendental values and what human beings permit themselves to do one to the other.” (Id. ¶ 19.)

“Expelled” was released in theaters in the United States on April 18, 2008. (Craft Decl. ¶ 16.) Defendants timed the release, in part, to coincide with pending so-called “Academic Freedom” bills in several state legislatures, which would permit teachers to offer their students information critical of the theory of evolution. (Id. ¶¶ 16, 18.) The movie has also been screened for lawmakers and government officials in Florida, Missouri, and Louisiana, and for members of the United States Congress. (Id. ¶ 18.) “Expelled” premiered in 1,052 movie theaters and generated approximately $3 million in revenue in its opening weekend. (Id. ¶ 23.) Defendants claim it has since been viewed by more than one million people (id.), and generated approximately $7,250,000 in box office ticket sales as of May 11, 2008 (Rodgers Decl. at ¶ 7). The number of theaters screening the movie is declining, however, and defendants have stated that by Friday, May 23, 2008, it would be playing in approximately one hundred theaters. (Hearing Tr. at 14; Rodgers Decl. ¶ 8.)

III. CONCLUSIONS OF LAW

In most cases, a party seeking a preliminary injunction must demonstrate (1) that it will be irreparably harmed in the absence of an injunction, and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in its favor. Forest City Daly Hous., Inc. v. Town of N. Hempstead, 175 F.3d 144, 149-150 (2d Cir.1999). A more rigorous standard that requires a “clear” or “substantial” showing of likelihood of success, rather than simply a likelihood of success, applies where an injunction will alter, rather than maintain, the status quo. Id. (quoting Tom Doherty Assocs. v. Saban Entm't, Inc., 60 F.3d 27, 33-34 (2d Cir.1995)). That is, the “typical” preliminary injunction is prohibitory and seeks only to maintain the status quo. Tom Doherty, 60 F.3d at 34. In contrast, a mandatory injunction “is said to alter the status quo by commanding some positive act.” Id.

Plaintiffs acknowledge that the injunction they seek has both mandatory and prohibitory aspects, in that they ask this Court both to order a recall of copies of the movie that have already been distributed (mandatory) and to prohibit further distribution of “Expelled” (prohibitory). (Hearing Tr. at 15-16.) Plaintiffs' motion is thus subject to the more stringent standard applicable to mandatory injunctions of establishing a “clear” or “substantial” likelihood of success, and plaintiffs do not disagree. See id. at 35 (heightened standard must be met if one provision of the challenged injunction is mandatory).

A. *Irreparable Harm*

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It is well-established in this circuit that " 'generally when a copyright plaintiff makes out a prima facie showing of infringement, irreparable harm may be presumed.' " Merkos L'Inyonei Chinuch, Inc. v. Otsar Sifrei Lubavitch, Inc., 312 F.3d 94, 96 (2d Cir.2002) (per curiam) (quoting ABKCO Music, Inc. v. Stellar Records, Inc., 96 F.3d 60, 64 (2d Cir.1996)); see also Hasbro Bradley, Inc. v. Sparkle Toys, Inc., 780 F.2d 189, 192 (2d Cir.1985). Because, as discussed below, plaintiffs have made out a prima facie case of copyright infringement, there is a presumption that they will be irreparably harmed absent the injunction.[147] Random House, Inc. v. Rosetta Books LLC, 283 F.3d 490, 491 (2d Cir.2002) ("[B]ecause a *prima facie* case of copyright infringement gives rise to a presumption of irreparable harm, the requirement of proof of irreparable harm can in such a case effectively be met by proof of a likelihood of success on the merits."). Defendants have adduced no evidence to rebut that presumption; accordingly, the Court finds that irreparable harm exists absent an injunction.

B. *Likelihood of Success on the Merits*

On a motion for a preliminary injunction, the burdens of proof "track the burdens at trial." Gonzales v. O Centro Espirita Beneficente Uniao do Vegetal, 546 U.S. 418, 429, 126 S.Ct. 1211, 163 L.Ed.2d 1017 (2006). Accordingly, in this action, plaintiffs bear the burden of establishing a prima facie case of copyright infringement. See, e.g., Castle Rock Entm't, Inc. v. Carol Pub.

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[147]Defendants contend that the extensive Second Circuit precedent holding that a presumption of irreparable harm exists in copyright infringement actions where a prima facie showing of infringement has been made was abrogated by the United States Supreme Court decision in *eBay, Inc. v. MercExchange, L.L.C.,* 547 U.S. 388, 126 S.Ct. 1837, 164 L.Ed.2d 641 (2006). *eBay* cannot be read in that manner. In *eBay,* the Supreme Court vacated the determination of the Federal Circuit that applied that circuit's " 'general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.' " 547 U.S. at 391, 126 S.Ct. 1837 (quoting MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed.Cir.2005)). The Supreme Court held that that rule violated the Patent Act's instruction to courts to decide motions for injunctive relief "in accordance with principles of equity." 35 U.S.C. § 283.

The presumption of irreparable harm in copyright infringement actions, unlike the rule addressed in *eBay,* does not require courts to impose an injunction following a determination of infringement. See id. at 392-93, 126 S.Ct. 1837 ("[A]s in our decision today, this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed."). Notwithstanding the presumption of irreparable harm, the decision whether to impose a preliminary injunction in a copyright infringement action remains within the sound discretion of the district courts. See, e.g., Merkos L'Inyonei Chinuch, 312 F.3d at 96. Moreover, since *eBay,* the Second Circuit has applied a presumption of irreparable harm in the context of a preliminary injunction sought pursuant to a false advertising claim. See Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 162 (2d Cir.2007).

eBay is also distinguishable in that it involved a permanent injunction rather than a preliminary injunction. Whereas a court deciding whether to impose a permanent injunction has before it the full record after judgment on the merits, the record on a motion for a preliminary injunction is to some degree incomplete. A presumption temporarily removing the need to prove irreparable harm may serve the ends of equity at this early stage of the litigation even if it would be inappropriate where the record is complete. See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 518 F.Supp.2d 1197, 1212 (C.D.Cal.2007).

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Group, Inc., 150 F.3d 132, 137 (2d Cir.1998). Defendants, in turn, bear the burden of establishing fair use, which is an affirmative defense to a claim of copyright infringement. Infinity Broadcast Corp. v. Kirkwood, 150 F.3d 104, 107 (2d Cir.1998).

1. Plaintiffs' Prima Facie Case of Copyright Infringement.

Section 106 of the Copyright Act of 1976, 17 U.S.C. §§ 101 *et seq.,* “grants copyright owners a bundle of exclusive rights, including the rights to ‘reproduce the copyrighted work in copies.’ ” Castle Rock, 150 F.3d at 137 (quoting 17 U.S.C. § 106). “In the absence of defenses, these exclusive rights normally give a copyright owner the right to seek royalties from others who wish to use the copyrighted work.” Ringgold v. Black Entm't Television, Inc., 126 F.3d 70, 73 (2d Cir.1997). To establish a claim of copyright infringement, a plaintiff must show (1) ownership of a valid copyright and (2) unauthorized copying or a violation of one of the other exclusive rights afforded copyright owners pursuant to the Copyright Act. Hasbro Bradley, 780 F.2d at 192.

Here, the parties agree that “Expelled” copies an approximately fifteen-second excerpt of “Imagine” and defendants did not obtain permission before including the excerpt in the movie. Thus, the second prong of plaintiffs' claim of copyright infringement-unauthorized copying-is satisfied.

Whether plaintiffs have satisfied the first requirement by showing ownership of the copyright to “Imagine” is disputed. Plaintiffs assert that because John Lennon, the song's author, die d prior to the copyright's twenty-eight year renewal period, his widow and children were entitled to renew the copyright. See 17 U.S.C. § 304(a)(1)(C)(ii). Defendants note, however, that although Yoko Ono Lennon, Sean Lennon, and Julian Lennon renewed the copyright in 1998, the owner of the original copyright was Northern Songs, Limited. (Ex. A, B to Compl.) Northern Songs assigned its copyright to Ono Music in 1984, and Ono Music in turn assigned its copyright to Lenono Music in 1985. (Ex. B to Decl. of Dorothy M. Weber dated May 16, 2008 (“Weber Decl.”).) Defendants contend that because the song was originally copyrighted by Northern Songs, Limited, which was a corporate body, Lenono Music, rather than plaintiffs, is the proper party to have renewed the copyright at the end of its initial twenty-eight-year term, unless Northern Songs, Limited originally obtained the copyright from John Lennon by means of assignment or license. See 17 U.S.C. § 304(a)(1)(B)(ii). Because the record contains no evidence as to the circumstances under which Northern Songs, Limited obtained the copyright, defendants assert that plaintiffs have failed to meet their burden of showing a clear likelihood of success on their claim of copyright infringement.

This Court disagrees. A renewal registration is prima facie evidence of the validity of a copyright. 17 U.S.C. § 304(a)(4)(B). Certainly, the presumption of validity is rebuttable. See Hamil Am. Inc. v. GFI, 193 F.3d 92, 98 (2d Cir.1999). The party challenging the validity of the copyright, however, bears the burden of rebutting the presumption. Id. Here, defendants raise doubts concerning the validity of the renewal copyright by arguing that plaintiffs have failed to

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explain gaps in the chain of ownership. Without any evidence of invalidity whatsoever, however, defendants cannot rebut the statutory presumption. Accordingly, plaintiffs have established a prima facie case of copyright infringement.

2. Defendants' Fair Use Defense

The doctrine of fair use, as codified by the Copyright Act of 1976, is as follows: “[T]he fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching ..., scholarship, or research, is not an infringement of copyright.” 17 U.S.C. § 107. “From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright's very purpose, ‘[t]o promote the Progress of Science and useful Arts. . . .' ” Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 575, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994) (quoting U.S. Const. art. I, § 8, cl. 8). The fair use doctrine “ ‘permits and requires courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.’ ” Id. at 577, 114 S.Ct. 1164 (quoting Stewart v. Abend, 495 U.S. 207, 236, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990) (brackets omitted)).

In determining whether the use made of a work in any particular case is a fair use, the factors to be considered include: “(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.” 17 U.S.C. § 107. The four statutory factors, which are nonexclusive, must be “weighed together, in light of the purposes of copyright.” Campbell, 510 U.S. at 578, 114 S.Ct. 1164.Moreover, “the determination of fair use is an open-ended and context-sensitive inquiry.” Blanch v. Koons, 467 F.3d 244, 251 (2d Cir.2006). “The ultimate test of fair use . . . is whether the copyright law's goal of promoting the Progress of Science and useful Arts . . . would be better served by allowing the use than by preventing it.” Id. (internal quotation marks omitted).

The Court now turns to each of the four statutory fair use factors.

a. “The Purpose and Character of the Use”

The first statutory factor is “[t]he purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.” 17 U.S.C. § 107(1). This factor, “the heart of the fair use inquiry,” comprises principally two considerations: whether the use is “commercial” and whether it is “transformative.” Blanch, 467 F.3d at 251-53 (internal quotation marks omitted).

i. Commercial Use

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Whether the use in question is "of a commercial nature or is for nonprofit educational purposes" is an explicit part of the first fair use factor. Id. at 253; see 17 U.S.C. § 107(1). The "crux of the profit/nonprofit distinction," however, "is not whether the sole motive for the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price." Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 612 (2d Cir.2006). "[C]ourts are more willing to find a secondary use fair when it produces a value that benefits the broader public interest. The greater the private economic rewards reaped by the secondary user (to the exclusion of broader public benefits), the more likely the first factor will favor the copyright holder and the less likely the use will be considered fair." Blanch, 467 F.3d at 253.Moreover, "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." Campbell, 510 U.S. at 579, 114 S.Ct. 1164.

Defendants in this case concede that "Expelled" is a commercial film from which they seek to profit. (Craft Decl. ¶ 13.) As discussed in what follows, however, the movie's use of "Imagine" is highly transformative, and not merely exploitative, and accordingly, the fact that the use is also commercial receives less weight in the analysis. Moreover, defendants have established for purposes of this motion that the movie contributes to the broader public interest by stimulating debate on an issue of current political concern. (Craft Decl. ¶¶ 16, 18.) Therefore, the commercial purpose of "Expelled" weighs only weakly against a finding of fair use.

ii. Transformative Use

A work is transformative if it does not "merely supersede[ ] the objects of the original creation" but "instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message." Id. (internal quotation marks omitted). Although transformative use "is not absolutely necessary for a finding of fair use, the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works." Id. (citation omitted). Thus, transformative works "lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright." Id. There is a strong presumption that this factor favors a finding of fair use where the allegedly infringing work can be characterized as involving one of the purposes enumerated in 17 U.S.C. § 107: "criticism, comment, news reporting, teaching . . ., scholarship, or research." See NXIVM Corp. v. Ross Inst., 364 F.3d 471, 477 (2d Cir.2004).

Defendants' use is transformative because the movie incorporates an excerpt of "Imagine" for purposes of criticism and commentary. The filmmakers selected two lines of the song that they believe envision a world without religion: "Nothing to kill or die for/ And no religion too." ("Imagine" lyrics, Ex. D to Weber Decl.) As one of the producers of "Expelled" explains, the filmmakers paired these lyrics and the accompanying music to a sequence of

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images that "provide a layered criticism and commentary of the song."[148] (Sullivan Decl. ¶ 18.) The Cold War-era images of marching soldiers, followed by the image of Stalin, express the filmmakers' view that the song's secular utopian vision "cannot be maintained without realization in a politicized form" and that the form it will ultimately take is dictatorship. (Id.) The movie thus uses the excerpt of "Imagine" to criticize what the filmmakers see as the naïveté of John Lennon's views. (Sullivan Decl. ¶ 14.)

The excerpt's location within the movie supports defendants' assertions. It appears immediately after several scenes of speakers criticizing the role of religion in public life. In his voiceover, Ben Stein then connects these sentiments to the song by stating that they are merely "a page out of John Lennon's songbook." (Transcript of "Imagine" Clip in "Expelled," Ex. B. to Sullivan Decl.) In defendants' view, "Imagine" "is a secular anthem caught in a loop of history recycling the same arguments from years past through to the present. We remind our audience that the ideas they just heard expressed from modern interviews and clips that religion is bad are not new and have been tried before with disastrous results." (Sullivan Decl. ¶ 21.) The filmmakers "purposefully positioned the clip . . . between interviews of those who suggest that the world would be better off without religion and an interview suggesting that religion's commitment to transcendental values place limits on human behavior. . . . mak[ing] the point that societies that permit Darwinism to trump all other authorities, including religion, pose a greater threat to human values than religious belief." (Id. ¶ 20.)

Defendants' use of "Imagine" is similar to the use at issue in a recent decision of the United States Court of Appeals for the Second Circuit in which fair use was found, Blanch v. Koons. There, the visual artist Jeff Koons copied photographer Andrea Blanch's photograph from a fashion magazine without permission and incorporated a portion of it into one of his paintings. 467 F.3d at 247. Blanch's photograph featured the legs and feet of a woman wearing expensive sandals, resting in a man's lap in what appeared to be an airplane cabin. Id. at 248. Koons included the legs and feet in his painting, inverting their orientation, adding a heel to one of the sandals, and placing them, along with images of several other pairs of legs and feet, against a background including a grassy field and Niagara Falls. Id. at 247. The legs appeared to dangle over images of confections. Id.

The Second Circuit panel found Koons's use of Blanch's photograph transformative. Id. at 253. The court noted that Koons used the image for "sharply different" purposes than Blanch, in that he used it "as fodder for his commentary on the social and aesthetic consequences of mass media." Id. at 252.As Koons had explained, by juxtaposing women's legs against a backdrop of food and landscape, "he intended to comment on the ways in which some of our most basic appetites-for food, play, and sex-are mediated by popular images." Id. at 247 (internal quotation marks omitted). Moreover, Koons altered the colors, background, medium, size, and details of

[148]Although defendants' reasons for using "Imagine" in the movie and their ability to articulate those reasons ease the analysis, neither "is *sine qua non* for a finding of fair use." Blanch, 467 F.3d at 255 n. 5. Indeed, much of defendants' asserted purpose for excerpting the song is apparent from a viewing of the movie.

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the image in incorporating it into his painting. Id.; see also Bill Graham Archives, 448 F.3d at 611 (finding the defendants' inclusion of the plaintiff's images in a book to be transformative where the defendants significantly reduced the images' size and "combin[ed] them with a prominent timeline, textual material, and original graphical artwork, to create a collage of text and images on each page").

As in Blanch, defendants here use a portion of "Imagine" as "fodder" for social commentary, altering it to further their distinct purpose. Just as Koons placed a portion of Blanch's photograph against a new background, defendants here play the excerpt of the song over carefully selected archival footage that implicitly comments on the song's lyrics. They also pair the excerpt of the song with the views of contemporary defenders of the theory of evolution and juxtapose it with an interview regarding the importance of transcendental values in public life.

Plaintiffs contend that defendants' use of "Imagine" is not transformative because defendants did not alter the song, but simply "cut and paste[d]" it into "Expelled." As the foregoing discussion illustrates, however, this argument draws the transformative use inquiry too narrowly. To be transformative, it is not necessary that defendants alter the music or lyrics of the song. Indeed, defendants assert that the recognizability of "Imagine" is important to their use of it. (Sullivan Decl. ¶ 16.) Defendants' use is nonetheless transformative because they put the song to a different purpose, selected an excerpt containing the ideas they wished to critique, paired the music and lyrics with images that contrast with the song's utopian expression, and placed the excerpt in the context of a debate regarding the role of religion in public life.

Plaintiffs also contend that defendants' use of "Imagine" is not transformative because it was unnecessary to use it in order to further the purposes defendants have articulated. Determining whether a use is transformative, however, does *not* require courts to decide whether it was strictly necessary that it be used. In *Blanch*, although certainly Koons did not need to use Blanch's copyrighted photo, as opposed to some other image of a woman's feet, in his painting, the Second Circuit did not suggest that this lack of necessity weighed against a finding of fair use. Similarly, in Bill Graham Archives, the Second Circuit found a transformative use in the defendants' unauthorized inclusion of several of the plaintiff's images-principally concert photos-in a coffee-table book about the musical group the Grateful Dead. 448 F.3d at 607, 608-12. Although the defendants manifestly could have proceeded without the plaintiff's images, which constituted only a small part of the book, this posed no obstacle to a finding of fair use.

Moreover, defendants contend that it was important that they use "Imagine," rather than some other song expressing similar views, because it is the "paradigm example" that "has the most cultural force to it because it represents the most popular and persuasive embodiment of th[e] viewpoint that the world is better off without religion." (Hearing Tr. at 23.) Defendants also assert that their purpose in using the excerpt of the song was in part to critique the emotional impact the song has on listeners. (Id. at 23-24.)

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Finally, although a minor factor, it weighs in favor of a finding of transformative use that the excerpt of “Imagine” in “Expelled” constitutes only 0.27 percent of the movie's total running time. See id. at 611 (noting that the plaintiff's images constituted less than 0.20 percent of the defendants' book and stating, “we are aware of no case where such an insignificant taking was found to be an unfair use of original materials”). (Sullivan Decl. ¶ 17.)

In sum, defendants' use of “Imagine” is transformative because it does not “merely supersede[ ] the objects of the original creation” but rather “adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.” Campbell, 510 U.S. at 579, 114 S.Ct. 1164. This consideration thus weighs strongly in favor of fair use.

iii. The Propriety of Defendants' Actions

Plaintiffs note that defendants obtained permission for all the other music used in the movie and contend that defendants' failure similarly to seek permission to use “Imagine” evinces bad faith. The Second Circuit, however, has rejected this proposition. See Blanch, 467 F.3d at 256 (“We are aware of no controlling authority to the effect that the failure to seek permission for copying, in itself, constitutes bad faith.”). Indeed, the Second Circuit, in *Blanch,* approvingly quoted the dictum in *Campbell* that “ ‘[i]f the use is otherwise fair, then no permission need be sought or granted.’ ” Id. (quoting Campbell, 510 U.S. at 585 n. 18, 114 S.Ct. 1164). The fact that defendants here obtained permission to use the other music in the movie does not alter this conclusion.

b. “The Nature of the Copyrighted Work”

The second fair use factor considers “the nature of the copyrighted work.” 17 U.S.C. § 107(2). This factor “ ‘calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied.’ ” Blanch, 467 F.3d at 256 (quoting Campbell, 510 U.S. at 586, 114 S.Ct. 1164). Two distinctions are relevant to this analysis: (1) “whether the work is expressive or creative, such as a work of fiction, or more factual, with a greater leeway being allowed to a claim of fair use where the work is factual or informational,” and (2) “whether the work is published or unpublished, with the scope of fair use involving unpublished works being considerably narrower.” Id. (quoting 2 Howard B. Abrams, The Law of Copyright § 15:52 (2006)).

Defendants here concede, as they must, that “Imagine” is a creative work and, as such, is at the “core” of copyright protection. They note, however, that the work is widely published, which weighs a bit in favor of fair use. Moreover, this second statutory factor “may be of limited usefulness where the creative work of art is being used for a transformative purpose.” Bill Graham Archives, 448 F.3d at 612. Indeed, where, as here, the secondary work comments on the “social and aesthetic meaning” of the original, rather than “exploit[ing] its creative virtues,” the

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second fair use factor has “limited weight.” Blanch, 467 F.3d at 257.It thus weighs against a finding of fair use, but not strongly.

c. “The Amount and Substantiality of the Portion Used in Relation to the Copyrighted Work as a Whole”

The third statutory fair use factor is “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.” 17 U.S.C. § 107(3). The inquiry under this factor focuses on the copyrighted work, not the allegedly infringing one, Bill Graham Archives, 448 F.3d at 613, and considers whether “the quantity and value of the materials used are reasonable in relation to the purpose of the copying,” Blanch, 467 F.3d at 244 (internal quotation marks omitted). This factor has both “a quantitative and a qualitative component,” in that “[t]he factor favors copyright holders where the portion used by the alleged infringer is a significant percentage of the copyrighted work, or where the portion used is essentially the heart of the copyrighted work.” NXIVM, 364 F.3d at 480.

The quantitative component of this inquiry clearly favors defendants. Defendants use only a fifteen-second excerpt of “Imagine,” a song that runs three minutes in total. (Decl. of Dr. Lawrence Ferrara dated May 14, 2008 (“Ferrara Decl.”) ¶ 5.) Moreover, they selected a portion of the song (“Nothing to kill or die for/ And no religion too”) that expresses the idea they specifically wished to critique-that an ideal society would be entirely secular-without copying other portions of the song that do not express that idea. (Sullivan Decl. ¶ 17.) Thus, quantitatively, defendants' use was reasonable in light of their purpose in copying.

Assessing the qualitative aspect of the inquiry is appropriately somewhat more complicated. Plaintiffs' expert musicologist, Dr. Lawrence Ferrara, analyzed the music and concluded that “the portion of ‘Imagine’ that appears in ‘Expelled’ represents a substantial and memorable part of the overall ‘Imagine’ musical composition.” (Ferrara Decl. ¶ 2.) In other words, Dr. Ferrara's opinion is that the fifteen-second excerpt at issue contains the “heart” of “Imagine.” Specifically, he found that the excerpt of “Imagine” in “Expelled” includes musical phrases that appear in nearly 50 percent of the song. (Id.) The fifteen-second excerpt consists of two iterations of (1) a two-bar vocal phrase, (2) two phrases of lyrics, (3) a two-bar piano phrase, and (4) a two-bar variant piano phrase. (Id. ¶ 6.) Although the lyrics in the excerpt appear only once in the song, the two-bar vocal phrase in the excerpt is repeated twelve times in the song, the two-bar piano phrase occurs nine times in the verses and twice in the introduction, and the two-bar variant piano phrase occurs three times in the song. (Id. ¶¶ 8-10.) Thus, Dr. Ferrara concludes, although only a fifteen-second portion of the sound recording of “Imagine” appears in “Expelled,” the musical phrases heard in those fifteen seconds are repeated during a full 87 seconds of the song, or 48.8 percent of its total duration. (Id. ¶ 12.) He also concludes that the portion of the song defendants use is immediately recognizable as being from “Imagine.” (Id. ¶ 17.)

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Assuming Dr. Ferrara's analysis is correct, and that, as a result, defendants' excerpt constitutes the heart of plaintiffs' copyrighted work, it is not dispositive of the issue for two reasons. First, as Dr. Ferrara makes patent, "Imagine" is musically repetitive, and it is not clear that defendants could have used any portion of the song without ending up with an excerpt that referenced a significant part of the overall composition. For this reason alone, the Court could not conclude that defendants' use was unreasonable in light of their purpose.

Second, the Supreme Court explained in *Campbell* that "[c]opying does not become excessive in relation to parodic purpose merely because the portion taken was the original's heart." 510 U.S. at 588, 114 S.Ct. 1164. In *Campbell,* the Court considered whether the rap group 2 Live Crew's use of a portion of Roy Orbison's song "Oh, Pretty Woman" constituted fair use. Id. at 571-72, 114 S.Ct. 1164. In considering the third fair use factor, the Court assumed for purposes of analysis that the defendants' quotation of the original's opening musical phrase and first line of lyrics went to the heart of the original song. Id. at 588, 114 S.Ct. 1164. The Court concluded, however, that "[i]f 2 Live Crew had copied a significantly less memorable part of the original, it is difficult to see how its parodic character would have come through." Id. at 588-89, 114 S.Ct. 1164. Although the Supreme Court's analysis was specifically directed at parody, this Court is aware of no reason not to apply it equally to copying for purposes of criticism and commentary. Using an easily recognizable portion of "Imagine" was relevant to defendants' commentary because they wished to demonstrate that the negative views of religion expressed by their interview subjects were not new. (Sullivan Decl. ¶ ¶ 17, 21.)

Accordingly, both quantitatively and qualitatively, the portion of "Imagine" that defendants copy is reasonable in light of their purpose for doing so. This third factor therefore weighs in favor of fair use.

d. "The Effect of the Use Upon the Potential Market for or Value of the Copyrighted Work"

The fourth factor is "the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). "In considering the fourth factor, [the] concern is not whether the secondary use suppresses or even destroys the market for the original work or its potential derivatives, but whether the secondary use usurps the market of the original work. The market for potential derivative uses includes only those that creators of original works would in general develop or license others to develop." Blanch, 467 F.3d at 258. In this analysis, "[t]he court looks to not only the market harm caused by the particular infringement, but also to whether, if the challenged use becomes widespread, it will adversely affect the potential market for the copyrighted work." Bill Graham Archives, 448 F.3d at 614.

Plaintiffs understandably contend that if unauthorized use of "Imagine" were to become widespread, it would harm the marketplace for licensing the song. In Bill Graham Archives, however, on a full record developed on a motion for summary judgment, the Second Circuit rejected a similar argument regarding lost licensing revenue. 448 F.3d at 614-15. That court explained that although the plaintiff had established a market for licensing its concert posters, the

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defendants' use of the posters in their biographical book "f[ell] within a transformative market," and therefore the plaintiff "d[id] not suffer market harm due to the loss of licensing fees." Id. at 615. Here, similarly, defendants copied plaintiffs' work for a transformative purpose, and plaintiffs have proffered no evidence to date that permitting defendants to use a fifteen-second portion of the song for a transformative purpose will usurp the market for licensing the song for traditional uses. Accordingly, this factor does not weigh strongly, if at all, against fair use.

e. Conclusion Regarding Fair Use

The balance of factors clearly favors a finding of fair use. Defendants' use of "Imagine" is transformative because their purpose is to criticize the song's message. Moreover, the amount and substantiality of the portion used is reasonable in light of defendants' purpose. Although "Imagine," as a creative work, is at the core of copyright protection, and defendants' use of the song is at least partially commercial in nature, the weight of these factors against a finding of fair use is limited given that defendants' use is transformative. Finally, plaintiffs have not shown that defendants' use will usurp the market for licensing the song for non-transformative purposes. In sum, allowing defendants' use would better serve "the copyright law's goal of promoting the Progress of Science and useful Arts . . . than [would] preventing it." Blanch, 467 F.3d at 251 (internal quotation marks omitted). Defendants have established that they are likely to prevail on their fair use defense, and accordingly plaintiffs have not shown that they are clearly likely to succeed on the merits of their copyright infringement claim.

C. *Balance of Hardships*

Although plaintiffs have failed to establish a clear likelihood of success on the merits, they are still entitled to a preliminary injunction if they can show "sufficiently serious questions going to the merits of the case to make them a fair ground for litigation, and a balance of hardships tipping decidedly in [their] favor." Tom Doherty, 60 F.3d at 33. On this record, plaintiffs have not shown that the balance of hardships decidedly favors them.

Defendants claim that an injunction barring them from further distributing "Expelled" with the excerpt of "Imagine" and requiring the recall of extant prints would require them to reedit the movie to insert substitute footage making the same point. (Supplemental Decl. of John Sullivan dated May 19, 2008 ("Sullivan Supplemental Decl.") ¶ 5.) They estimate that selecting appropriate alternative footage and integrating it into the movie would require weeks of work. (Id. ¶¶ 6-10.) Indeed, defendants estimate that "the cost of re-cutting the film would be several hundred thousand dollars." (Craft Decl. ¶ 35.) In addition, they anticipate that transferring the new footage to 35 millimeter film for theatrical screening, including the movie's upcoming Canadian theatrical release, would cost tens of thousands of dollars. (Id. ¶ 37.) Defendants also claim that an injunction at this time would jeopardize the imminent Canadian theatrical release (it is currently scheduled for "early June") and delay the contract for the movie's release on DVD. (Id. ¶¶ 33, 37.)

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Plaintiffs challenge a number of these assertions. In particular, they contend that the costs of reediting the movie and reprinting the affected portions onto 35 millimeter film stock would be substantially lower than defendants claim. (Decl. of Walter "Chip" Cronkite III dated May 16, 2008 ("Cronkite Decl.") at ¶¶ 17-18.)

This Court need not decide whether the hardship to defendants would be as extensive as they claim, because the balance of hardships would not in any event tip decidedly in plaintiffs' favor. An injunction would require defendants to bear some degree of financial hardship: even plaintiffs' expert concedes that reprinting the movie would cost defendants at least $56,000. (Id. ¶ 18.) Defendants face additional costs associated with any delay in the Canadian theatrical and DVD releases occasioned by any required editing.

Plaintiffs, on the other hand, assert that the hardship they would face if an injunction does not issue is that the lack of an injunction would engender the perception that it is not necessary to seek permission to copy, with attendant loss of licensing fees. (Decl. of Nancy Weshkoff, Ex. C to Weber Decl., ¶¶ 21-22.) Although these claims are plausible, they are intangible at best, and are answered by the fact that fair use is a defense to copyright infringement. Without some showing that plaintiffs will face substantial lost licensing revenue absent an injunction, this Court cannot conclude that the balance of hardships tips decidedly in plaintiffs' favor.

IV. CONCLUSION

Because defendants are likely to prevail on their fair use defense, plaintiffs have failed to show, on the basis of the record developed to date, a clear likelihood of success or even a simple likelihood of success on the merits of their copyright infringement claim. Plaintiffs have also not shown that the balance of hardships tips decidedly in their favor. Accordingly, plaintiffs' motion for a preliminary injunction is denied.

SO ORDERED.

[B] Protection of Entertainment Ideas

[2] Implied-In-Fact Contracts

USAGE: On page 768, ADD the following case after *Desny v. Wilder*:

SPINNER v. v. AMERICAN BROADCASTING COMPANIES, INC.
215 Cal. App. 4th 172, 155 Cal. Rptr. 3d (2013)

FLIER, J.

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Anthony Spinner brings this "idea submission" lawsuit against American Broadcasting Companies, Inc. (ABC), for ABC's alleged use of his ideas in creating and developing the hit television series *LOST*. Spinner submitted a script entitled "L.O.S.T." to ABC in 1977, while ABC's *LOST* was created and developed in 2003 and 2004. The trial court granted summary judgment in favor of ABC. We affirm.

STATEMENT OF FACTS

1. *Spinner Drafts His Script and Submits It to ABC in 1977*

Spinner is a television producer, writer, and former studio executive in Los Angeles. He was nominated for an Emmy for outstanding drama series as the executive producer of the series *Baretta*, an ABC television show. Spinner is a former creative vice-president at Fox Television.

Around 1976, Sid and Marty Krofft Television Productions, Inc. (SMK), approached Spinner through his agents because SMK and ABC were interested in developing a television pilot with Spinner. During a meeting with SMK, Spinner explained that he "had always thought about doing people stranded in impossible circumstances, not contemporary, not like a hundred stories like that had been told, and how they would survive and the strange adventures they would meet there." The SMK representatives liked the idea. In December 1976, ABC entered into an agreement with SMK to retain Spinner to write a two-hour pilot tentatively entitled "L.O.S.T." SMK was to pay Spinner $30,000 for his services and invoice ABC for that amount. SMK and Spinner also entered into an agreement for Spinner to write "a proposed two hour television motion picture presently entitled L.O.S.T."

Spinner created a three-page outline of "Characters and Conflicts" for the pilot and a 10-page synopsis. Richard Heller of SMK delivered these documents to two executives at ABC, Cliff Alsberg and Ken Gross. At the time, Alsberg was vice-president of drama development at ABC, and Gross was director of drama development. Spinner met with Heller, Alsberg, and Gross at ABC, where they gave him some thoughts and suggestions. He then wrote a 121-page script entitled "Lost." He met with Heller, Alsberg, and Gross again to discuss the script. They provided some notes on the script, one major point being that they wanted "more awe and wonderment." Spinner revised the script in response to Alsberg's and Gross's notes and submitted the second draft to ABC around March or April 1977 (the 1977 Script). Heller told Spinner that Alsberg and Gross were very pleased with the 1977 Script.[149]

The 1977 Script is about a group of eight survivors connected to the United States Olympic team whose plane crash-lands deep in the Himalayas. The plane leaves from the Tokyo airport hours after an international competition. Five of the survivors are Olympic-bound athletes, one is the team physician, one is a television reporter, and one is the pilot. Among the

[149]We use the "1977 Script" from here on to refer collectively to both drafts of the script Spinner submitted to ABC in 1977.

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athletes are a former military man who assumes leadership of the group, a spoiled rich girl with a drug addiction, and a strong-willed man who shows a temper and challenges the former military man's leadership of the group. The plane's radio is smashed in the crash. The survivors must seek shelter because, with the snow and wind, they are certain to freeze to death at the crash site. One survivor goes through a craggy tunnel in the mountainside and comes out the other side in a prehistoric world that "looks like a chunk of central Africa," except the world is inhabited by dinosaurs and flying reptiles. He returns to the other survivors, who collect a few supplies from the crash site and follow him back to the "lost world." As they enter the new world, an avalanche seals the tunnel behind them, cutting off their passage back to their world. The rest of the script tells the story of their attempt to survive in this new world, where they come up against creatures and primitive human beings.

Sometime after Spinner submitted the 1977 Script, ABC decided to pass on the project. Spinner was told the project was far too expensive for ABC to produce. Spinner never spoke with Gross about the 1977 Script ever again, and he never spoke with Alsberg about it again until 2005, after the television series *LOST* had premiered. Alsberg left ABC in 1979, and Gross left ABC in 1977. The television series *LOST* was not created until 2003 to 2004.

ABC's record retention schedule with an effective date of January 19, 1972, states that it retains unclaimed scripts (scripts not returned to submitters) permanently. ABC did not return either draft of the 1977 Script to Spinner.

2. *Spinner Submits a New Idea in 1991 and 1994*

In 1991, Spinner resubmitted his idea to ABC. He verbally pitched the 1977 Script to Deborah Leoni, then director of drama series development at ABC. Leoni suggested that he needed a new title and new spin on the project in order for her to be able to sell it to ABC. Spinner knew he had to change the project to such an extent that it would not be recognized as the 1977 Script. He then created a new eight-page treatment telling a futuristic story that takes place in 2060 (the Outer Space Treatment). A spaceship bound for the planet "Lambar" crash-lands somewhere "in the vast Jadan galaxy" after it is ripped off course by a cosmic storm. Six human survivors of the crash and one android member of the crew struggle to survive in their new environment while faced with never-before-seen creatures, alien races, primitives, and other dangers. ABC passed on the Outer Space Treatment. In 1994, Spinner resubmitted the same treatment to ABC, this time to an executive named Greer Shephard, who had taken over Leoni's position, as well as to Leoni. ABC passed again on the Outer Space Treatment in 1994. In response to ABC's separate statement of undisputed material facts, Spinner admitted that the Outer Space Treatment and the *LOST* television show are not substantially similar in plot, sequence of events, themes, characters, dialogue, mood, setting, or pace.

Shephard left ABC in 1997. Leoni left ABC in 1995. Leoni and Shephard were not involved in the creation, development, or production of the *LOST* television show. Neither one shared their communications with Spinner or any of Spinner's writings and ideas with the creators of *LOST* (Lloyd Braun, Damon Lindelof, J.J. Abrams, and Jeffrey Lieber).

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Spinner has testified unequivocally that he had no contact with the creators of *LOST*. Specifically, his deposition testimony was as follows:

"Q. ... You don't contend that you've ever had any contact with anybody who participated in the production or creation of the 'LOST' television show, do you?

"A. Never spoke to one of them, never met any of them.

"Q. And you don't contend that you ever transmitted any of the materials surrounding the 1977 Script to anybody involved in the production of 'LOST,' do you?

"A. I never did.

"Q. And you don't contend that you ever submitted any of the materials that comprise the Outer Space Treatment to anybody involved in the production or creation of the television program 'LOST,' do you?

"A. I do not contend that.

"Q. In fact, as far as you're aware, you've never had any contact with anybody involved in the production or creation of 'LOST' at all; isn't that right?

"A. That's right."

3. *ABC Develops the* LOST *Television Show*

a. Lloyd Braun

Braun has worked in the entertainment industry for more than 25 years. He first started working for ABC Entertainment Television Group in July 1999. He was chairman of ABC Entertainment Television Group from January 2002 to April 2004. Braun does not know Spinner and has never communicated in any manner with Spinner. Prior to this lawsuit, he had never heard of Spinner. At no time while he was involved with *LOST* did anyone ever mention to him any script or treatment by Spinner, nor did anyone suggest to him that they knew anything about the contents of a script or treatment by Spinner. Braun has never read Spinner's 1977 Script or Outer Space Treatment. He has never spoken with or received any materials from Leoni, Alsberg, Gross, or Heller. He has never spoken with or received any materials from Shephard regarding any of Spinner's work or ideas.

Around late December 2002, early January 2003, Braun was vacationing in Hawaii. While sitting on the beach in Hawaii, he came up with the concept for *LOST*. The motion picture Cast Away (20th Century Fox 2000), about a survivor on a desert island, was on his mind. He thought about the concept of survivors of a crash landing on a deserted island. He also thought

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about the success of the unscripted reality television show *Survivor*, and decided to marry the two concepts, *Survivor* and Cast Away, together. He had the title "Lost" in his head from a 2001 failed reality television show of the same title.

In July 2003, Braun was at a company retreat and pitched the idea of "*Cast Away*--the series" to other executives at a brainstorming session. He compared his idea to Cast Away, *Survivor*, and *Gilligan's Island*, saying the show could have the inventiveness of *Gilligan's Island* with a Lord of the Flies (Columbia Pictures 1990) element. He pitched the show as a dramatization of how the "castaways" survive on the island, and they never make it off the island. The whole brainstorming session, including Braun's pitch, was transcribed by a reporting service.

b. Jeffrey Lieber

Lieber, a writer under contract with Spelling Entertainment at the time, was eventually assigned to work on a draft pilot for Braun's idea. Lieber does not know Spinner and has never communicated in any manner with Spinner. Prior to this lawsuit, he had never heard of Spinner. At no time while he was involved with *LOST* did anyone ever mention to him any script or treatment by Spinner, nor did anyone suggest to him that they knew anything about the contents of a script or treatment by Spinner. He has never read Spinner's 1977 Script or Outer Space Treatment. Prior to and during the time he was working on *LOST*, he did not have access to scripts submitted by other writers to ABC or scripts stored in ABC's archives. Lieber has never spoken with or received any materials from Leoni, Alsberg, Gross, or Heller. He has never spoken with or received any materials from Shephard regarding any of Spinner's work or ideas.

Around August 2003, Lieber began drafting an outline for Braun's proposed pilot. His vision for the project was inspired by the novel Lord of the Flies (1954) by William Golding, which he characterizes as "a realistic portrayal of a group of survivors figuring out how to govern and rebuild a society following a disaster." He completed a general outline on or around September 23, 2003. This first outline included core elements such as (1) a small cast of plane crash survivors are stranded on a seemingly deserted tropical island, (2) the use of a plane fuselage as a setting, (3) competition for leadership roles among the survivors, (4) debate over whom to save with limited medical supplies, and (5) mystery regarding the main characters' backgrounds. In addition, his outline included a group of core characters such as (1) a pregnant woman, (2) an older gentleman who is calm and collected, (3) a con man, (4) a doctor, (5) a drug addict, (6) a military officer, and (7) a spoiled rich girl.

After completing several more drafts of the outline and several drafts of the pilot script, Lieber submitted a revised draft of the script entitled "Nowhere" to ABC on or about December 23, 2003. Around a week later, he learned that Braun had issues with the script, and approximately a week after that, he submitted another revised version of the script to ABC. Shortly after that submission, Lieber learned that Braun was looking for something different and had decided to work with a different writer.

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c. J.J. Abrams and Damon Lindelof

Braun turned to Abrams when he was not satisfied with Lieber's work. Abrams has been a writer, producer, and director for television and film for over 20 years. Abrams does not know Spinner and has never communicated in any manner with Spinner. Prior to this lawsuit, he had never heard of Spinner. At no time while he was involved with *LOST* did anyone ever mention to him any script or treatment by Spinner, nor did anyone suggest to him that they knew anything about the contents of a script or treatment by Spinner. He has never read Spinner's 1977 Script or Outer Space Treatment. Prior to and during the time he was working on *LOST*, he did not have access to scripts submitted by other writers to ABC or scripts stored in ABC's archives, with the exception of Lieber's script. He did not read Lieber's script, however. Abrams has never spoken with or received any materials from Leoni, Alsberg, Gross, or Heller. He has never spoken with or received any materials from Shephard regarding any of Spinner's work or ideas.

In early January 2004, Abrams received a call from Braun regarding his idea for a show about people who survived a plane crash on an island. Abrams wanted to work on it but knew he would need someone to help him write it because of his busy schedule--he was running another television series at the time, *Alias*. On or about January 12, 2004, Abrams attended a meeting to flesh out ideas for the new show. There, he met Lindelof for the first time.

Lindelof has been a television and film writer for over 10 years. He does not know Spinner and has never communicated in any manner with Spinner. Prior to this lawsuit, he had never heard of Spinner. At no time while he was involved with *LOST* did anyone ever mention to him any script or treatment by Spinner, nor did anyone suggest to him that they knew anything about the contents of a script or treatment by Spinner. He has never read Spinner's 1977 Script or Outer Space Treatment. Prior to and during the time he was working on *LOST*, he did not have access to scripts submitted by other writers to ABC or scripts stored in ABC's archives, with the exception of Lieber's script, which he read. Lindelof has never spoken with or received any materials from Leoni, Alsberg, Gross, Heller, or Shephard.

An ABC executive contacted Lindelof in early January 2004 and offered him the opportunity to meet with Abrams about possibly working together on a new show. When Lindelof and Abrams met on January 12, they immediately connected and started sharing ideas for the show in a rapid-fire fashion. Also present at the meeting were two writers and a producer from Abrams's show, *Alias*, and two executives from ABC--Heather Kadin, vice-president of drama, and Thom Sherman, senior vice-president, drama development. Lindelof and Abrams's exchange of ideas at that meeting included the following: (1) the show would be rooted in mystery such that each character would have a mysterious background and his or her own story to tell; (2) the island itself would be a mysterious character, a supernatural place where strange things happened; (3) the characters' mysterious backgrounds would be revealed through a flashback device, focusing on one character's story per episode; (4) the show would begin with a man waking up on the island after the plane crash, and the details of the crash itself would gradually be revealed using the flashback device; and (5) characters on the show would include other people who were on the island before the plane crash, adding to the mystery of the island.

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Lindelof drafted six pages of notes memorializing the ideas discussed at the meeting and circulated them by e-mail to Abrams and the *Alias* writers and producer late the night after the meeting. The document contained ideas for the "overall concept": take Braun's "tentpole idea– The Survivors of a plane crash find themselves on a desolate island in the middle of nowhere-- and give it legs." The show would explore "the unknown," and in addition to the normal rigors of desolate island life, the characters would experience ongoing mysteries. The characters would be enigmatic as well. The document also contained a section entitled "Characters" that set forth some of the main "good guys" and "bad guys," including Jack, the male lead, who was to be intelligent, handsome, self-deprecating, and a natural born leader, and in later documents is a doctor; Kate, the female lead and "our hero"; Charlie, the antisocial "anti-hero" who is still one of the good guys, and in later documents is a drug addict; Mike and Walt, a father and his 11-year-old son, who had never had an opportunity to bond until this trip during which their plane crashed; Sawyer, "the heavy," who is competent, charismatic, and able, but shows hints of temper and violence; Djani, a technically skilled engineer, who in later documents becomes Sayid, a former Iraqi military officer; and Shannon, the "femme fatale" and "not your prototypical b--ch." Finally, the document also contained a section entitled "Weird S--t That Might Happen in the Pilot," including something very big moves through the trees in the distance; a horrifying noise wakes everyone up in the middle of the night and then abruptly stops; a "jerry-rigged" transmitter cannot transmit because a stronger signal transmitting from somewhere else on the island is blocking it, and the characters discover the other transmission is a distress call in French playing on a loop and recorded many years ago (in 1983).

Time was short if the show was going to be broadcast during the 2004 to 2005 television season. Typically, networks would have already selected scripts for pilots around December 2003, and principal photography would have commenced shortly thereafter. Lindelof and Abrams were thus tasked with drafting an outline by the end of the week. Between January 13 and 16, 2004, Lindelof created and circulated at least four separate versions of notes or draft outlines to Abrams and the *Alias* writers and producer who were also present at the meeting. On January 16, 2004, Lindelof sent a final version of a 21-page outline entitled "LOST" to Kadin and Sherman at ABC. Braun also received the outline and thought it was "brilliant." He called Lindelof the next day and told him ABC was going to produce the pilot based solely on the outline.

By January 19, 2004, Lindelof had created a rough cast list for the pilot and had started creating character "sides" for actors to read when auditioning for the show. In February 2004, while they were working on the pilot script, Abrams and Lindelof were conducting casting sessions for the show, and the actors they liked for certain characters influenced the way they were writing those characters. The evolution of the first draft of the pilot script is documented in the record; in January and February 2004, as Lindelof finished each act of the script and revised the acts, he sent the drafts by e-mail to Abrams and the *Alias* team. Abrams and Lindelof finished a complete first draft of the pilot script on February 24, 2004, and submitted it to Braun, Kadin, and Sherman. They revised the script numerous times and submitted the final script on

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April 19, 2004. By early May 2004, they and the *LOST* staff writers had created a "bible" that provided an overview of the show and described its general format, various elements of the show, character biographies, and approximately 30 ideas for the future of the show.

The pilot for *LOST* premiered in two parts on September 22 and 29, 2004. The series ran for six seasons, with the final episode airing in 2010.

4. *ABC Searches for Spinner's Work in Its Records*

Lisa Petraglia is executive director of legal affairs administration at ABC. During the period 2007 to 2011, she supervised the searches conducted of ABC's files for any scripts, treatments, or other works by Spinner. ABC searched the hard copy and electronic files of the ABC personnel involved in the creation of *LOST*, as well as those involved with Spinner's submission of the 1977 Script and the Outer Space Treatment. Specifically, ABC searched the files of the drama development department (including the files of Gross, Alsberg, Leoni, Shephard, and any files relating to SMK), the files of the former literary rights department, and the files of Braun, Kadin, and Sherman, among others. The searches did not yield any iteration of the 1977 Script. The searches did yield a copy of the Outer Space Treatment, found in Leoni's files.

PROCEDURAL HISTORY

Spinner filed the operative complaint on July 10, 2009, for breach of implied-in-fact contract against ABC and Touchstone Television Productions, Inc. He alleges that an implied-in-fact contract was created between him and ABC when ABC solicited the 1977 Script, he submitted the script with the reasonable expectation of payment if ABC used it, ABC accepted it knowing that he expected payment, and ABC used it. He further alleges that ABC had access to and used his 1977 Script to develop and produce the television series *LOST*. He asserts that he is due an ongoing royalty for ABC's use of the ideas in his 1977 Script.

On or around August 31, 2011, ABC moved for summary judgment on three grounds: (1) the creators of *LOST* had no reasonable possibility of access to Spinner's work; (2) *LOST* is not substantially similar to Spinner's work; and, (3) even if there were triable issues of fact regarding access and substantial similarity, the undisputed evidence established that ABC independently created *LOST*, and independent creation was a complete defense to the action. The court granted summary judgment in favor of ABC and held that ABC had "negated Plaintiff's claims by providing sufficient evidence to establish both that it did not have access to Plaintiff's original 1977 script and that the script for Lost was created independently."

The court entered judgment on December 19, 2011. Spinner filed a timely notice of appeal.

* * * * *

DISCUSSION

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Generally, there is no property right in an idea. " 'The general rule of law is, that the noblest of human productions--knowledge, truths ascertained, conceptions, and ideas--become, after voluntary communication to others, free as the air to common use.' " (*Desny v. Wilder (1956) 46 Cal.2d 715, 731-732 [299 P.2d 257]* (*Desny*), quoting *Internat'l News Serv. v. Asso. Press (1918) 248 U.S. 215, 250*.) Nevertheless, the California Supreme Court held in *Desny, supra, at pages 733-734*, that an idea can be the subject of an express or implied contract, and its disclosure and submission can be consideration for a promise to pay compensation. Plaintiffs may therefore have a cause of action in contract for disclosing an idea to a defendant that uses that idea without compensation.

In an idea submission case such as this, to prevail on a cause of action for breach of implied-in-fact contract, the plaintiffs must show (1) they clearly conditioned the submission of their ideas on an obligation to pay for any use of their ideas; (2) the defendants, knowing this condition before the plaintiffs disclosed the ideas, voluntarily accepted the submission of the ideas; and (3) the defendants found the ideas valuable and *actually used* them--that is, the defendants based their work substantially on the plaintiffs' ideas, rather than on their own ideas or ideas from other sources. (*Mann v. Columbia Pictures, Inc. (1982) 128 Cal. App. 3d 628, 646-647 & fn. 6 [180 Cal. Rptr. 522]* (*Mann*).)

The summary judgment motion in this case, and thus this appeal, focuses solely on the use element. When the plaintiffs do not have direct evidence of use, they may raise an inference of use by showing the defendants had access to their ideas and the defendants' work is substantially similar to the plaintiffs' ideas. (*Hollywood Screentest of America, Inc. v. NBC Universal, Inc. (2007) 151 Cal. App.4th 631, 646 [60 Cal. Rptr. 3d 279]* (*Hollywood Screentest*); *Teich v. General Mills, Inc. (1959) 170 Cal. App. 2d 791, 797 [339 P.2d 627]* (*Teich*).)

Even when the plaintiffs raise an inference of use, however, the defendants may dispel that inference with evidence that conclusively demonstrates the defendants independently created their product. (*Teich, supra, 170 Cal. App. 2d at p. 799*.) When the defendants produce evidence of independent creation that is " 'clear, positive, uncontradicted and of such a nature that it cannot rationally be disbelieved,' " the inference of use is dispelled as a matter of law. (*Ibid.*; see *Hollywood Screentest, supra, 151 Cal.App.4th at pp. 646, 648*; *Mann, supra, 128 Cal.App.3d at p. 650*.) In such a case, it is appropriate to grant summary judgment on the plaintiffs' implied-in-fact contract claim on the ground that the use element has been negated by uncontroverted evidence of independent creation. (*Hollywood Screentest, supra, at p. 650*.)

This is all to say that an issue of fact regarding substantial similarity is not necessarily sufficient to overcome summary judgment when the defendants show as a matter of law that they independently created their product. In an idea submission case, similarities that do not result from copying are " 'similarities ... without legal significance.' " (*Teich, supra, 170 Cal. App. 2d at p. 804* [quoting with approval the analogous copyright principle that " ' "the law imposes no prohibition upon those who[,] without copying, independently arrive at the precise combination of words or notes which have been copyrighted" ' " (italics omitted)]; see *Mann, supra, 128 Cal.*

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App. 3d at p. 648 [similarities between two works were without legal significance when inference of use was rebutted with clear, positive, and uncontradicted evidence of independent creation].) In other words, similarity is no longer a material issue when the defendants show conclusively that they independently created their product.

Even if we assume for the sake of argument that there are substantial similarities between the 1977 Script and *LOST*, we agree with the trial court that ABC presented conclusive and uncontradicted evidence of independent creation so as to negate the use element of Spinner's cause of action. Moreover, the independent creation defense is bolstered by the fact that Spinner's so-called evidence of access is actually speculation, conjecture, or guesswork, which weakens any inference of use that ABC must dispel.

1. *Spinner's Showing of Access Is Insufficient as a Matter of Law*

We begin with the issue of access. To the extent Spinner has established any inference of use, the inference is not based on proof of access. His proof of access is inadequate as a matter of law.

Preliminarily, we note that both parties rely on copyright infringement cases in making their access arguments. They do so with good reason. The framework for proving use in an idea submission claim is parallel to the framework for showing copying in a copyright claim. The elements of a copyright infringement claim are ownership of the copyright and actual copying by the defendant. (*Meta-Film Associates, Inc. v. MCA, Inc. (1984) 586 F. Supp. 1346, 1354* (*Meta-Film*).) Copying is usually proven circumstantially through evidence of access and substantial similarity. (*Id. at pp. 1354-1355.*) It therefore comes as no surprise that the parties, as well as the court below, have relied on analogous copyright cases. (See *4 Nimmer on Copyright (2012) The Law of Ideas, § 19D.07[B]*, p. 19D-89 (Rel. 84-5/2011 Pub.465) [noting that idea submission law "borrows liberally" from copyright jurisprudence and relying on copyright jurisprudence in discussing access in "law of ideas"].) We likewise look to analogous copyright cases for guidance, in addition to idea submission cases.

Access means that the defendants had an opportunity to view or to copy the plaintiffs' work. (*Meta-Film, supra, 586 F. Supp. at p. 1355.*) More than a " 'bare possibility' " of access is required, however. (*Ibid.*; see *Mann, supra, 128 Cal. App. 3d at p. 651.*) When there is no direct evidence of access, the defendants must have had a " 'reasonable possibility' " to view the plaintiffs' work, which must be based on more than mere speculation. (*Meta-Film, supra, at p. 1355*; see *Mann, supra, at p. 651.*)

Bare " 'corporate receipt' " of the plaintiffs' work may not be sufficient to show access. (*Meta-Film, supra, 586 F. Supp. at pp. 1357-1358.*) A reasonable possibility of access requires a sufficiently strong nexus between the intermediary to whom the plaintiffs submitted their work and the creator of the allegedly offending work. (*Id. at p. 1357*; *Merrill v. Paramount Pictures Corp.* (C.D.Cal., Dec. 19, 2005, No. CV 05-1150 SVW (MANx).) 2005 WL 3955653.) The relationship linking the intermediary and the creator should be more than the simple fact that

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they share a common employer. (*Meta-Film, supra, at p. 1357*.) For instance, the nexus may be sufficiently strong when the intermediary was in a position to transmit the plaintiffs' work to the creator, was a supervisor with responsibility for the creator's work, was part of the same work unit, was a contributor of creative ideas or material to the creator's work, or was otherwise in contact with the creator regarding some subject matter that overlapped with the plaintiffs' work. (*Id. at pp. 1355-1356, 1358*.) In other words, the intermediary and the alleged copier occupy positions such that it is natural for one to impart information to the other. (*Id. at p. 1356*.)

Here, Spinner's evidence is insufficient as a matter of law because he relies on a bare possibility of theoretical access premised on mere speculation. His theory of access is that the ABC drama development executives who were involved in the creation of *LOST*--Braun, Kadin, and Sherman--had a reasonable opportunity to view the 1977 Script because ABC had a policy of permanently retaining unreturned scripts, and the script must have been present somewhere in a "script library" at ABC. This is guesswork. First, despite the 1972 retention policy Spinner cites, ABC never found the 1977 Script in its drama development files.[150] This is perhaps unsurprising, given the passage of time between Spinner's 1977 submission on the one hand and the creation of *LOST* and this lawsuit on the other. Second, Spinner refers repeatedly to a so-called script library at ABC, but there is no evidence that there was a centralized library of the sort the executives could access and search. (Cf. *Robinson v. New Line Cinema Corp.* (4th Cir., Apr. 14, 2000, No. 99-2167) 2000 WL 380124, p. *1 (*Robinson*) [access inferred based on, among other things, direct evidence that script was logged into "computerized 'script library' " and executive involved in creating infringing work had access to library].) The existence of a script library is supposition based on ABC's 1972 policy that it will permanently retain unreturned scripts.

Third, the nexus between the people to whom Spinner submitted his work and the actual creators of *LOST* does not remotely approach strong. The purported nexus involves several potential intermediaries and several areas of speculation. Spinner submitted the 1977 Script to ABC executives Alsberg and Gross. They both left ABC in the 1970's. Leoni, the executive to whom Spinner verbally repitched his idea in the early 1990's, left ABC in 1995. Braun, who conceived of the general concept for *LOST*, first started working for ABC in 1999. Although these individuals shared ABC as an employer and drama development as a work unit, they were not employed at the same time, and in the case of Alsberg and Gross, the people who actually received the 1977 Script, their employment at ABC ended decades before Braun's employment and the creation of *LOST*. Thus, Alsberg, Gross, and Leoni were in no position to transmit Spinner's work to Braun and the other creators--Lieber, Abrams, and Lindelof. Indeed, none of these creators state they have ever spoken with or received any materials from Alsberg, Gross, or Leoni. There is therefore no evidence that Alsberg, Gross, Leoni had contact with the creators such that they could contribute ideas to *LOST*. And they certainly did not have supervisory

[150]While ABC found the Outer Space Treatment in its files, Spinner appears to have abandoned any claim based on the treatment. He has admitted that *LOST* and the Outer Space Treatment are not substantially similar. The essential element of use is not present if ABC did not base *LOST* substantially on the ideas in the treatment. (*Mann, supra, 128 Cal.App.3d at p. 647, fn. 6*.)

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responsibility over the creators of *LOST*. These potential intermediaries simply did not occupy positions such that it would be natural for them to impart information to the *LOST* creators. (*Meta-Film, supra, 586 F. Supp. at p. 1356*.)

To the extent Spinner is suggesting that Kadin and Sherman are potential intermediaries because these executives had supervisory responsibility over *LOST*, sat in on the initial meeting between Lindelof and Abrams, and reviewed Lindelof's and Abrams's work, there is also no evidence that these executives had any contact with the original intermediaries who actually received Spinner's work. Any theory of transmission is, again, speculation. Spinner's theory of access always comes back to the bare possibility that Kadin, Sherman, or Braun had access to the 1977 Script through an imagined script library, and they then conveyed his ideas to Lieber, Abrams, and Lindelof. This theory is simply not supported by any evidence. (*Mann, supra, 128 Cal. App. 3d at p. 650* [" 'mere possibilities' do not afford the basis for factual inferences"].)

This is made all the more apparent when we compare this case to the case on which Spinner relies for his script library theory--*Robinson*. In *Robinson*, the court held that there was a genuine issue of material fact as to " 'reasonable possibility of access' " for several reasons. (*Robinson, supra*, 2000 WL 380124 at p. *1.) The intermediary who received the plaintiff's work and the executive responsible for the allegedly infringing product worked for the same company at the same time and were only two floors apart. (*Ibid.*) Both of them attended the same weekly meeting for executives. (*Ibid.*) And it was undisputed that the intermediary received the plaintiff's script and had the details of the script's submission logged into their employer's "computerized 'script library,' " which was accessible to the other executive. (*Ibid.*) *Robinson* is distinguishable not only because the evidence suggested the intermediary and the creator could have crossed paths and traded information, but also because direct evidence showed that a script library existed and the plaintiff's script was entered into it. We have no comparable evidence here.

Besides his main theory regarding the script library, Spinner also argues that access can be inferred from "the record-breaking speed" of *LOST*'s creation. He asserts that the four days Lindelof and Abrams took to draft the initial outline and the overnight decision to produce the pilot based on the outline alone was unprecedented. Even if we assume that this was unprecedented timing for creating a 21-page outline and making a decision, these facts alone do not give rise to a reasonable inference of access. The evidence shows that ABC was, indeed, trying to move with speed because it hoped to produce *LOST* for the 2004 to 2005 television season, and the creators were already behind if this was the case. Moreover, the single case that Spinner cites for this argument is distinguishable in that the inference of access arose not from the short creative timeframe alone; other facts showed the plaintiff's work was widely disseminated and the alleged infringers had the opportunity to view that work. (*JB Oxford & Co. v. First Tennessee Bank National Assn. (M.D.Tenn. 2006) 427 F. Supp. 2d 784, 796*.)

In sum, Spinner has shown only a bare possibility of access based on speculation, supposition, and guesswork. He has not shown a reasonable possibility of access as a matter of law. (See *Meta-Film, supra, 586 F.Supp. at pp. 1357-1358* [evidence of access insufficient as a

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matter of law when only connection between intermediary and studio that created allegedly infringing work was that intermediary was under contract with studio regarding other projects and had an office on studio lot].) Any inference of use, therefore, would have to be based on substantial similarity alone.

2. *ABC's Evidence of Independent Creation Is Uncontroverted and Dispels Any Inference of Use as a Matter of Law*

Assuming for the purposes of argument that substantial similarity between the 1977 Script and *LOST* gives rise to an inference of use, ABC has proffered uncontradicted evidence that it independently created *LOST*.

We begin with the two published California decisions discussing independent creation at length. *Teich, supra, 170 Cal. App. 2d at pages 799-804*, set forth the independent creation defense to an idea submission lawsuit. (See *id. at p. 803* ["[D]oes proof that there was no copying of plaintiff's product make a complete defense, although the thing actually used by defendant was closely similar to the one which plaintiff had presented to it? The authorities require an affirmative answer."].) In that case, Teich developed an idea for a gadget that made "sun pictures," consisting of a black opaque envelope containing a collapsed cardboard holder, a "negative," which was a picture printed on cellophane, and two pieces of sensitized paper. (*Id. at p. 795*.) The gadget printed the negative picture on the sensitized paper upon exposure to the sun. (*Ibid.*) Teich submitted this idea to General Mills with the thought that it could be used as a cereal box prize. (*Id. at pp. 795-796*.) On July 20, 1955, Teich met with an advertising and sales promotion manager of a division of General Mills in his San Francisco office. The manager expressed approval of the gadget and asked Teich to work on some improvements. (*Ibid.*) Teich left some samples with the manager. (*170 Cal. App. 2d at p. 796*.) He made several attempts to contact the manager after that meeting, but he was unsuccessful. (*Id. at p. 797*.) In January 1956, Teich saw that General Mills was offering in one of its cereals a " 'Magic Sun Picture,' " which bore a "marked similarity" to his gadget. (*Ibid.*) "The basic principle was the same but there were differences in details," though the differences were "insignificant." (*Id. at pp. 797, 801*.)

Teich brought an idea submission case against General Mills based on the contract action recognized in *Desny*. (*Teich, supra, 170 Cal. App. 2d at p. 794*.) The jury found for Teich, but the trial court granted General Mills's motion for judgment notwithstanding the verdict. (*Ibid.*) The Court of Appeal affirmed. (*Id. at p. 806*.) The court explained that Teich's showing of access--that he had submitted his idea to the General Mills manager--and the marked similarity between Teich's idea and the General Mills Magic Sun Picture raised an inference of copying and use by General Mills. (*Id. at pp. 797-799*.) Nonetheless, General Mills dispelled this inference as a matter of law with conclusive and uncontradicted evidence that the Magic Sun Picture was independently conceived. (*Id. at pp. 799-800*.) The evidence consisted of testimony from three witnesses that an advertising agency had conceived of the idea and had contacted General Mills at its Minneapolis office (without disclosing any details of the product) several weeks before Teich first contacted the manager in San Francisco. (*170 Cal. App. 2d at p. 799*.) Two of these witnesses were General Mills employees, and the third was the developer of the

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product at the advertising agency. (*Ibid.*) The testimony of these witnesses was supported by documentary evidence of correspondence showing that, while the advertising agency eventually disclosed the details of its product in Minneapolis nine days after Teich's meeting with the manger in San Francisco, the agency had been developing its product well before Teich first contacted General Mills. (*Id. at pp. 800-802.*) The court held that General Mills's evidence conclusively proved independent creation of the Magic Sun Picture without knowledge of Teich's idea. (*Id. at p. 802.*) It followed from the absence of copying that Teich had no cause of action. (*Id. at p. 805.*)

In *Hollywood Screentest, supra, 151 Cal. App. 4th at pages 646-648*, the court followed *Teich* and applied the independent creation defense to bar the plaintiffs' idea submission claim. The president of Hollywood Screentest of America, Inc., James Pascucci, conceived of an idea for a reality show called *Hollywood Screentest* that "would give ordinary people from all walks of life the chance to break into the close-knit Hollywood entertainment community." (*Id. at p. 633.*) Pascucci contacted an executive at NBC about his idea in January 2001. They corresponded back and forth about his idea until November 2001, when an NBC executive told Pascucci that NBC was " 'not looking for this type of program right now.' " (*Id. at pp. 634-635.*) Pascucci continued to contact NBC with almost no response until September 2002, when NBC told him it was still going to pass on the idea. (*Id. at p. 635.*) On September 5, 2002, NBC issued a press release announcing a new reality show called *Next Action Star*. (*Id. at p. 636.*) Pascucci observed a number of similar elements between *Next Action Star* and *Hollywood Screentest*, such as having an acting coach on set to assist the contestants with their challenges, using celebrities in various challenges, a movie deal as the grand prize, and using the Internet and the television show itself to promote the film component of the show. (*Ibid.*) Pascucci brought an idea submission case against NBC including a claim for breach of implied-in-fact contract. (*Id. at p. 638.*) NBC moved for summary judgment on the ground that *Next Action Star* was independently created. (*Ibid.*) The trial court granted the summary judgment motion. (*151 Cal. App. 4th at p. 641.*)

The Court of Appeal affirmed, holding that NBC had presented undisputed evidence that *Next Action Star* was created by entities unrelated to NBC and unassisted by NBC, and Pascucci had not presented any evidence calling into question the evidence supporting independent creation. (*Hollywood Screentest, supra, 151 Cal. App. 4th at pp. 647-648.*) The evidence of independent creation consisted of declarations from individuals at the three different companies involved in the development of *Next Action Star* and the testimony of three NBC employees. The declarations documented the creation process that occurred over the course of a year before the creators presented the idea to NBC. (*Id. at pp. 636-637, 647, fn. 8.*)

In affirming the judgment, the court explained that Pascucci had "point[ed] to no evidence that NBC actually used" his ideas. (*Hollywood Screentest, supra, 151 Cal. App. 4th at p. 648.*) Rather, he asked the court to "draw inferences based on general similarities and timing," and he argued that a fact question existed as to whether *Next Action Star* was independently created because of the "numerous similarities" between the shows, the modification of *Next*

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Action Star from its original stuntman concept to the actor concept provided by Pascucci, and NBC's simultaneous acceptance of *Next Action Star* and rejection of *Hollywood Screentest*. (*Ibid.*) The court concluded that Pascucci's "speculation as to NBC's use is insufficient to create a disputed issue of fact. An inference of use sufficient to challenge NBC's 'clear, positive and uncontradicted evidence' of independent creation may not be drawn from ' " 'suspicion alone, or ... imagination, speculation, supposition, surmise, conjecture, or guesswork.' " ' " (*Ibid.*) Therefore, the similarities and timing were insufficient to create a disputed issue of fact. (*Ibid.*) Ultimately, the uncontradicted evidence of independent creation negated the use element of the cause of action. (*Id. at p. 650*.)

In the case at bar, the evidence of independent creation is clear, positive, and uncontradicted, as it was in *Teich* and *Hollywood Screentest*. Because this evidence dispels any inference that ABC used Spinner's ideas as a matter of law, the trial court did not err in granting summary judgment.

The evidence of independent creation may be summarized as follows. ABC executive Braun conceived of the general concept for *LOST* around January 2003 when he thought of melding *Survivor* and Cast Away to do a show about survivors of a crash landing on a deserted island. He pitched this idea to other executives at a brainstorming session during a company retreat, at which he also compared the concept to *Gilligan's Island* and Lord of the Flies. ABC transcribed this brainstorming session and included the transcription of Braun's pitch in the record. Lieber was assigned the work of drafting the script based on Braun's idea in September 2003. His work included the early seeds of what became *LOST*, including a cast of plane crash survivors stranded on a seemingly deserted tropical island, competition for leadership roles among the survivors, the use of the plane fuselage as a setting, and mystery regarding the main characters' backgrounds. The outline also included characters whose basic characteristics are familiar from some of the *LOST* characters--a pregnant woman, a calm and collected older man, a doctor, a drug addict, a military officer, and a spoiled rich girl. Several outline drafts and several drafts of Lieber's pilot script are all part of the record.

After Braun rejected Lieber's attempts to draft a script, Abrams and Lindelof took up the project in early January 2004. Their initial meeting yielded many ideas and six pages of notes containing many of the main characters and concepts that eventually became the *LOST* pilot. Lindelof and Abrams thereafter began drafting an outline to submit to ABC, and the various drafts of this outline are documented in the record through Lindelof's contemporaneous e-mails, which attach these drafts, to Abrams and the *Alias* writers and producer. Similarly, after ABC picked up the pilot based on the outline, the drafts of character sides for auditions, drafts of each act, and drafts of the complete pilot script are in the record, and, for the most part, they are attached to Lindelof's contemporaneous e-mails as he distributed the drafts to Abrams and the rest of the group. Thus, documented in the record is the evolution of the *LOST* pilot from six pages of notes to a 90-plus-page script, over the course of approximately three months (from Jan. 13, 2004, to Apr. 19, 2004). This is supported by the declarations of Abrams and Lindelof and voluminous exhibits thereto.

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Moreover, the key players involved in creating *LOST*--Abrams, Lindelof, Lieber, and Braun--have declared that (1) they knew nothing of Spinner, his 1977 Script, or his Outer Space Treatment until this lawsuit; (2) they did not have his script or treatment while working on *LOST*; and (3) no one ever mentioned his script or treatment to them. The key players additionally declared that they had never had any contact with the ABC or SMK executives who received Spinner's 1977 Script or Outer Space Treatment, with the exception of Shephard. As to Shephard, the key players had never spoken with her about Spinner's work or received any materials from her regarding his work. In fact, each of the ABC executives who received Spinner's work left ABC long before *LOST* was created--Gross in 1977, Alsberg in 1979, Leoni in 1995, and Shephard in 1997. Finally, Spinner himself stated unequivocally that he never contacted those involved in the production and creation of *LOST* and never transmitted any materials to them.

As we noted previously, this evidence of creation independent of Spinner's work is clear, positive, uncontradicted, and of such a nature that it cannot rationally be disbelieved. (*Teich, supra, 170 Cal. App. 2d at p. 799*.) The evidence is of the same type that was relied on in *Teich* and *Hollywood Screentest*--sworn statements of the creators and contemporaneous correspondence documenting the creation process. (*Teich, supra, at pp. 799-802*; *Hollywood Screentest, supra, 151 Cal. App. 4th at pp. 636-637, 647, fn. 8*.) Spinner has not presented any evidence that *LOST* was not created in the manner described in detail by the declarations and supporting exhibits of Braun, Lieber, Lindelof, and Abrams. Instead, he argues that evidence of access and substantial similarities contradicts the evidence of independent creation. First, this reasoning is circular and unpersuasive. Evidence of access and substantial similarities may indeed raise an inference of use, but this inference may be dispelled as a matter of law with the very type of evidence ABC presents. (*Teich, supra, at p. 799*.) That is, even if evidence of access and substantial similarity exists, it does not contradict ABC's evidence per se, but merely gives rise to an opposing inference, which ABC has dispelled. Second, Spinner's "evidence of access" is nothing more than speculation, conjecture, imagination, or guesswork, as we have observed in part 1. of the Discussion. Speculation that Braun, Kadin, or Sherman had access to the 1977 Script, and then more speculation that they transmitted Spinner's ideas to Lieber, Lindelof, or Abrams, is insufficient sufficient to create an issue of fact. (*Sinai Memorial Chapel v. Dudler, supra, 231 Cal. App. 3d at pp. 196-197*; see *Hollywood Screentest, supra, at p. 648* [inference of use sufficient to challenge the defendant's clear, positive, and uncontradicted evidence of independent creation may not be drawn from suspicion, imagination, speculation, supposition, conjecture, or guesswork alone].)

Spinner makes other arguments not based on allegedly conflicting evidence. For instance, he argues about the quality or competency of ABC's evidence. He maintains that the "self-serving declarations" of interested witnesses--Braun, Lieber, Abrams, and Lindelof--cannot establish independent creation as a matter of law. This argument fails to persuade. As the creators of *LOST*, it would be odd indeed if these individuals were not key witnesses in this lawsuit. Lieber, Abrams, and Lindelof were not in-house ABC employees, but were third parties

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ABC engaged to write *LOST*. They are akin to the advertising agency witness in *Teich*, who developed the allegedly copied gadget, and the individuals at the non-NBC companies in *Hollywood Screentest*, who developed the idea for *Next Action Star* and took it to NBC. All of these witnesses were presumably "interested" as well, but the courts nevertheless relied on those witnesses in finding independent creation as a matter of law. Moreover, as we have already observed, the evidence of independent creation was not just these witnesses' statements alone. The documentary evidence and particularly the contemporaneous e-mails showing the evolution of *LOST* by Lindelof and Abrams supports our conclusion.

To the extent Spinner is suggesting that these witnesses are not credible and therefore their testimony cannot support summary judgment, we disagree. Their statements that they did not have access to the 1977 Script and did not know of Spinner's work until this lawsuit are not contradicted. And, their accounts of how *LOST* was created are not contradicted. We may not deny summary judgment on grounds of credibility when ABC has established the independent creation defense thusly. (*Code Civ. Proc., § 437c, subd. (e)*.)

In another instance, Spinner suggests that ABC's evidence is not as good as the evidence in *Teich* and *Hollywood Screentest* because in those cases the offending works were developed without involvement from the defendants and were brought to the defendants after the fact. Here, he asserts, ABC was involved in the creation of *LOST* from day one--ABC executive Braun conceived of the concept and was involved throughout with the third party creators. And by this time, Spinner argues his script had been sitting in ABC's purported "library" for decades. We do not find these differences to mean that we cannot rely on *Teich* and *Hollywood Screentest*. In those cases, the evidence simply suggested that the third party creators did not have access to the plaintiffs' work during their creative process. We have already discussed how Spinner has not shown access as a matter of law. We will not reiterate that discussion here.

In sum, the evidence that ABC independently created *LOST* is clear, positive, and uncontradicted. This is sufficient to hold that ABC established the independent creation defense as a matter of law. The trial court therefore did not err in granting summary judgment.

DISPOSITION

The judgment is affirmed. Respondent to recover costs on appeal. . . .

[6] Preemption

USAGE: On page 796, SUBSTITUTE *Selby v. New Line Cinema Corp.*, *Wrench LLC v. Taco Bell Corp.* and "Notes and Questions" with the following case and "Notes and Questions":

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FOREST PARK PICTURES v. UNIVERSAL TELEVISION NETWORK, INC.
683 F.3d 424 (2d Cir. 2012)

JOHN M. WALKER, JR., Circuit Judge:

This dispute over the concept for a television show presents the question of the extent to which the Copyright Act, 17 U.S.C. § 101 *et seq.,* preempts contract claims involving copyrightable property. Plaintiffs–Appellants Forest Park Pictures, Hayden Christensen, and Tove Christensen (collectively, "Forest Park") developed an idea for a television series and created a writing that embodied it, known in the industry as a "series treatment." Forest Park submitted its idea, first by mail and then in person, to Defendant–Appellee USA Network, a division of Universal Television Network, Inc. ("USA Network"). Forest Park alleges an implied promise by USA Network to pay reasonable compensation if the idea were used. The District Court for the Southern District of New York (Colleen McMahon, *Judge*) held that the Copyright Act preempted a breach of contract claim based on idea submission, and granted USA Network's motion to dismiss. We reach a different conclusion. Forest Park adequately alleged the breach of a contract that included an implied promise to pay. Because this claim is based on rights that are not the equivalent of those protected by the Copyright Act, it is not preempted.

BACKGROUND

Facts

Because Forest Park appeals from an order dismissing the complaint on the pleadings, we accept as true the facts alleged in the Third Amended Complaint ("Complaint"). . . . In 2005, Forest Park formulated a concept for a television show called "Housecall," in which a doctor, after being expelled from the medical community for treating patients who could not pay, moved to Malibu, California, and became a "concierge" doctor to the rich and famous. Forest Park created a written series treatment for the idea, including character biographies, themes, and storylines. It mailed this written material to Alex Sepiol, who worked for USA Network.

After sending the written materials, Forest Park requested a meeting between its representatives and Sepiol. Sepiol scheduled the meeting "for the express purpose of hearing Plaintiffs pitch" their show. Complaint ¶ 12. At the time, Sepiol and USA Network knew "that writer-creat[o]rs pitch creative ideas to prospective purchasers with the object of selling those ideas for compensation" and "that it was standard in the entertainment industry for ideas to be pitched with the expectation of compensation in the event of use." *Id.* ¶ 9. And, at the meeting, "[i]t was understood that Plaintiffs were pitching those ideas with the object of persuading USA Network to purchase those ideas for commercial development." *Id.* ¶ 13. Sepiol said that prior to hearing the idea for "Housecall," he had never heard of "concierge" doctors, or doctors who make house calls for wealthy patients, and "thought it was a fascinating concept for a television show." *Id.* ¶ 15. Over the course of the following week, Sepiol and Forest Park exchanged further communications; however, discussions soon ceased and no further contact between the parties ensued.

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A little less than four years later, USA Network produced and aired a television show called "Royal Pains," in which a doctor, after being expelled from the medical community for treating patients who could not pay, became a concierge doctor to the rich and famous in the Hamptons. Forest Park had no prior knowledge of "Royal Pains," did not consent to its production, and received no compensation from USA Network for the use of its idea for the show.

Prior Proceedings

Forest Park Pictures, located in California, and the Christensens, residents of California and Toronto, Canada, brought a diversity action against USA Network and Universal Television Network, a New York corporation, for breach of contract. USA Network moved under Federal Rule of Civil Procedure 12(b)(6) to dismiss the Complaint on the grounds that the Copyright Act preempted the claim and that the contract was too vague to be enforced. The district court held the claim preempted and dismissed the Complaint without addressing the vagueness argument. *Forest Park Pictures v. Universal Television Network, Inc.,* No. 10 Civ. 5168(CM), 2011 WL 1792587, at *3 (S.D.N.Y. May 10, 2011). Forest Park timely appealed the dismissal.

DISCUSSION

This appeal presents two questions: first, whether Forest Park's breach of implied contract claim is preempted by the Copyright Act; and second, if such a claim is not preempted, whether Forest Park adequately pleaded a claim under state law. We hold that Forest Park's claim is not preempted and that the Complaint pleads an enforceable contract under state law that survives a motion to dismiss.

We review de novo a district court's dismissal of a complaint under Rule 12(b)(6), accepting all of the complaint's factual allegations as true and drawing all reasonable inferences in the plaintiffs' favor. *Interpharm, Inc. v. Wells Fargo Bank, Nat'l Ass'n,* 655 F.3d 136, 141 (2d Cir.2011). The complaint must state a claim that is plausible on its face. *Bell Atl. Corp. v. Twombly,* 550 U.S. 544, 570 (2007). A claim has "facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Ashcroft v. Iqbal,* 556 U.S. 662, 678 (2009).

I. Preemption

We first turn to USA Network's argument that Forest Park's claim is preempted. Section 301 of the Copyright Act expressly preempts a state law claim only if (i) the work at issue "come[s] within the subject matter of copyright" and (ii) the right being asserted is "equivalent to any of the exclusive rights within the general scope of copyright." 17 U.S.C. § 301(b); *see Barclays Capital Inc. v. Theflyonthewall.com, Inc.,* 650 F.3d 876, 892 (2d Cir.2011).

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A. Subject Matter Requirement

In order to be preempted, a claim must involve a work "within the subject matter of copyright." 17 U.S.C. § 301(a). Copyright protection exists for "original works of authorship fixed in any tangible medium of expression," but does not extend to an "idea, ... regardless of the form in which it is described, explained, illustrated, or embodied." 17 U.S.C. § 102(a), (b). We have held, however, that works may fall within the subject matter of copyright, and thus be subject to preemption, even if they contain material that is uncopyrightable under section 102. *See Barclays Capital,* 650 F.3d at 892; *Nat'l Basketball Ass'n v. Motorola, Inc.* ("*NBA* "), 105 F.3d 841, 849 (2d Cir.1997); *Harper & Row, Publishers, Inc. v. Nation Enters.,* 723 F.2d 195, 200 (2d Cir.1983), *rev'd on other grounds,* 471 U.S. 539 (1985). *See generally* 4 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 19D.03[A][2][b] (2011). In *Harper & Row,* for example, the work at issue, President Ford's memoirs, contained uncopyrightable facts. 723 F.2d at 200. Nevertheless, we held that the factual content of the book did not remove the work as a whole (indisputably a literary work of authorship, *see* § 102(a)(1)) from the subject matter of copyright. *Harper & Row,* 723 F.2d at 200; *see also Barclays Capital,* 650 F.3d at 892, 902. Similarly, in *Briarpatch Ltd. v. Phoenix Pictures, Inc.,* 373 F.3d 296 (2d Cir.2004), we held that a novel fell within "the broad ambit of the subject matter categories" listed in section 102(a) despite containing uncopyrightable ideas. *Id.* at 306. The scope of copyright for preemption purposes, then, extends beyond the scope of available copyright protection.

The reason for our broad interpretation of the scope of copyright preemption is that Congress, in enacting section 301, created a regime in which some types of works are copyrightable and others fall into the public domain. *See NBA,* 105 F.3d at 849. In preempting certain state causes of action, Congress deprived the states of the power to "vest exclusive rights in material that Congress intended to be in the public domain." *Id.; see also Harper & Row,* 723 F.2d at 200 (recognizing that it would "run directly afoul of one of the Act's central purposes" to allow the states to expand copyright protection to works Congress deemed uncopyrightable). Section 301's preemption scheme functions properly only if the " 'subject matter of copyright' includes all works of a *type* covered by sections 102 and 103, even if federal law does not afford protection to them." *NBA,* 105 F.3d at 850 (quoting *ProCD, Inc. v. Zeidenberg,* 86 F.3d 1447, 1453 (7th Cir.1996)).

The work at issue in this case is Forest Park's idea for "Housecall," manifested in the series treatment (comprising character biographies, themes, and storylines). This treatment and associated written materials are "works of authorship that are fixed in a tangible medium." 17 U.S.C. § 301(a). Although Forest Park's Complaint does not allege that USA Network took its actual scripts or biographies, the subject matter requirement is met because the Complaint alleges that USA Network used the ideas embodied in those written works. That the work contains within it some uncopyrightable ideas does not remove it from the subject matter of copyright. *See Briarpatch,* 373 F.3d at 305. Moreover, because the ideas that are the subject of the claim were fixed in writing--whether or not the writing itself is at issue--the claim is within the subject matter of copyright. *See NBA,* 105 F.3d at 849; *see also Montz v. Pilgrim Films & Television,*

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Inc., 649 F.3d 975, 979 (9th Cir.2011) (en banc) (holding that an idea for a television show, once fixed in a tangible medium, fell within the subject matter of copyright); *Wrench LLC v. Taco Bell Corp.,* 256 F.3d 446, 455 (6th Cir.2001) (holding that an idea for a character, conveyed in storyboards, scripts, and drawings, was within the subject matter of copyright). Therefore, the first requirement for preemption is met.

B. Equivalency Requirement

In order to establish preemption, USA Network must also demonstrate that the Complaint seeks to vindicate a "legal or equitable right[ ] that [is] equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106." 17 U.S.C. § 301(a). Section 106 gives copyright owners the exclusive rights, among other things, to reproduce a copyrighted work, to prepare derivative works, to distribute copies of the work to the public, and to display the work publicly. 17 U.S.C. § 106. A state law right is equivalent to one of the exclusive rights of copyright if it "may be abridged by an act which, in and of itself, would infringe one of the exclusive rights." *Harper & Row,* 723 F.2d at 200. "But if an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action," there is no preemption. *Computer Assocs. Int'l, Inc. v. Altai, Inc.,* 982 F.2d 693, 716 (2d Cir.1992) (internal quotation marks omitted).Applying this "extra element" test, we have held numerous categories of claims to be not preempted, including trade secret claims, in which the plaintiff must show the defendant breached a duty of trust through improper disclosure of confidential material, *id.* at 717; certain "hot news" misappropriation claims, because the plaintiff must show time-sensitive factual information, free-riding by the defendant, and a threat to the very existence of the plaintiff's product, *NBA,* 105 F.3d at 853; and breach of confidential relationship, in which the plaintiff must show an obligation not to disclose ideas revealed in confidence, *Smith v. Weinstein,* 578 F.Supp. 1297, 1307 (S.D.N.Y.1984), *aff'd without opinion,* 738 F.2d 419 (2d Cir.1984). *See also Harper & Row,* 723 F.2d at 201 (in dictum, suggesting that conversion based on physical possession and control of a copyrighted work may not be preempted because such a tort involves "acts ... qualitatively different from those proscribed by copyright law"). By contrast, we have found a state law claim preempted when the extra element changes the scope but not the fundamental nature of the right. *See, e.g., Briarpatch,* 373 F.3d at 306–07 (holding an unjust enrichment claim preempted because, although plaintiff must prove "enrichment," the essential nature of the claim remained the unauthorized use of a work); *Fin. Info., Inc. v. Moody's Investors Serv., Inc.,* 808 F.2d 204, 208 (2d Cir.1986) (holding that a misappropriation claim was preempted because the element of commercial immorality did not change qualitative nature of the right); *Harper & Row,* 723 F.2d at 201 (holding that a claim of conversion based on unauthorized publication of a work was preempted because it is "coextensive with an exclusive right already safeguarded by the Act").

In this case, the issue is whether a particular breach of contract claim survives preemption. More specifically, Forest Park alleges that it entered into an implied-in-fact agreement with USA Network that required USA Network to pay Forest Park for the use of its idea. *See* Complaint ¶¶ 24–26. There are several qualitative differences between such a contract

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claim and a copyright violation claim. First, the Copyright Act does not provide an express right for the copyright owner to receive payment for the use of a work. It simply gives the copyright owner the right to prevent distribution, copying, or the creation of derivative works (though, of course, the copyright owner may cede or all part of these rights for payment). *See* 17 U.S.C. § 106. Second, a plaintiff suing for failure to pay under a contract must prove extra elements beyond use or copying, including mutual assent and valid consideration. Third, a breach of contract claim asserts rights only against the contractual counterparty, not the public at large. As the Seventh Circuit explained in *ProCD,* "A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create 'exclusive rights.' " 86 F.3d at 1454.

A number of our sister circuits have accordingly concluded that at least some contract claims involving the subject matter of copyright do not contest rights that are the equivalent of rights under the Copyright Act, and thus are not preempted. *See Montz,* 649 F.3d at 980–81 (implied-in-fact contract); *Utopia Provider Sys., Inc. v. Pro–Med Clinical Sys., L.L.C.,* 596 F.3d 1313, 1326–27 (11th Cir.2010) (express contract); *Bowers v. Baystate Techs., Inc.,* 320 F.3d 1317, 1324–26 (Fed. Cir.2003) (applying First Circuit law to an express contract in a software license); *Wrench,* 256 F.3d at 456 (implied-in-fact contract); *ProCD,* 86 F.3d at 1454–55(express contract in a software license); *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.,* 991 F.2d 426, 431 (8th Cir.1993) (express licensing agreement); *Taquino v. Teledyne Monarch Rubber,* 893 F.2d 1488, 1490, 1501 (5th Cir.1990) (express contract); *Acorn Structures, Inc. v. Swantz,* 846 F.2d 923, 926 (4th Cir.1988) (per curiam) (express contract); *see also* 4 Nimmer § 19D.03[C][2] ("As a general rule, contract claims require proof of a significant 'extra element': the existence of an actual agreement between plaintiff and defendant involving a promise to pay for use of disclosed ideas. That conclusion is the same, regardless of whether the particular claim at issue is labeled express contract [or] implied-in-fact contract...." (footnotes omitted)). Of course, preemption cannot be avoided simply by labeling a claim "breach of contract." A plaintiff must actually allege the elements of an enforceable contract (whether express or implied-in-fact), including offer, acceptance, and consideration, in addition to adequately alleging the defendant's breach of the contract.

As long as the elements of a contract are properly pleaded, there is no difference for preemption purposes between an express contract and an implied-in-fact contract. *See, e.g., Leibowitz v. Cornell Univ.,* 584 F.3d 487, 507 (2d Cir.2009) (under New York law, proof of an implied-in-fact contract requires proof of the same elements as an express contract); *Warner Bros. Int'l Television Distribution v. Golden Channels & Co.,* 522 F.3d 1060, 1069 (9th Cir.2008) (same under California law). There is, however, a significant difference for preemption purposes between contracts implied-in-fact and contracts implied-in-law. Theories of implied-in-law contract, quasi-contract, or unjust enrichment differ significantly from breach of contract because the plaintiff need not allege the existence of an actual agreement between the parties. *See* 1–1 Corbin on Contracts § 1.20 ("A contract 'implied in law' is a fictitious contract.... A contract 'implied in fact' is a true contract that arises from the tacit agreement of the parties."). Under these quasi-contractual theories, the plaintiff need only prove that the defendant was

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unjustly enriched through the use of her idea or work. Such a claim is not materially different from a claim for copyright infringement that requires a plaintiff to prove that the defendant used, reproduced, copied, or displayed a copyrighted work. *See Briarpatch,* 373 F.3d at 306 (finding no extra element in an unjust enrichment claim); *see also Wrench,* 256 F.3d at 459 (noting that there is "a crucial difference" between implied-in-fact contracts and implied-in-law contracts because the latter "depend[ ] on nothing more than the unauthorized use of the work"); 4 Nimmer §§ 19D.03[B][6], [7] (unjust enrichment and quasi-contract preempted).

In this case, we need not address whether preemption is precluded whenever there is a contract claim, or only when the contract claim includes a promise to pay. *Compare Montz,* 649 F.3d at 980–81 (holding that the element of mutual assent in a contract claim can by itself provide the "extra element"), *with Wrench,* 256 F.3d at 457–58 (holding that the promise of payment in a contract claim provides the "extra element"). *See also* 4 Nimmer § 19D.03[C][2] (suggesting that a contract that "does not purport to give [the plaintiff] any protection beyond that provided ... by copyright law itself" would be preempted). Here the Complaint specifically alleges that the contract includes by implication a promise to pay for the use of Forest Park's idea. *See* Complaint ¶ 11 (alleging that it was understood when Forest Park met with Sepiol they were "pitching ... ideas with the object of persuading USA Network to *purchase* those ideas for commercial development") (emphasis added); *id.* ¶ 25 ("USA Network voluntarily accepted Plaintiffs' ideas knowing full well that Plaintiffs had submitted those ideas in confidence and for economic gain, and with *the clear expectation of payment* in the event those ideas were utilized by USA Network....") (emphasis added). The alleged contract does not simply require USA Network to honor Forest Park's exclusive rights under the Copyright Act (assuming the material at issue to be copyrightable); it requires USA Network to pay for the use of Forest Park's ideas. A claim for breach of a contract including a promise to pay is qualitatively different from a suit to vindicate a right included in the Copyright Act and is not subject to preemption.[151]

* * * * *

Notes and Questions

(1) What effect will preemption have on the traditional pitch meeting in which a writer discloses ideas for motion pictures and television series to a producer?

[151] We need not here consider whether even a promise to pay may be insufficient to avoid preemption in circumstances where, through contracts of adhesion or similar instruments, a plaintiff uses such promises to create a de facto monopoly at odds with federal copyright policy. *See* Arthur R. Miller, *Common Law Protection for Products of the Mind: An "Idea" Whose Time Has Come,* 119 Harv. L. Rev. 703, 768–74 (2006). That is not this case.

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[C] Trademarks and Unfair Competition
[4] Titles of Entertainment Properties

USAGE: On page 864, ADD the following case after *Tri-Star Pictures, Inc. v. Unger*:

AMERICAN DAIRY QUEEN CORP. v. NEW LINE PRODUCTIONS, INC.

35 F. Supp. 2d 727 (D. Minn. 1998)

JAMES M. ROSENBAUM, District Judge

Plaintiff, American Dairy Queen Corporation ("ADQ"), seeks a preliminary injunction barring defendant, New Line Productions, Inc. ("New Line"), from using the name "Dairy Queens" as the title for one of its new movies. Both parties agree ADQ holds a valid trademark on "Dairy Queen," the name under which ADQ conducts the bulk of its retail sales. ADQ claims New Line's proposed title will infringe and dilute its valuable trademark. Plaintiff's motion is granted.

I. *Factual Background*

New Line has produced, and is preparing to release, a new feature film, and proposes to call it "Dairy Queens." The film is described as a mock documentary (termed "mockumentary"), satirizing beauty contests in rural Minnesota, an area defendant characterizes as part of "dairy country." The movie portrays these contests as filled with backbiting and jealousy, and suggests the participants tend to suffer from eating disorders. At least a portion of the film is acknowledged to contain off-color humor and content which may offend many–and, perhaps, entertain other–viewers.

The film is a fictive portrayal, written by a native Minnesotan, who claims to have participated in beauty contests which, at least in part, were similar to those in the movie. The movie is scheduled for release in early 1999. No part of the film's content relates, depicts, or refers in any manner to plaintiff's popular restaurants. The film's script does not refer to any kind of frozen dairy treats.

Plaintiff objects to defendant's use of a title which is very similar to its well-established "Dairy Queen" trademark. It does business through several thousand family-oriented retail outlets, selling frozen dairy treats and other food. ADQ is particularly concerned that the title "Dairy Queens" will cause the public to associate its trademarked name with the unwholesome content of the film. ADQ fears this association will create negative impressions and confuse its customers, thereby demeaning and disparaging its mark.

ADQ claims New Line's use of "Dairy Queens" constitutes both trademark infringement, under *15 U.S.C. § 1114*, and trademark dilution, under *15 U.S.C. § 1125(c)*. An infringement claim raises issues of actual consumer confusion as to a product's or service's source; a dilution

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claim asserts the placement of a mark within a negative context, thus reducing its value. ADQ asks the Court to enjoin New Line from any usage which either infringes or dilutes its mark.

II. *Standard for Preliminary Injunction*

In the Eighth Circuit, the decision to grant a preliminary injunction is judged according to a four part test. The Court must consider:

1. The existence of a threat of irreparable harm to the movant;

2. The balance between that harm and any injury inflicted on the non-moving party;

3. The movant's probable success on the merits; and

4. The public interest.

See Dataphase Systems, Inc. v. CL Systems, Inc., 640 F.2d 109, 114 (8th Cir. 1981). The third factor, probable success on the merits, is frequently considered the most important. *See S&M Constructors, Inc., 959 F.2d 97, 98 (8th Cir. 1992)*. The Court will address each *Dataphase* factor in turn. When the factors apply differently to the infringement and the dilution claims, they are addressed separately.

A. *Threat of Irreparable Harm*

As noted, plaintiff claims both traditional trademark infringement, under *15 U.S.C. § 1114*, and violation of the newer right to protection from trademark dilution, under *15 U.S.C. § 1125(c)*. When considering traditional trademark infringement, irreparable harm may be presumed "from a finding of probable success in proving likelihood of confusion." *Calvin Klein Cosmetics Corp. v. Lenox Laboratories, Inc., 815 F.2d 500, 505 (8th Cir. 1987)*. This contrasts with trademark dilution, which does not require a likelihood of confusion. For trademark dilution, proof of a likelihood of dilution of a mark will support a presumption of irreparable harm. *See Toys "R" Us, Inc. v. Akkaoui, 1996 U.S. Dist. LEXIS 17090, 40 U.S.P.Q.2D (BNA) 1836, 1838-39 (N.D. Cal. 1996)*. The Court finds that plaintiff has shown a threat of irreparable harm under both theories.

The "Dairy Queen" mark was first used and applied to frozen dairy treats in 1940. It was registered and granted trademark protection in 1963. ADQ's familiar sign -- which presents only its trademarked name -- is a frequent, well-recognized presence all along the streets and highways of the midpart of the United States. The mark is well-represented all over the nation. When the decades of effort expended in establishing a mark of the quality of "Dairy Queen" are considered, it is clear that the enormous goodwill created possessed by ADQ and represented by its "Dairy Queen" mark could be greatly diminished by a harmful usage. The Court concludes that ADQ has established a threat of irreparable harm.

B. *Balance of the Harm to Plaintiff Against the Injury to Defendant*

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The plaintiff posits a grave risk to its well-known mark if defendant's proposed title is placed in the public's consciousness. This contrasts with the highly conjectural harm defendant asserts if it is forced to choose a different title for its film. Plaintiff, as seen above, has spent decades establishing its mark as the recognizable sign of a wholesome, family-oriented restaurant. Defendant, on the other hand, will simply have to retitle a film for which it has engaged in virtually no marketing to date. Although the Court cannot gainsay defendant's protestations of its difficulty in conceiving a new and original title, this factor favors plaintiff.

C. *Probable Success on the Merits*

Because the theories under which plaintiff seeks relief are distinct, the likelihood of success on each will be addressed separately.

1. *Infringement Theory*

Use of a protected mark is prohibited when a competing use is "likely to cause confusion, or to cause mistake, or to deceive." *15 U.S.C. § 1114*. Likelihood of confusion is a question of fact. *See Calvin Klein Cosmetic Corp., 815 F.2d at 504*. The question is to be resolved by considering a number of factors, commonly referred to as the "digits of confusion." None is dispositive. Among the digits of confusion are:

a. *Strength of the Infringed Mark*

Two factors measure a mark's strength: "the distinctiveness of the mark and the extent to which the mark is recognized by the relevant consumer class." *Aveda Corp. v. Evita Marketing, Inc., 706 F. Supp. 1419, 1428 (D. Minn. 1989)*. The Court easily finds ADQ possesses a very strong mark in "Dairy Queen," at least insofar as it relates to soft-serve dairy products. An arbitrary or fanciful mark is considered stronger than a mark which is merely descriptive. *See Insty* Bit, Inc. v. Poly-Tech Industries, Inc, 95 F.3d 663, 672 (8th Cir. 1995)*. Despite New Line's suggestion that ADQ's "Dairy Queen" mark is descriptive, the Court does not find it to be. Consider: ADQ's stores do not sell "queens." ADQ's stores sell soft serve treats and snacks. Its "Dairy Queen" name, then, does not describe the product it sells, except insofar as ADQ's products are frequently milk-based. New Line's proposed movie title, on the other hand, is purely descriptive; the film is about beauty contest royalty in what New Line's brief calls "dairy country." New Line's contestants are, according to New Line's lights, "Dairy Queens." When viewed in this light, ADQ's mark–being fanciful–is accorded a greater degree of protection, and New Line's–being descriptive–is afforded a lesser. ADQ's mark is distinctive and instantly recognized by millions of consumers. Based on these facts, the Court concludes ADQ's mark is strong. This determination militates in favor of a finding of a likelihood of confusion.

b. *Similarity of the Marks*

New Line has not offered a rendition of the graphic which will portray its proposed "Dairy Queens" title. New Line assures the Court, however, that it will not be framed in a red-colored modified oval shape, as ADQ's mark is typically presented. Even assuming that New Line's title does not directly resemble ADQ's familiar "Dairy Queen" within its stylized red oval, this does not resolve the question of the similarity of the marks. "The degree of resemblance

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necessary to create a likelihood of confusion cannot be exactly defined." *706 F. Supp. at 1428*. "Similarity of the marks is tested on three levels: sight, sound, and meaning. . . . Each must be considered as they are encountered in the marketplace." *AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 351 (9th Cir. 1979).*

On the most simplistic level, the Court sees that "Dairy Queens" and "Dairy Queen" are identical -- save and except the single letter "s" which makes New Line's term plural. Their respective sounds are almost identical, and they look almost identical. The additional "s" does not suffice to differentiate the marks; the Court easily recalls taking its children for "Dairy Queens" on a warm summer's evening. The competing mark's "meaning," the third factor of similarity, appears to be somewhat different in New Line's projected title. The difference does not arise from New Line's added "s" however; it simply arises from additional information which can be gleaned about the content of the film from its surroundings -- advertising, reviews, and so on.

Defendant avers its title will appear "very different" in the marketplace. In the absence of material which can be evaluated, New Line indicates its marketing efforts will employ a logo differentiating it from ADQ's. It further asserts its film advertising will make clear the film is not about plaintiff's products or restaurants. They suggest the addition of the film studio's name will further emphasize the different nature of its proposed title. The Court considers these contentions to be highly conjectural, particularly in the absence of any competent evidence. New Line has also indicated it is willing to explore the possibility of a disclaimer, which will explicitly differentiate its proposed title from ADQ's mark. It does not appear, however, that this proposal has been accepted by the plaintiff.

One reason why ADQ appears to be unwilling to accept New Line's proposed disclaimer is ADQ's view that no disclaimer can resolve a problem which occurs in the real world. ADQ claims, and there is no evidence which counters the suggestion, that the facile use of a palliative disclaimer misapprehends the way the public actually learns of films in the public marketplace. The Court recognizes that the public often hears of a film by the "buzz." The buzz is a kind of word-of-mouth process. It may involve guest or film star appearances on television programs, it may be through radio programs or newspaper or gossip columnists, it may involve early web "reviews," or chance conversations. In such contexts, even the best efforts to append a distinguishing disclaimer would be of no account. The buzz goes far beyond the reach of a printed disclaimer.

The Court acknowledges that, in some contexts, it is conceivable that even nearly identical words can be deemed dissimilar. *See Life Technologies, Inc. v. Gibbco Scientific, Inc., 1986 U.S. Dist. LEXIS 24752, 230 U.S.P.Q. 779 (D. Minn. 1986)* (finding solely aural similarity between "Gibbco" and "Gibco"). But this is not such a context. The Court finds, as a matter of fact, that there is a significant similarity between ADQ's trademark and the proposed New Line title. This factor militates in favor of a finding of likelihood of confusion.

c. *Degree to Which the Products or Services Compete*

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"Where products are in direct competition, the degree of similarity required to prove a likelihood of confusion will be less than in the case of noncompetitive products." *Aveda, 706 F. Supp. at 1429*. However, a lack of direct competition does not preclude a finding of likelihood of confusion. *Cf. Anheuser-Busch, Inc. v. Balducci Publications, 28 F.3d 769 (8th Cir. 1994)* (finding infringement where an artistic rendition of a magazine advertisement parodied a beer trademark).

Certainly, ADQ does not make films, and New Line sells neither soft serve treats nor snack foods.[152] At the same time, the Court recognizes that product cross-licensing is on the rise,[153] but this does not suggest that a consumer is likely to view the litigants' products as competitive. Therefore, the Court finds this factor militates against a finding of likelihood of confusion.

d. *Existence of an Intent to Trade on Mark's Goodwill*

"An inference of an intent to trade upon the plaintiff's good will arises if the defendant[], with knowledge of plaintiff's mark, chose a mark similar to that mark from the infinite number of possible marks." *Aveda, 706 F. Supp. at 1429* (citing *Fleischmann Distilling Corp. v. Maier Brewing Co., 314 F.2d 149 (9th Cir. 1963)*. Here, New Line is well aware of ADQ's mark and knew of its existence when it chose "Dairy Queens" as the film's title. New Line's professed willingness to append disclaimers to its marketing materials suggests its intent is not direct competition or misappropriation of goodwill. On the other hand, this claimed willingness has not resulted in an agreement to resolve this matter. On balance, the Court cannot find clear evidence of intent-to trade on ADQ's goodwill.

e. *Evidence of Actual Confusion*

Although evidence of actual confusion is useful and persuasive in typical infringement cases, it is important to remember "it is the *likelihood* of confusion that serves as a test for infringement, not actual confusion. This is especially so where the allegedly infringing item has not been advertised or released. In such a case, the plaintiff is not required to prove any instances of actual confusion." *Aveda, 706 F. Supp. at 1430* (citing *David Sherman Corp. v. Heublein, Inc., 340 F.2d 377 (8th Cir. 1965))* (emphasis added).

Under these circumstances, where the allegedly infringing mark has not been made public, there can be little evidence of direct consumer confusion. Accordingly, this factor is neutral in the Court's determination.

Taking, then, all of the elements of infringement together, the Court finds ADQ has established a probability of success on the merits of its trademark infringement claim. It is

[152]The Court does not consider movie theater snack bar foods as competition for ADQ's products in this context.

[153]"Cross-licensing" occurs when a movie offers tie-ins with other commercial products. Recent examples include portable telephones and automobiles in "James Bond" films. It is frequently seen with major fast food vendors and dealers in consumer goods.

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probable that consumers would be confused as to the source of a film called "Dairy Queens," or would, at least, conclude that New Line had received endorsement or permission of ADQ for use of its mark.[154] Thus, the third *Dataphase* factor, likelihood of success on the merits, favors ADQ's request as to its infringement claim.

2. *Dilution Claim*

Owners of "famous" marks are entitled to injunctive relief if another's commercial use of the mark "causes dilution of the distinctive quality of the mark." *15 U.S.C. § 1125(c)*. Dilution claims do not turn on the likelihood of consumer confusion. *See Minnesota Mining & Manufacturing Co. v. Rauh Rubber, Inc., 943 F. Supp. 1117, 1131 (D. Minn. 1996)*, *aff'd*, *130 F.3d 1305 (8th Cir. 1997)*. This is because "dilution is a 'weakening or reduction in the ability of a mark to classify and unmistakably distinguish one source.'" *Rauh Rubber, 943 F. Supp. at 1131* (quoting 3 McCarthy, Trademarks and Unfair Competition § 24.13[1][a]). In order to establish a claim of trademark dilution, four elements must be established. Each is considered below.

a. *Famousness of the Mark*

Numerous factors determine whether a mark is famous. *See Toys "R" Us, 40 U.S.P.Q.2D (BNA) at 1838*. They need not be reviewed here, however, because defendant acknowledges ADQ's marks as famous. The Court easily finds "Dairy Queen" is a famous mark.

b. *Commercial Use of ADQ's Mark in Commerce*

The Dilution Act, by its terms, exempts noncommercial use from its regulation. *See 15 U.S.C. § 1125(c)(4)(B)*. New Line contends that, because its proposed film name is the title of an artistic work, its use is noncommercial. From this proposition, New Line simply denies the Dilution Act applies to this dispute. ADQ replies that the film's content might well be noncommercial, but its title has a highly commercial aspect.

The Court finds New Line's proposed title is not being used primarily as part of an expressive work, but instead is used "to market, advertise or identify" the film. *Mutual of Omaha, 836 F.2d 397, 402*; *see also Defendant's Memorandum in Opposition to Plaintiff's Motion for Preliminary Injunction* at 4 ("Titles are critical in successfully marketing motion pictures."). The potentially expressive content of New Line's proposed title is discussed below, but the Court takes New Line at its own words, and finds its proposed title is predominantly commercial and marketing-oriented. As a result, the Court finds the Dilution Act applies to defendant's use.

c. *Use of the Mark After it Became Famous*

No one denies defendant's proposed use of the phrase "Dairy Queens" began years after plaintiff's decades-old trademark became famous.

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[154] New Line advances a *First Amendment* defense to both of plaintiff's claims. Because the analysis for each is identical, the defense will be addressed at the end of the Order.

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d. *Dilution of the Quality of the Mark by Diminishing the Capacity of the Mark to Identify Goods and Services*

Plaintiff alleges trademark "tarnishment," which occurs when "unauthorized use . . . tarnishes, degrades, or dilutes the mark's distinctive quality." *Rauh Rubber, 943 F. Supp. at 1131-32*. While tarnishment most frequently occurs when a mark is used in connection with sexually explicit materials, *see, e.g., Toys "R" Us, 40 U.S.P.Q.2D (BNA) at 1838*, other negative associations can also constitute tarnishment. *See, e.g., Anheuser-Busch Inc. v. Andy's Sportswear Inc., 1996 U.S. Dist. LEXIS 15583, 40 U.S.P.Q.2D (BNA) 1542 (N.D. Cal. 1996)* (finding tarnishment by "Buttwiser" t-shirts resembling "Budweiser" beer advertising); *Coca-Cola Co. v. Alma-Leo U.S.A., Inc.*, 719 F. Supp. 725, 728 (N.D. Ill. 1989) (finding tarnishment by "Enjoy Cocaine" poster in style of "Enjoy Coca-Cola" design).

Here, defendant does not deny that some viewers may consider certain portions of its film to be offensive, even if others find it humorous. It is likely that some of the film's advertising materials will allude to at least some of these offensive portions. This could well place plaintiff's mark in close proximity to offensive materials, even without an ADQ customer setting foot in a theater. Beyond any conjectures concerning New Line's film marketing, however, if the name "Dairy Queens" is affixed to the film, word-of-mouth, critical comment, or news articles will inevitably lay the film's content next to ADQ's trademarked name. This will occur regardless of the artistry or disclaimers applied to the film's visual, broadcast, or other advertising. The Court concludes that conjoining New Line's film with the "Dairy Queen" mark, evoking as it does a family-friendly soft-serve ice cream restaurant, satisfies this fourth element of ADQ's dilution claim.

When the elements of trademark dilution are considered together, the Court concludes that plaintiff has established a likelihood of success on the merits of its trademark dilution claim.

Thus, plaintiff has established the third *Dataphase* factor, likelihood of success on the merits, as to both its infringement and dilution claims.

D. *Public Interest*

The final element considered in an application for a preliminary injunction is the public interest. Here, the public interest is manifest. The Congress, the branch of government closest to the public, has passed the Trademark Act and recently amended it. It has clearly expressed its support for, and the public's interest in, trademark protection. Infringement and dilution of trademarks are inherently contrary to the public interest. *See Coca-Cola Co., 719 F. Supp. at 730*. Accordingly, this factor favors the grant of a preliminary injunction.

After considering the four *Dataphase* factors, the Court concludes the grant of a preliminary injunction is warranted. There remains, however, defendant's claim that the *First Amendment* trumps both claims, ultimately barring ADQ's requested relief.

III. *The First Amendment*

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This dispute's constitutional and intellectual issues are significant. The case asks whether the film's expressive content -- surely protected by the *First Amendment* -- is embodied in its content, or its title, or both. Importantly, ADQ does not challenge, nor does it ask the Court to consider, a single word of the film's script; it does not seek to modify a line. Rather, ADQ's only concern is with the title "Dairy Queens." There is no effort of any kind to modify or muzzle New Line's views or expressions concerning the midwest beauty contests, "dairy country," or the film's asserted objectionable sexual, racial, or religious content. ADQ simply wants to keep the public from developing the sense that it is a sponsor or endorser of New Line's film, or has voluntarily lent its name to it. The Court considers the limited nature of the requested relief to be significant.

The Court observes that the Eighth Circuit, after carefully balancing the conflicting interests, has allowed injunctive relief -- even when the enjoined material included some expressive content. *See, e.g., Mutual of Omaha Ins. Co. v. Novak, 836 F.2d 397 (8th Cir. 1987)*; *Anheuser-Busch v. Balducci Publications, 28 F.3d 769 (8th Cir. 1994)*. The question, then, is when *First Amendment* interests are sufficient to outweigh the interests supporting the issuance of an injunction.

The Eighth Circuit has framed the applicable standard in two different, yet consistent, ways. In *Mutual of Omaha*, Judge (now Chief Judge) Bowman focused on whether an injunction "leaves open [alternative] avenues of expression," thus "depriving neither [the defendant] nor the public of the benefit of his ideas." *Mutual of Omaha, 836 F.2d at 402*. There, the defendant had been selling "Mutant of Omaha" paraphernalia bearing a logo very similar to the plaintiff's mark. The Court noted that the injunction would not prevent defendant from presenting "an editorial parody in a book, magazine, or film." *Id.* Because defendant had alternative avenues available for expressing his public policy views, the narrowly-drawn injunction was consistent with the *First Amendment*.

The Eighth Circuit revisited the question in *Balducci*, with Judge Bowman a member of the panel. In *Balducci*, the Court framed a balancing test: "In any case where an expressive work is alleged to infringe a trademark, it is appropriate to weigh the public interest in free expression against the public interest in avoiding consumer confusion. . . . This approach takes into account the ultimate test in trademark law, namely, the likelihood of confusion as to the source of the goods in question." *Balducci, 28 F.3d at 776* (quoting *Cliffs Notes, Inc. v. Bantam Doubleday Dell Publishing Group, 886 F.2d 490, 494-95 (2d Cir. 1989))*. In both *Mutual of Omaha* and *Balducci*, the Eighth Circuit affirmed the issuance of an injunction.

Despite defendant's protests to the contrary, the Court concludes that alternative avenues are available for expressing New Line's ideas. New Line claims its proposed title is expressive, and the author cannot convey her ideas behind the film without using the name "Dairy Queens." In support, New Line offers the author's affidavit declaring she is unsatisfied with any other title. It is not for this Court to name films, but it appears she has rejected ideas such as "Dairy

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Princesses," "Milk Maids," or any other formulation, except that single title which touches ADQ's mark.

New Line emphatically denies any reference to plaintiff's company or restaurants in its use of the proposed title. This denial, however, actually weakens its argument that there are no alternative means to express its artistic impressions or ideas. This case is not like *Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989)*, which also involved a movie title. In *Rogers*, Ginger Rogers (half of the immortal dance and film team of Ginger Rogers and Fred Astaire) claimed a film's title infringed upon and diluted the trademarked "Ginger Rogers Hosiery" she was selling. Judge Newman, writing for the Second Circuit, ruled that it did not -- but he carefully noted the film's director, Frederico Fellini, averred that he selected the film's name intending to evoke the aura of "Fred and Ginger's" artistic expression. Fellini was referring directly to Fred Astaire and Ginger Rogers. This reference was essential to his filmic vision.

This markedly contrasts with New Line's position. New Line is explicit: there is nothing in its use of the "Dairy Queens" name designed to evoke or even suggest any relationship at all to ADQ's trademarked name or any of its products. *See Memorandum in Opposition to Plaintiff's Motion for Preliminary Injunction* at 5 ("The Film's title is not intended to in any way suggest, refer to or cause confusion with Plaintiff, or capitalize on any goodwill of Plaintiff.").

The Court considers the distinction to be crucial. In *Rogers*, the name did express, and was designed to evoke, a part of the artistic concept inhering in the famous names it used. In the present case, no such artistic concept inheres in the proposed title. As such, the argument that there is no other way to express the idea of the film's title carries much less weight, as the idea expressed is not a reference to plaintiff's mark. Absent such relevance, the Court concludes that alternative avenues for expressing the idea exist.

On these facts, and noting the somewhat lesser protection afforded commercial speech, *see Central Hudson Gas & Electric Corp. v. Public Service Comm'n, 447 U.S. 557, 562-63, 65 L. Ed. 2d 341, 100 S. Ct. 2343 (1980)*, the Court concludes the balance between the public's interest in free expression and its interest in avoiding consumer confusion and trademark dilution tilts in favors of avoiding confusion and dilution. An injunction here will only effect a minute restriction on expression, but will do much to avoid confusion and dilution. Defendant's *First Amendment* interests are fully protected.

IV. *Conclusion*

Accordingly, IT IS ORDERED that:

1. Defendant is preliminarily enjoined from reproducing, copying, colorably imitating, or otherwise using ADQ's trademark "Dairy Queen," or any other term or mark confusingly similar thereto, specifically including its proposed "Dairy Queens" film name.

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2. This injunction is effective upon the date this Order is signed, and shall terminate on December 31, 1998, unless the plaintiff places a bond with the Clerk of this Court, pursuant to *Rule 65(c) of the Federal Rules of Civil Procedure*, in the penal sum of $ 25,000, on or before that date.

Notes

USAGE: On page 865, ADD the following note:

(4) As was noted in *Tri-Star Pictures, Inc. v. Unger*, studios and other domestic theatrical distributors may protect movie titles contractually by becoming a signatory member of the Motion Picture Association of America's (MPAA) Title Registration Bureau and registering titles of motion pictures that have been distributed or may be distributed in the future. There are approximately 400 participating companies. Signatories agree not to use any movie titles that are confusingly similar to a title already registered by another member. Disputes over whether two titles are too similar are resolved by an internal arbitration process, the results of which are contractually binding on the Bureau's members. The protection afforded by the Bureau's rules can be much more extensive than that afforded by trademark law. For example, a Title Registration Bureau arbitration panel determined that The Weinstein Company could not call its upcoming feature film "The Butler," because Warner Bros. had previously registered that identical title for a 1916 short film, even though it is doubtful that a court would have found a likelihood of confusion between the two motion pictures.

[7] Trade Dress

USAGE: On page 874, ADD the following case before *Morgan Creek Productions, Inc. v. Capital Cities/ABC, Inc.*:

RDF MEDIA LIMITED v. FOX BROADCASTING CO.

372 F. Supp. 2d 556 (C.D. Cal. 2005)

OTERO, District Judge.

* * * * *

I. *BACKGROUND*

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This action arises out of a reality television show, "Trading Spouses," and its alleged infringement upon Plaintiff's "Wife Swap." Mot. to Dismiss at 2. It is alleged that both shows "center on the idea of switching spouses from disparate families and watching the ensuing interactions." Id.

Plaintiff allegedly created and produced "Wife Swap UK," a reality television show in which wives with contrasting values and lifestyles exchange spouses and families for ten (10) days. Compl. ¶¶ 5-6. "Wife Swap UK" has aired in Britain since January 2003. Compl. ¶¶ 5, 19.

In December of 2002, Plaintiff avers that it entered into an agreement with American Broadcasting Companies, Inc. ("ABC") to produce an American version of the "Wife Swap" show. Compl. ¶¶ 7,17.

Plaintiff avers that in May of 2004, ABC announced the addition of "Wife Swap US" to its programming lineup and began promoting the show. Id. Compl. ¶¶ 7, 23-26. Plaintiff further avers that it owns the copyright and trade dress rights in each episode of "Wife Swap UK" and "Wife Swap US." Compl. ¶¶ 12, 17.

Defendants, on the other hand, are alleged to produce, develop, and distribute the reality television show "Trading Spouses," which began airing on the Fox network in July of 2004. Compl. ¶¶ 8-9. Plaintiff alleges "that 'Trading Spouses' unlawfully copies and incorporates 'all of the expressive elements and trade dress of 'Wife Swap US' and 'Wife Swap UK.' " Id. Compl. ¶ 29.

Based on the foregoing, Plaintiff asserts eight claims against Defendants. The First through Third claims assert copyright infringement, alleging that Defendants infringed Plaintiff's copyrights by copying the protectable expressions of "Wife Swap." Compl. ¶¶ 38-68. The Fourth and Fifth claims allege that Defendants engaged in trade dress infringement in violation of the Lanham Act by imitating the "total image and appearance" of "Wife Swap US," that is, by imitating

> [t]he selection, compilation, arrangement, sequence, and combination of the cast of characters, the structure of each airing of a complete swap, the sequence of events, the plot, the tone, the theme, the pace, the scene set-ups, the narration, the dialogue that arises from constructed situations, the contrasting settings, the structured before-and-after dialogue, the topics explored, the dramatic and comedic effect created by music, and the introductory segment. . . .

Compl. ¶¶ 69-102. . . .

III. *DISCUSSION*

A. *Motion to Dismiss*

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* * * * *

2. *Allegations of Lanham Act Violations Are Improper in this Action.*

Plaintiff's Fourth and Fifth claims are for trade dress infringement and contributory trade dress infringement pursuant to 15 U.S.C. § 1125(a). To withstand a motion to dismiss an infringement claim under § 43(a) of the Lanham Act-whether it be a trademark claim or a trade dress claim[155]-a plaintiff must identify the mark and allege three basic elements: (1) distinctiveness; (2) nonfunctionality; and (3) likelihood of consumer confusion. See Clicks Billiards Inc. v. Sixshooters, Inc., 251 F.3d 1252, 1258 (9th Cir.2001).

Plaintiff fails to meet this minimal standard. The trade dress allegedly infringed is:

> The total image and appearance of "Wife Swap US," as defined by the selection, compilation, arrangement, sequence, and combination of the cast of characters, the structure of each airing of a complete swap, the sequence of events, the plot, the tone, the theme, the pace, the scene set-ups, the narration, the dialogue that arises from constructed situations, the contrasting settings, the structured before-and-after dialogue, the topics explored, the dramatic and comedic effect created by music, and the introductory segment, constitutes the trade dress of "Wife Swap US." The unique images, scenes, themes, and artistic choices employed by RDF Media in "Wife Swap US" serve to identify the source of the program.

Compl. ¶ 70. In effect, RDF is asking this Court to recognize the reality show itself as the trade dress subject to protection. "Because this would be tantamount to saying that the product itself-in this case, the [reality show]-can serve as its own trademark, we decline to do so." EMI Catalogue P'ship v. Hill, Holliday, Connors, Cosmopulos, Inc., 228 F.3d 56, 63 (2d Cir.2000) (holding that a song cannot serve as an identifying mark because this "would stretch the definition of trademark ... too far and give trademark law a role in protecting the very essence of the song, an unwarranted extension into an area already protected by copyright law.").

RDF's contention that the "image and appearance of 'Wife Swap US,' " Compl. ¶ 70, is the trade dress that was allegedly infringed fails to grasp the fundamental distinction between copyright protection and trademark protection.

> Trademark law is concerned with protection of the symbols, elements or devices used to identify a product in the marketplace and to prevent confusion as to its source. It does not protect the content of a creative work of artistic expression as a

[155]Plaintiff is claiming trade dress, not trademark, infringement. However, "the legal significance of the difference is limited." See Score, Inc. v. Cap Cities/ABC Inc., 724 F.Supp. 194, 197 (S.D.N.Y.1989) (citing Blau Plumbing, Inc. v. S.O.S. Fix-it, Inc., 781 F.2d 604, 608 (7th Cir.1986)).

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> trademark for itself. Copyright law protects the artist's right in an abstract design or other creative work.

EMI Catalogue P'ship, 228 F.3d at 63 (citing United States v. Giles, 213 F.3d 1247, 1252 (10th Cir.2000)) (emphasis omitted). As one court noted,

> Although titles of books, plays, films, and songs, distinctive elements of a television series, and distinctive comic book characters have qualified as marks entitled to protection under section 1127 of the Lanham Act, the scope of section 1127 does not extend to the corpus of the book, play, film, song, television show, or comic book.

Whitehead v. CBS/Viacom, Inc., 315 F.Supp.2d 1, 13 (D.D.C.2004); see also 1 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 6:5 (4th ed. 2004) ("The collection of words in a novel are not a 'trademark' indicating the origin of that novel. Rather, the story is a 'product,' not a symbol of origin. If someone without permission reproduces the story, the remedy lies in copyright, not in trademark.") The court in *Whitehead* went on to note, "An author may invoke copyright law to protect original expression in an entire work, not the Lanham Act." Id.; see also EMI Catalogue P'ship, 228 F.3d at 64 ("The creation and expression of an original work is protected by copyright law, and once an original work has been produced trademark law is not the proper means of protecting the rights in this originality.").

Plaintiff argues that "the same elements of an original work may be protected as both copyrightable expression and the trade dress of the work itself." Opp'n at 8-9. While this is true, Plaintiff's argument is disingenuous. RDF posits, "in a principally visual medium, a creator or producer's expressive choices will necessarily manifest visually on the screen; and that visual expression necessarily will form the overall look and appearance of the program-in other words, the trade dress."[156] Id. at 9. If this Court were to accept the proposition that "visual expression necessarily will form the overall look and appearance of the program-in other words, the trade dress," then every incident of visual expression would be subject to copyright and trademark protection and that protection would last in perpetuity. This theory has been rejected on numerous occasions. See, e.g., Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 123 S.Ct. 2041, 156 L.Ed.2d 18 (2003); Comedy III Prods., Inc. v. New Line Cinema, 200 F.3d 593 (9th Cir.2000).

Plaintiff alleges that its trade dress is defined as the "total image and appearance of 'Wife Swap US' as shaped by the selection, compilation, arrangement, sequence, and combination of the expressive elements of the program." Opp'n at 9-10. As aforementioned, trademark and copyright protection may coexist. See 1 J. Thomas McCarthy, McCarthy on Trademarks and

[156] Plaintiff cites as authority *Chuck Blore & Don Richman, Inc. v. 20/20 Advertising, Inc.,* 674 F.Supp. 671 (D.Minn.1987) for the proposition that "[t]he expressive aspects of audiovisual works, and of television in particular, necessarily include both images and sounds since without either there can be no communication and hence no expression." Id. at 677. However, the *Chuck Blore* court made this declaration when it was referring to 17 U.S.C. § 101, that is, *copyright law not trademark law.*

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Unfair Competition § 6:5 (4th ed.2004). However, in this case, they do not. Plaintiff is merely repackaging its copyright claims in trademark causes of action. In its copyright claim, RDF asserts that "Defendants copied ... both the individual protectable expressive elements of 'Wife Swap UK' and 'Wife Swap US' and the expressive manner in which RDF media has *selected, compiled, arranged, sequenced, and combined the protectable and non-protectable elements* [thereof]." Compl. ¶ 41 (emphasis added).

In the trademark claims, RDF asserts that Defendants copied "the total image and appearance of 'Wife Swap US' as defined by the *selection, compilation, arrangement, sequence, and combination of the cast of characters* ...." *Id.* ¶ 70 (emphasis added). The only difference in the trademark claims is that Plaintiff further avers that "the structure of each airing of a complete swap, the sequence of events, the plot, the tone, the theme, the pace, the scene set-ups, the narration, the dialogue that arises from constructed situations, the contrasting settings, the structured before-and-after dialogue, the topics explored, the dramatic and comedic effect created by music, and the introductory segment" further infringe Plaintiff's trade dress. *Id.* ¶ 70. None of these further assertions, however, constitute a trademark or trade dress. All of the foregoing elements *are* the product. They are the essence of the program, and "intellectual property law protects the owners' rights in these unique combinations in distinct ways that lie outside the realm of trademark law." EMI Catalogue P'ship, 228 F.3d at 63; see also Williams v. UMG Recordings, 281 F.Supp.2d 1177, 1185 (2003) ("[T]he Supreme Court's holding [in *Dastar*] did not depend on whether the works were copyrighted or not.... [T]he Court's holding is in no way limited to uncopyrighted material. Rather, in being careful not to extend trademark protections, the Court noted that protection for communicative products was available through copyright claims."). Finally, these elements are squarely within the dominion of copyright law and would render copyright law superfluous if courts were to construe claims such as these as warranting trademark protection.[157]

In its Opposition to the Motion to Dismiss, Plaintiff suggests that the Ninth Circuit has adopted an "expansive" definition of trade dress, Opp'n at 11 (citing Fuddruckers, Inc. v. Doc's B.R. Others, Inc., 826 F.2d 837, 841 (9th Cir.1987)), and that "[t]rade dress is the composite tapestry of visual effects." Clicks Billiards, Inc. v. Sixshooters, Inc., 251 F.3d 1252, 1259 (9th Cir.2001). It is the "composite tapestry of visual effects" of "Wife Swap US" that RDF alleges constitutes the distinctive trade dress of its series. Opp'n at 11.

Plaintiff's reliance on *Clicks* and similar cases, is inapposite. In *Clicks* the plaintiff, Clicks Billiards, Inc. ("Clicks"), operated numerous billiards establishments and alleged that Sixshooters, a competing billiards establishment, had infringed its trade dress, which included various features of the layout of the establishments and their proximity to one another. Clicks, 251 F.3d at 1256. There, trade dress infringement was proper because the subject matter was the look of the billiards establishment. If Clicks had been precluded from asserting a trade dress

[157]RDF's further allegation that the introductory segment and graphics of each episode of "Wife Swap US" comprise the trade dress is unavailing for the same reasons referenced above.

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infringement action, it would have been left without a remedy. Furthermore, and more importantly, the "composite tapestry of visual effects" referred to by the court in *Clicks* did not constitute the corpus of the service they provided their customers. In the instant case, the "composite tapestry of visual effects" is the program, that is, the product itself, which is protectable, if at all, under copyright law.

Based on the foregoing, this Court concludes Plaintiff has failed "to state a claim upon which relief can be granted." Fed.R.Civ.P. Rule 12(b)(6). Therefore, the Motion to Dismiss claims Four and Five of the Complaint relating to trade dress infringement and contributory trade dress infringement are GRANTED without leave to amend. . . .

[8] Ownership

USAGE: On page 8886, ADD the following note:

(4) Disputes over the ownership of the names of musical groups can often lead to trademark litigation between original and replacement members of the group or between members and the group's manager. Because many such disputes relate to bands that have experienced a rebirth in popularity years or decades after their heyday, sometimes after being disbanded and reformed, one of the issues that frequently arises is whether one of the parties seeking to use the name is deemed to have "abandoned" the trademark due to an extended period of non-use. In *Mears v. Montgomery* 2010 U.S. Dist. LEXIS 35414 (S.D.N.Y. 2010), the Court was asked to find that one of the original members who asserted rights in the name "The Intruders," a Sixties R&B group from Philadelphia, had abandoned that mark by not performing under that name for a period of several years. The court rejected that argument, finding that the member had licensed the mark to others and policed its use during the period in question.

[9] Infringement

USAGE: On page 886, ADD the following case before *Elvis Presley Enterprises, Inc. v. Capece*:

RESCUECOM CORP. v. GOOGLE INC.
562 F.3d 123 (2d Cir. 2009)

LEVAL, Circuit Judge:

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Appeal by Plaintiff Rescuecom Corp. from a judgment of the United States District Court for the Northern District of New York (Mordue, Chief Judge) dismissing its action against Google, Inc., under Rule 12(b)(6) for failure to state a claim upon which relief may be granted. Rescuecom's Complaint alleges that Google is liable under §§ 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 & 1125, for infringement, false designation of origin, and dilution of Rescuecom's eponymous trademark. The district court believed the dismissal of the action was compelled by our holding in *1-800 Contacts, Inc. v. WhenU.Com, Inc.,* 414 F.3d 400 (2d Cir.2005) ("1-800"), because, according to the district court's understanding of that opinion, Rescuecom failed to allege that Google's use of its mark was a "use in commerce" within the meaning of § 45 of the Lanham Act, 15 U.S.C. § 1127. We believe this misunderstood the holding of *1-800.* While we express no view as to whether Rescuecom can prove a Lanham Act violation, an actionable claim is adequately alleged in its pleadings. Accordingly, we vacate the judgment dismissing the action and remand for further proceedings.

BACKGROUND

As this appeal follows the grant of a motion to dismiss, we must take as true the facts alleged in the Complaint and draw all reasonable inferences in favor of Rescuecom. Lentell v. Merrill Lynch & Co., Inc., 396 F.3d 161, 165 (2d Cir.2005). Rescuecom is a national computer service franchising company that offers on-site computer services and sales. Rescuecom conducts a substantial amount of business over the Internet and receives between 17,000 to 30,000 visitors to its website each month. It also advertises over the Internet, using many web-based services, including those offered by Google. Since 1998, "Rescuecom" has been a registered federal trademark, and there is no dispute as to its validity.

Google operates a popular Internet search engine, which users access by visiting www. google. com. Using Google's website, a person searching for the website of a particular entity in trade (or simply for information about it) can enter that entity's name or trademark into Google's search engine and launch a search. Google's proprietary system responds to such a search request in two ways. First, Google provides a list of links to websites, ordered in what Google deems to be of descending relevance to the user's search terms based on its proprietary algorithms. Google's search engine assists the public not only in obtaining information about a provider, but also in purchasing products and services. If a prospective purchaser, looking for goods or services of a particular provider, enters the provider's trademark as a search term on Google's website and clicks to activate a search, within seconds, the Google search engine will provide on the searcher's computer screen a link to the webpage maintained by that provider (as well as a host of other links to sites that Google's program determines to be relevant to the search term entered). By clicking on the link of the provider, the searcher will be directed to the provider's website, where the searcher can obtain information supplied by the provider about its products and services and can perhaps also make purchases from the provider by placing orders.

The second way Google responds to a search request is by showing context-based advertising. When a searcher uses Google's search engine by submitting a search term, Google

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may place advertisements on the user's screen. Google will do so if an advertiser, having determined that its ad is likely to be of interest to a searcher who enters the particular term, has purchased from Google the placement of its ad on the screen of the searcher who entered that search term. What Google places on the searcher's screen is more than simply an advertisement. It is also a link to the advertiser's website, so that in response to such an ad, if the searcher clicks on the link, he will open the advertiser's website, which offers not only additional information about the advertiser, but also perhaps the option to purchase the goods and services of the advertiser over the Internet. Google uses at least two programs to offer such context-based links: AdWords and Keyword Suggestion Tool.

AdWords is Google's program through which advertisers purchase terms (or keywords). When entered as a search term, the keyword triggers the appearance of the advertiser's ad and link. An advertiser's purchase of a particular term causes the advertiser's ad and link to be displayed on the user's screen whenever a searcher launches a Google search based on the purchased search term.[158] Advertisers pay Google based on the number of times Internet users “click” on the advertisement, so as to link to the advertiser's website. For example, using Google's AdWords, Company Y, a company engaged in the business of furnace repair, can cause Google to display its advertisement and link whenever a user of Google launches a search based on the search term, “furnace repair.” Company Y can also cause its ad and link to appear whenever a user searches for the term “Company X,” a competitor of Company Y in the furnace repair business. Thus, whenever a searcher interested in purchasing furnace repair services from Company X launches a search of the term X (Company X's trademark), an ad and link would appear on the searcher's screen, inviting the searcher to the furnace repair services of X's competitor, Company Y. And if the searcher clicked on Company Y's link, Company Y's website would open on the searcher's screen, and the searcher might be able to order or purchase Company Y's furnace repair services.

In addition to AdWords, Google also employs Keyword Suggestion Tool, a program that recommends keywords to advertisers to be purchased. The program is designed to improve the effectiveness of advertising by helping advertisers identify keywords related to their area of commerce, resulting in the placement of their ads before users who are likely to be responsive to it. Thus, continuing the example given above, if Company Y employed Google's Keyword Suggestion Tool, the Tool might suggest to Company Y that it purchase not only the term “furnace repair” but also the term “X,” its competitor's brand name and trademark, so that Y's ad would appear on the screen of a searcher who searched Company X's trademark, seeking Company X's website.

Once an advertiser buys a particular keyword, Google links the keyword to that advertiser's advertisement. The advertisements consist of a combination of content and a link to the advertiser's webpage. Google displays these advertisements on the search result page either

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[158]Although we generally refer to a single advertiser, there is no limit on the number of advertisers who can purchase a particular keyword to trigger the appearance of their ads.

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in the right margin or in a horizontal band immediately above the column of relevance-based search results. These advertisements are generally associated with a label, which says “sponsored link.” Rescuecom alleges, however, that a user might easily be misled to believe that the advertisements which appear on the screen are in fact part of the relevance-based search result and that the appearance of a competitor's ad and link in response to a searcher's search for Rescuecom is likely to cause trademark confusion as to affiliation, origin, sponsorship, or approval of service. This can occur, according to the Complaint, because Google fails to label the ads in a manner which would clearly identify them as purchased ads rather than search results. The Complaint alleges that when the sponsored links appear in a horizontal bar at the top of the search results, they may appear to the searcher to be the first, and therefore the most relevant, entries responding to the search, as opposed to paid advertisements.

Google's objective in its AdWords and Keyword Suggestion Tool programs is to sell keywords to advertisers. Rescuecom alleges that Google makes 97% of its revenue from selling advertisements through its AdWords program. Google therefore has an economic incentive to increase the number of advertisements and links that appear for every term entered into its search engine.

Many of Rescuecom's competitors advertise on the Internet. Through its Keyword Suggestion Tool, Google has recommended the Rescuecom trademark to Rescuecom's competitors as a search term to be purchased. Rescuecom's competitors, some responding to Google's recommendation, have purchased Rescuecom's trademark as a keyword in Google's AdWords program, so that whenever a user launches a search for the term “Rescuecom,” seeking to be connected to Rescuecom's website, the competitors' advertisement and link will appear on the searcher's screen. This practice allegedly allows Rescuecom's competitors to deceive and divert users searching for Rescuecom's website. According to Rescuecom's allegations, when a Google user launches a search for the term “Rescuecom” because the searcher wishes to purchase Rescuecom's services, links to websites of its competitors will appear on the searcher's screen in a manner likely to cause the searcher to believe mistakenly that a competitor's advertisement (and website link) is sponsored by, endorsed by, approved by, or affiliated with Rescuecom.

The District Court granted Google's 12(b)(6) motion and dismissed Rescuecom's claims. The court believed that our *1-800* decision compels the conclusion that Google's allegedly infringing activity does not involve use of Rescuecom's mark in commerce, which is an essential element of an action under the Lanham Act. The district court explained its decision saying that even if Google employed Rescuecom's mark in a manner likely to cause confusion or deceive searchers into believing that competitors are affiliated with Rescuecom and its mark, so that they believe the services of Rescuecom's competitors are those of Rescuecom, Google's actions are not a “use in commerce” under the Lanham Act because the competitor's advertisements triggered by Google's programs did not exhibit Rescuecom's trademark. The court rejected the argument that Google “used” Rescuecom's mark in recommending and selling it as a keyword to

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trigger competitor's advertisements because the court read *1-800* to compel the conclusion that this was an internal use and therefore cannot be a "use in commerce" under the Lanham Act.

DISCUSSION

"This Court reviews *de novo* a district court's grant of a motion to dismiss pursuant to Federal Rules of Civil Procedure 12(b)(6)." PaineWebber Inc. v. Bybyk, 81 F.3d 1193, 1197 (2d Cir.1996). When reviewing a motion to dismiss, a court must "accept as true all of the factual allegations set out in plaintiff's complaint, draw inferences from those allegations in the light most favorable to plaintiff, and construe the complaint liberally." Gregory v. Daly, 243 F.3d 687, 691 (2d Cir.2001) (citations omitted).

I. Google's Use of Rescuecom's Mark Was a "Use in Commerce"

Our court ruled in *1-800* that a complaint fails to state a claim under the Lanham Act unless it alleges that the defendant has made "use in commerce" of the plaintiff's trademark as the term "use in commerce" is defined in 15 U.S.C. § 1127. The district court believed that this case was on all fours with *1-800,* and that its dismissal was required for the same reasons as given in *1-800.* We believe the cases are materially different. The allegations of Rescuecom's complaint adequately plead a use in commerce.

In *1-800,* the plaintiff alleged that the defendant infringed the plaintiff's trademark through its proprietary software, which the defendant freely distributed to computer users who would download and install the program on their computer. The program provided contextually relevant advertising to the user by generating pop-up advertisements to the user depending on the website or search term the user entered in his browser. Id. at 404-05. For example, if a user typed "eye care" into his browser, the defendant's program would randomly display a pop-up advertisement of a company engaged in the field of eye care. Similarly, if the searcher launched a search for a particular company engaged in eye care, the defendant's program would display the pop-up ad of a company associated with eye care. See id. at 412. The pop-up ad appeared in a separate browser window from the website the user accessed, and the defendant's brand was displayed in the window frame surrounding the ad, so that there was no confusion as to the nature of the pop-up as an advertisement, nor as to the fact that the defendant, not the trademark owner, was responsible for displaying the ad, in response to the particular term searched. Id. at 405.

Sections 32 and 43 of the Act, which we also refer to by their codified designations, 15 U.S.C. §§ 1114 & 1125, *inter alia,* impose liability for unpermitted "use in commerce" of another's mark which is "likely to cause confusion, or to cause mistake, or to deceive," § 1114, "as to the affiliation ... or as to the origin, sponsorship or approval of his or her goods [or] services ... by another person." § 1125(a)(1)(A). The *1-800* opinion looked to the definition of the term "use in commerce" provided in § 45 of the Act, 15 U.S.C. § 1127. That definition provides in part that "a mark shall be deemed to be in use in commerce . . . (2) on services when

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it is used or displayed in the sale or advertising of services and the services are rendered in commerce." 15 U.S.C. § 1127.[159] Our court found that the plaintiff failed to show that the defendant made a "use in commerce" of the plaintiff's mark, within that definition.

At the outset, we note two significant aspects of our holding in *1-800,* which distinguish it from the present case. A key element of our court's decision in *1-800* was that under the plaintiff's allegations, the defendant did not use, reproduce, or display the plaintiff's mark *at all.* The search term that was alleged to trigger the pop-up ad was the plaintiff's *website address. 1-800* noted, notwithstanding the similarities between the website address and the mark, that the website address was not used or claimed by the plaintiff as a trademark. Thus, the transactions alleged to be infringing were not transactions involving use of the plaintiff's trademark. Id. at 408-09.[160] *1-800* suggested in dictum that is highly relevant to our case that had the defendant used the plaintiff's *trademark* as the trigger to pop-up an advertisement, such conduct might, depending on other elements, have been actionable. 414 F.3d at 409 & n. 11.

Second, as an alternate basis for its decision, *1-800* explained why the defendant's program, which might randomly trigger pop-up advertisements upon a searcher's input of the plaintiff's website address, did not constitute a "use in commerce," as defined in § 1127. Id. at 408-09. In explaining why the plaintiff's mark was not "used or displayed in the sale or advertising of services," *1-800* pointed out that, under the defendant's program, advertisers could not request or purchase keywords to trigger their ads. Id. at 409, 412. Even if an advertiser wanted to display its advertisement to a searcher using the plaintiff's trademark as a search term, the defendant's program did not offer this possibility. In fact, the defendant "did not disclose the proprietary contents of [its] directory to its advertising clients...." Id. at 409. In addition to not selling trademarks of others to its customers to trigger these ads, the defendant did not "otherwise manipulate which category-related advertisement will pop up in response to any particular terms on the internal directory." Id. at 411. The display of a particular advertisement was controlled by the category associated with the website or keyword, rather than the website or keyword itself. The defendant's program relied upon categorical associations such as "eye care" to select a pop-up ad randomly from a predefined list of ads appropriate to that category. To the extent that an advertisement for a competitor of the plaintiff was displayed when a user opened the plaintiff's website, the trigger to display the ad was not based on the defendant's sale or recommendation of a particular trademark.

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[159]The Appendix to this opinion discusses the applicability of § 1127's definition of "use in commerce" to sections of the Lanham Act proscribing infringement.

[160]We did not imply in *1-800* that a website can never be a trademark. In fact, the opposite is true. *See* Trademark Manual of Examining Procedures § 1209.03(m) (5th ed. 2007) ("A mark comprised of an Internet domain name is registrable as a trademark or service mark only if it functions as an identifier of the source of goods or services."); see also Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 768, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992) (Section 43(a) of the Lanham Act protects unregistered trademarks as long as the mark could qualify for registration under the Lanham Act.); Thompson Med. Co., Inc. v. Pfizer Inc., 753 F.2d 208, 215-216 (2d Cir.1985) (same). The question whether the plaintiff's website address was an unregistered trademark was never properly before the *1-800* court because the plaintiff did not claim that it used its website address as a trademark.

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The present case contrasts starkly with those important aspects of the *1-800* decision. First, in contrast to *1-800,* where we emphasized that the defendant made no use whatsoever of the plaintiff's trademark, here what Google is recommending and selling to its advertisers is Rescuecom's trademark. Second, in contrast with the facts of *1-800* where the defendant did not "use or display," much less sell, trademarks as search terms to its advertisers, here Google displays, offers, and sells Rescuecom's mark to Google's advertising customers when selling its advertising services. In addition, Google encourages the purchase of Rescuecom's mark through its Keyword Suggestion Tool. Google's utilization of Rescuecom's mark fits literally within the terms specified by 15 U.S.C. § 1127. According to the Complaint, Google uses and sells Rescuecom's mark "in the sale ... of [Google's advertising] services ... rendered in commerce." § 1127.

Google, supported by amici, argues that *1-800* suggests that the inclusion of a trademark in an internal computer directory cannot constitute trademark use. Several district court decisions in this Circuit appear to have reached this conclusion. See e.g., S & L Vitamins, Inc. v. Australian Gold, Inc., 521 F.Supp.2d 188, 199-202 (E.D.N.Y.2007) (holding that use of a trademark in metadata did not constitute trademark use within the meaning of the Lanham Act because the use "is strictly internal and not communicated to the public"); Merck & Co., Inc. v. Mediplan Health Consulting, Inc., 425 F.Supp.2d 402, 415 (S.D.N.Y.2006) (holding that the internal use of a keyword to trigger advertisements did not qualify as trademark use). This over-reads the *1-800* decision. First, regardless of whether Google's use of Rescuecom's mark in its internal search algorithm could constitute an actionable trademark use, Google's recommendation and sale of Rescuecom's mark to its advertising customers are not internal uses. Furthermore, *1-800* did not imply that use of a trademark in a software program's internal directory precludes a finding of trademark use. Rather, influenced by the fact that the defendant was not using the plaintiff's trademark at all, much less using it as the basis of a commercial transaction, the court asserted that the particular use before it did not constitute a use in commerce. See 1-800, 414 F.3d at 409-12. We did not imply in *1-800* that an alleged infringer's use of a trademark in an internal software program insulates the alleged infringer from a charge of infringement, no matter how likely the use is to cause confusion in the marketplace. If we were to adopt Google and its amici's argument, the operators of search engines would be free to use trademarks in ways designed to deceive and cause consumer confusion.[161] This is surely neither within the intention nor the letter of the Lanham Act.

Google and its amici contend further that its use of the Rescuecom trademark is no different from that of a retail vendor who uses "product placement" to allow one vender to benefit from a competitors' name recognition. An example of product placement occurs when a

[161]For example, instead of having a separate "sponsored links" or paid advertisement section, search engines could allow advertisers to pay to appear at the top of the "relevance" list based on a user entering a competitor's trademark-a functionality that would be highly likely to cause consumer confusion. Alternatively, sellers of products or services could pay to have the operators of search engines automatically divert users to their website when the users enter a competitor's trademark as a search term. Such conduct is surely not beyond judicial review merely because it is engineered through the internal workings of a computer program.

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store-brand generic product is placed next to a trademarked product to induce a customer who specifically sought out the trademarked product to consider the typically less expensive, generic brand as an alternative. See 1-800, 414 F.3d at 411. Google's argument misses the point. From the fact that proper, non-deceptive product placement does not result in liability under the Lanham Act, it does not follow that the label "product placement" is a magic shield against liability, so that even a deceptive plan of product placement designed to confuse consumers would similarly escape liability. It is not by reason of absence of a use of a mark in commerce that benign product placement escapes liability; it escapes liability because it is a benign practice which does not cause a likelihood of consumer confusion. In contrast, if a retail seller were to be paid by an off-brand purveyor to arrange product display and delivery in such a way that customers seeking to purchase a famous brand would receive the off-brand, believing they had gotten the brand they were seeking, we see no reason to believe the practice would escape liability merely because it could claim the mantle of "product placement." The practices attributed to Google by the Complaint, which at this stage we must accept as true, are significantly different from benign product placement that does not violate the Act.

Unlike the practices discussed in *1-800,* the practices here attributed to Google by Rescuecom's complaint are that Google has made use in commerce of Rescuecom's mark. Needless to say, a defendant must do more than use another's mark in commerce to violate the Lanham Act. The gist of a Lanham Act violation is an unauthorized use, which "is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, ... or as to the origin, sponsorship, or approval of ... goods [or] services." See 15 U.S.C. § 1125(a); Estee Lauder Inc. v. The Gap, Inc., 108 F.3d 1503, 1508-09 (2d Cir.1997). We have no idea whether Rescuecom can prove that Google's use of Rescuecom's trademark in its AdWords program causes likelihood of confusion or mistake. Rescuecom has alleged that it does, in that would-be purchasers (or explorers) of its services who search for its website on Google are misleadingly directed to the ads and websites of its competitors in a manner which leads them to believe mistakenly that these ads or websites are sponsored by, or affiliated with Rescuecom. This is particularly so, Rescuecom alleges, when the advertiser's link appears in a horizontal band at the top of the list of search results in a manner which makes it appear to be the most relevant search result and not an advertisement. What Rescuecom alleges is that by the manner of Google's display of sponsored links of competing brands in response to a search for Rescuecom's brand name (which fails adequately to identify the sponsored link as an advertisement, rather than a relevant search result), Google creates a likelihood of consumer confusion as to trademarks. If the searcher sees a different brand name as the top entry in response to the search for "Rescuecom," the searcher is likely to believe mistakenly that the different name which appears is affiliated with the brand name sought in the search and will not suspect, because the fact is not adequately signaled by Google's presentation, that this is not the most relevant response to the search. Whether Google's actual practice is in fact benign or confusing is not for us to judge at this time. We consider at the 12(b)(6) stage only what is alleged in the Complaint.

We conclude that the district court was mistaken in believing that our precedent in *1-800* requires dismissal.

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CONCLUSION

The judgment of the district court is vacated and the case is remanded for further proceedings.

USAGE: On page 903, ADD the following case after *Elvis Presley Enterprises, Inc. v. Capece*:

TIFFANY (NJ) INC. v. EBAY, INC.

600 F.3d 93 (2d Cir. 2010)

SACK, Circuit Judge:

eBay, Inc. ("eBay"), through its eponymous online marketplace, has revolutionized the online sale of goods, especially used goods. It has facilitated the buying and selling by hundreds of millions of people and entities, to their benefit and eBay's profit. But that marketplace is sometimes employed by users as a means to perpetrate fraud by selling counterfeit goods.

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company (together, "Tiffany") have created and cultivated a brand of jewelry bespeaking high-end quality and style. Based on Tiffany's concern that some use eBay's website to sell counterfeit Tiffany merchandise, Tiffany has instituted this action against eBay, asserting various causes of action–sounding in trademark infringement, trademark dilution and false advertising–arising from eBay's advertising and listing practices. For the reasons set forth below, we affirm the district court's judgment with respect to Tiffany's claims of trademark infringement and dilution but remand for further proceedings with respect to Tiffany's false advertising claim.

BACKGROUND

By opinion dated July 14, 2008, following a week-long bench trial, the United States District Court for the Southern District of New York (Richard J. Sullivan, Judge) set forth its findings of fact and conclusions of law. *Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463 (S.D.N.Y. 2008)* ("Tiffany"). When reviewing a judgment following a bench trial in the district court, we review the court's findings of fact for clear error and its conclusions of law de novo. *Giordano v. Thomson, 564 F.3d 163, 168 (2d Cir. 2009)*. Except where noted otherwise, we conclude that the district court's findings of fact are not clearly erroneous. We therefore rely upon those non-erroneous findings in setting forth the facts of, and considering, this dispute.

eBay

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eBay[162] is the proprietor of www.ebay.com, an Internet-based marketplace that allows those who register with it to purchase goods from and sell goods to one another. It "connect[s] buyers and sellers and [] enable[s] transactions, which are carried out directly between eBay members." *Tiffany, 576 F. Supp. 2d at 475*.[163] In its auction and listing services, it "provides the venue for the sale [of goods] and support for the transaction[s], [but] it does not itself sell the items" listed for sale on the site, *id. at 475*, nor does it ever take physical possession of them, id. Thus, "eBay generally does not know whether or when an item is delivered to the buyer." Id.

eBay has been enormously successful. More than six million new listings are posted on its site daily. Id. At any given time it contains some 100 million listings. Id.

eBay generates revenue by charging sellers to use its listing services. For any listing, it charges an "insertion fee" based on the auction's starting price for the goods being sold and ranges from $ 0.20 to $ 4.80. Id. For any completed sale, it charges a "final value fee" that ranges from 5.25% to 10% of the final sale price of the item. Id. Sellers have the option of purchasing, at additional cost, features "to differentiate their listings, such as a border or bold-faced type." Id.

eBay also generates revenue through a company named PayPal, which it owns and which allows users to process their purchases. PayPal deducts, as a fee for each transaction that it processes, 1.9% to 2.9% of the transaction amount, plus $ 0.30. Id. This gives eBay an added incentive to increase both the volume and the price of the goods sold on its website. Id.

Tiffany

Tiffany is a world-famous purveyor of, among other things, branded jewelry. *Id. at 471-72*. Since 2000, all new Tiffany jewelry sold in the United States has been available exclusively through Tiffany's retail stores, catalogs, and website, and through its Corporate Sales Department. *Id. at 472-73*. It does not use liquidators, sell overstock merchandise, or put its goods on sale at discounted prices. *Id. at 473*. It does not -- nor can it, for that matter -- control the "legitimate secondary market in authentic Tiffany silver jewelry," i.e., the market for second-hand Tiffany wares. *Id. at 473*. The record developed at trial "offere[d] little basis from which to discern the actual availability of authentic Tiffany silver jewelry in the secondary market." *Id. at 474*.

Sometime before 2004, Tiffany became aware that counterfeit Tiffany merchandise was being sold on eBay's site. Prior to and during the course of this litigation, Tiffany conducted two surveys known as "Buying Programs," one in 2004 and another in 2005, in an attempt to assess the extent of this practice. Under those programs, Tiffany bought various items on eBay and then

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[162]eBay appears to be short for Echo Bay–the name of eBay's founder's consulting firm was Echo Bay Technology Group. The name "EchoBay" was already in use, so eBay was employed as the name for the website. See http://en.wikipedia.org/wiki/ EBay # Origins_and_history (last visited Feb. 26, 2010); http://news.softpedia.com/news/eBay-Turns-Ten-Happy-Birthday-7502 .shtml (last visited Feb. 26, 2010).

[163]In addition to providing auction-style and fixed-priced listings, eBay is also the proprietor of a traditional classified service. *Id. at 474*.

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inspected and evaluated them to determine how many were counterfeit. *Id. at 485*. Tiffany found that 73.1% of the purported Tiffany goods purchased in the 2004 Buying Program and 75.5% of those purchased in the 2005 Buying Program were counterfeit. Id. The district court concluded, however, that the Buying Programs were "methodologically flawed and of questionable value," *id. at 512*, and "provide[d] limited evidence as to the total percentage of counterfeit goods available on eBay at any given time," *id. at 486*. The court nonetheless decided that during the period in which the Buying Programs were in effect, a "significant portion of the 'Tiffany' sterling silver jewelry listed on the eBay website . . . was counterfeit," id., and that eBay knew "that some portion of the Tiffany goods sold on its website might be counterfeit," *id. at 507*. The court found, however, that "a substantial number of authentic Tiffany goods are [also] sold on eBay." *Id. at 509*.

Reducing or eliminating the sale of all second-hand Tiffany goods, including genuine Tiffany pieces, through eBay's website would benefit Tiffany in at least one sense: It would diminish the competition in the market for genuine Tiffany merchandise. See *id. at 510 n.36* (noting that "there is at least some basis in the record for eBay's assertion that one of Tiffany's goals in pursuing this litigation is to shut down the legitimate secondary market in authentic Tiffany goods"). The immediate effect would be loss of revenue to eBay, even though there might be a countervailing gain by eBay resulting from increased consumer confidence about the bona fides of other goods sold through its website.

Anti-Counterfeiting Measures

Because eBay facilitates many sales of Tiffany goods, genuine and otherwise, and obtains revenue on every transaction, it generates substantial revenues from the sale of purported Tiffany goods, some of which are counterfeit. "eBay's Jewelry & Watches category manager estimated that, between April 2000 and June 2004, eBay earned $ 4.1 million in revenue from completed listings with 'Tiffany' in the listing title in the Jewelry & Watches category." *Id. at 481*. Although eBay was generating revenue from all sales of goods on its site, including counterfeit goods, the district court found eBay to have "an interest in eliminating counterfeit Tiffany merchandise from eBay . . . to preserve the reputation of its website as a safe place to do business." *Id. at 469*. The buyer of fake Tiffany goods might, if and when the forgery was detected, fault eBay. Indeed, the district court found that "buyers . . . complain[ed] to eBay" about the sale of counterfeit Tiffany goods. *Id. at 487*. "[D]uring the last six weeks of 2004, 125 consumers complained to eBay about purchasing 'Tiffany' items through the eBay website that they believed to be counterfeit." Id.

Because eBay "never saw or inspected the merchandise in the listings," its ability to determine whether a particular listing was for counterfeit goods was limited. *Id. at 477-78*. Even had it been able to inspect the goods, moreover, in many instances it likely would not have had the expertise to determine whether they were counterfeit. *Id. at 472 n.7* ("[I]n many instances, determining whether an item is counterfeit will require a physical inspection of the item, and some degree of expertise on the part of the examiner.").

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Notwithstanding these limitations, eBay spent "as much as $ 20 million each year on tools to promote trust and safety on its website." *Id. at 476*. For example, eBay and PayPal set up "buyer protection programs," under which, in certain circumstances, the buyer would be reimbursed for the cost of items purchased on eBay that were discovered not to be genuine. *Id. at 479*. eBay also established a "Trust and Safety" department, with some 4,000 employees "devoted to trust and safety" issues, including over 200 who "focus exclusively on combating infringement" and 70 who "work exclusively with law enforcement." *Id. at 476*.

By May 2002, eBay had implemented a "fraud engine," "which is principally dedicated to ferreting out illegal listings, including counterfeit listings." *Id. at 477*. eBay had theretofore employed manual searches for keywords in listings in an effort to "identify blatant instances of potentially infringing ... activity." Id. "The fraud engine uses rules and complex models that automatically search for activity that violates eBay policies." Id. In addition to identifying items actually advertised as counterfeit, the engine also incorporates various filters designed to screen out less-obvious instances of counterfeiting using "data elements designed to evaluate listings based on, for example, the seller's Internet protocol address, any issues associated with the seller's account on eBay, and the feedback the seller has received from other eBay users." Id. In addition to general filters, the fraud engine incorporates "Tiffany-specific filters," including "approximately 90 different keywords" designed to help distinguish between genuine and counterfeit Tiffany goods. *Id. at 491*. During the period in dispute,[164] eBay also "periodically conducted [manual] reviews of listings in an effort to remove those that might be selling counterfeit goods, including Tiffany goods." Id.

For nearly a decade, including the period at issue, eBay has also maintained and administered the "Verified Rights Owner ('VeRO') Program"–a "'notice-and-takedown' system" allowing owners of intellectual property rights, including Tiffany, to "report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings." *Id. at 478*. Any such rights-holder with a "good-faith belief that [a particular listed] item infringed on a copyright or a trademark" could report the item to eBay, using a "Notice Of Claimed Infringement form or NOCI form." Id. During the period under consideration, eBay's practice was to remove reported listings within twenty-four hours of receiving a NOCI, but eBay in fact deleted seventy to eighty percent of them within twelve hours of notification. Id.

On receipt of a NOCI, if the auction or sale had not ended, eBay would, in addition to removing the listing, cancel the bids and inform the seller of the reason for the cancellation. If bidding had ended, eBay would retroactively cancel the transaction. Id. In the event of a cancelled auction, eBay would refund the fees it had been paid in connection with the auction. *Id. at 478-79*.

[164]In its findings, the district court often used the past tense to describe eBay's anticounterfeiting efforts. We do not take this usage to suggest that eBay has discontinued these efforts, but only to emphasize that its findings are issued with respect to a particular period of time prior to the completion of trial and issuance of its decision.

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In some circumstances, eBay would reimburse the buyer for the cost of a purchased item, provided the buyer presented evidence that the purchased item was counterfeit. *Id. at 479*.[165] During the relevant time period, the district court found, eBay "never refused to remove a reported Tiffany listing, acted in good faith in responding to Tiffany's NOCIs, and always provided Tiffany with the seller's contact information." *Id. at 488*.

In addition, eBay has allowed rights owners such as Tiffany to create an "About Me" webpage on eBay's website "to inform eBay users about their products, intellectual property rights, and legal positions." *Id. at 479*. eBay does not exercise control over the content of those pages in a manner material to the issues before us.

Tiffany, not eBay, maintains the Tiffany "About Me" page. With the headline "**BUYER BEWARE**," the page begins: "**Most of the purported TIFFANY & CO. silver jewelry and packaging available on eBay is counterfeit**." Pl.'s Ex. 290 (bold face type in original). It also says, inter alia:

> The only way you can be certain that you are purchasing a genuine TIFFANY & CO. product is to purchase it from a Tiffany & Co. retail store, via our website (www.tiffany.com) or through a Tiffany & Co. catalogue. Tiffany & Co. stores do not authenticate merchandise. A good jeweler or appraiser may be able to do this for you.

Id.

In 2003 or early 2004, eBay began to use "special warning messages when a seller attempted to list a Tiffany item." *Tiffany, 576 F. Supp. 2d at 491*. These messages "instructed the seller to make sure that the item was authentic Tiffany merchandise and informed the seller that eBay 'does not tolerate the listing of replica, counterfeit, or otherwise unauthorized items' and that violation of this policy 'could result in suspension of [the seller's] account.'" Id. (alteration in original). The messages also provided a link to Tiffany's "About Me" page with its "buyer beware" disclaimer. Id. If the seller "continued to list an item despite the warning, the listing was flagged for review." Id.

In addition to cancelling particular suspicious transactions, eBay has also suspended from its website "'hundreds of thousands of sellers every year,' tens of thousands of whom were suspected [of] having engaged in infringing conduct." *Id. at 489*. eBay primarily employed a "'three strikes rule'" for suspensions, but would suspend sellers after the first violation if it was clear that "the seller 'listed a number of infringing items,' and '[selling counterfeit merchandise] appears to be the only thing they've come to eBay to do.'" Id. But if "a seller listed a potentially

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[165] We note, however, that, Tiffany's "About Me" page on the eBay website states that Tiffany does not authenticate merchandise. Pl.'s Ex. 290.

Thus, it may be difficult for a purchaser to proffer evidence to eBay supporting a suspicion that the "Tiffany" merchandise he or she bought is counterfeit.

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infringing item but appeared overall to be a legitimate seller, the 'infringing items [were] taken down, and the seller [would] be sent a warning on the first offense and given the educational information, [and] told that . . . if they do this again, they will be suspended from eBay.'" Id. (alterations in original).[166]

By late 2006, eBay had implemented additional anti-fraud measures: delaying the ability of buyers to view listings of certain brand names, including Tiffany's, for 6 to 12 hours so as to give rights-holders such as Tiffany more time to review those listings; developing the ability to assess the number of items listed in a given listing; and restricting one-day and three-day auctions and cross-border trading for some brand-name items. *Id. at 492*.

The district court concluded that "eBay consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and reasonably available." *Id. at 493*.

eBay's Advertising

At the same time that eBay was attempting to reduce the sale of counterfeit items on its website, it actively sought to promote sales of premium and branded jewelry, including Tiffany merchandise, on its site. *Id. at 479-80*. Among other things, eBay "advised its sellers to take advantage of the demand for Tiffany merchandise as part of a broader effort to grow the Jewelry & Watches category." *Id. at 479*. And prior to 2003, eBay advertised the availability of Tiffany merchandise on its site. eBay's advertisements trumpeted "Mother's Day Gifts!," Pl.'s Exs. 392, 1064, a "Fall FASHION BRAND BLOWOUT," Pl.'s Ex. 392, "Jewelry Best Sellers," id., "GREAT BRANDS, GREAT PRICES," Pl.'s Ex. 1064, or "Top Valentine's Deals," Pl.'s Ex. 392, among other promotions. It encouraged the viewer to "GET THE FINER THINGS." Pl.'s Ex. 392. These advertisements provided the reader with hyperlinks, at least one of each of which was related to Tiffany merchandise -- "Tiffany," "Tiffany & Co. under $ 150," "Tiffany & Co," "Tiffany Rings," or "Tiffany & Co. under $ 50." Pl.'s Exs. 392, 1064.

eBay also purchased sponsored-link advertisements on various search engines to promote the availability of Tiffany items on its website. *Tiffany, 576 F. Supp. 2d at 480*. In one such case, in the form of a printout of the results list from a search on Yahoo! for "tiffany," the second sponsored link read "**Tiffany** on eBay. Find **tiffany** items at low prices. With over 5 million items for sale every day, you'll find all kinds of unique [unreadable] Marketplace. www.ebay.com." Pl.'s Ex. 1065 (bold face type in original). Tiffany complained to eBay of the practice in 2003, and eBay told Tiffany that it had ceased buying sponsored links. *Tiffany, 576 F. Supp. 2d at 480*.

[166]According to the district court, "eBay took appropriate steps to warn and then to suspend sellers when eBay learned of potential trademark infringement under that seller's account." *Tiffany, 576 F. Supp. 2d at 489*. The district court concluded that it was understandable that eBay did not have a "hard-and-fast, one-strike rule" of suspending sellers because a NOCI "did not constitute a definitive finding that the listed item was counterfeit" and because "suspension was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods." Id. The district court ultimately found eBay's policy to be "appropriate and effective in preventing sellers from returning to eBay and re-listing potentially counterfeit merchandise." Id.

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The district court found, however, that eBay continued to do so indirectly through a third party. Id.

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DISCUSSION

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II. Contributory Trademark Infringement

The more difficult issue, and the one that the parties have properly focused our attention on, is whether eBay is liable for contributory trademark infringement -- i.e., for culpably facilitating the infringing conduct of the counterfeiting vendors. Acknowledging the paucity of case law to guide us, we conclude that the district court correctly granted judgment on this issue in favor of eBay.

A. Principles

Contributory trademark infringement is a judicially created doctrine that derives from the common law of torts. See, e.g., *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc., 955 F.2d 1143, 1148*; (7th Cir. 1992); cf. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 930 (2005)* ("[T]hese doctrines of secondary liability emerged from common law principles and are well established in the law.") (citations omitted). The Supreme Court most recently dealt with the subject in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982)*. There, the plaintiff, Ives, asserted that several drug manufacturers had induced pharmacists to mislabel a drug the defendants produced to pass it off as Ives'. See *id. at 847-50*. According to the Court, "if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit." *Id. at 854*.[167] The Court ultimately

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[167]The Supreme Court cited two cases in support of this proposition: *William R. Warner & Co. v. Eli Lilly & Co., 265 U.S. 526, 44 S. Ct. 615, 68 L. Ed. 1161, 1925 Dec. Comm'r Pat. 420 (1924)*, and *Coca-Cola Co. v. Snow Crest Beverages, Inc., 64 F. Supp. 980 (D. Mass. 1946)* (Wyzanski, J.), aff'd, *162 F.2d 280 (1st Cir.)*, cert. denied, *332 U.S. 809, 68 S. Ct. 110, 92 L. Ed. 386 (1947)*.

Like *Inwood*, *Eli Lilly* involved an allegation by a plaintiff drug manufacturer that a defendant drug manufacturer had intentionally induced distributors to pass off the defendant's drug to purchasers as the plaintiff's. *265 U.S. at 529-30*. The Supreme Court granted the plaintiff's request for an injunction, stating that "[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury." *Id. at 530-31*.

In *Snow Crest*, the Coca-Cola Company claimed that a rival soft drink maker had infringed Coca-Cola's mark because bars purchasing the rival soft drink had substituted it for Coca-Cola when patrons requested a "rum (or whiskey) and Coca-Cola." *64 F. Supp. at 982, 987*. Judge Wyzanski entered judgment in favor of the defendant primarily because there was insufficient evidence of such illicit substitutions taking place. *Id. at 990*. In doing so, the court stated that "[b]efore he can himself be held as a wrongdoer o[r] contributory infringer one who supplies another with the instruments by which that other commits a tort, must be shown to have knowledge that the other will or can reasonably be expected to commit a tort with the supplied instrument." *Id. at 989*.

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decided to remand the case to the Court of Appeals after concluding it had improperly rejected factual findings of the district court favoring the defendant manufacturers. *Id. at 857-59*.

Inwood's test for contributory trademark infringement applies on its face to manufacturers and distributors of goods. Courts have, however, extended the test to providers of services.

The Seventh Circuit applied Inwood to a lawsuit against the owner of a swap meet, or "flea market," whose vendors were alleged to have sold infringing Hard Rock Cafe T-shirts. See *Hard Rock Cafe, 955 F.2d at 1148-49*. The court "treated trademark infringement as a species of tort," *id. at 1148*, and analogized the swap meet owner to a landlord or licensor, on whom the common law "imposes the same duty . . . [as Inwood] impose[s] on manufacturers and distributors," *id. at 1149*; see also *Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996)* (adopting Hard Rock Cafe's reasoning and applying Inwood to a swap meet owner).

Speaking more generally, the Ninth Circuit concluded that Inwood's test for contributory trademark infringement applies to a service provider if he or she exercises sufficient control over the infringing conduct. *Lockheed Martin Corp. v. Network Solutions, Inc., 194 F.3d 980, 984 (9th Cir. 1999)*; see also id. ("Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of Inwood Lab.'s 'supplies a product' requirement for contributory infringement.").

We have apparently addressed contributory trademark infringement in only two related decisions, see *Polymer Tech. Corp. v. Mimran, 975 F.2d 58, 64 (2d Cir. 1992)* ("Polymer I"); *Polymer Tech. Corp. v. Mimran, 37 F.3d 74, 81 (2d Cir. 1994)* ("Polymer II"), and even then in little detail. Citing Inwood, we said that "[a] distributor who intentionally induces another to infringe a trademark, or continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, is contributorially liable for any injury." *Polymer I, 975 F.2d at 64*.

The limited case law leaves the law of contributory trademark infringement ill-defined. Although we are not the first court to consider the application of Inwood to the Internet, see, e.g., *Lockheed, 194 F.3d 980*, supra (Internet domain name registrar), we are apparently the first to consider its application to an online marketplace.[168]

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[168]European courts have done so. A Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website. See Lancome v. eBay, Brussels Commercial Court (Aug. 12, 2008), Docket No. A/07/06032. French courts, by contrast, have concluded that eBay violated applicable trademark laws. See, e.g., S.A. Louis Vuitton Malletier v. eBay, Inc., Tribunal de Commerce de Paris, Premiere Chambre B. (Paris Commercial Court), Case No. 200677799 (June 30, 2008); Hermes v. eBay, Troyes High Court (June 4, 2008), Docket No. 06/0264; see also Max Colchester, "EBay to Pay Damages To Unit of LVMH," The Wall Street Journal, Feb. 12, 2010, http://online.wsj.com/article_email/SB10001424052748704337004575059523018541764-lMyQjAxMTAwMDEwMjExNDIyWj.html (last visited Mar. 1, 2010) ("A Paris court Thursday ordered eBay to pay Louis Vuitton [euro]200,000 ($ 275,000) in damages and to stop paying search engines to direct certain key words to the eBay site."); see generally, Valerie Walsh Johnson & Laura P. Merritt, TIFFANY v. EBAY: A Case of Genuine

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B. Discussion

1. Does Inwood Apply?

In the district court, the parties disputed whether eBay was subject to the Inwood test. See *Tiffany, 576 F. Supp. 2d at 504*. eBay argued that it was not because it supplies a service while Inwood governs only manufacturers and distributors of products. Id. The district court rejected that distinction. It adopted instead the reasoning of the Ninth Circuit in Lockheed to conclude that Inwood applies to a service provider who exercises sufficient control over the means of the infringing conduct. *Id. at 505-06*. Looking "to the extent of the control exercised by eBay over its sellers' means of infringement," the district court concluded that Inwood applied in light of the "significant control" eBay retained over the transactions and listings facilitated by and conducted through its website. *Id. at 505-07*.

On appeal, eBay no longer maintains that it is not subject to Inwood.[169] We therefore assume without deciding that Inwood's test for contributory trademark infringement governs.

2. Is eBay Liable Under Inwood?

The question that remains, then, is whether eBay is liable under the Inwood test on the basis of the services it provided to those who used its website to sell counterfeit Tiffany products. As noted, when applying Inwood to service providers, there are two ways in which a defendant may become contributorially liable for the infringing conduct of another: first, if the service provider "intentionally induces another to infringe a trademark," and second, if the service provider "continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement." *Inwood, 456 U.S. at 854*. Tiffany does not argue that eBay induced the sale of counterfeit Tiffany goods on its website -- the circumstances addressed by the first part of the Inwood test. It argues instead, under the second part of the Inwood test, that eBay continued to supply its services to the sellers of counterfeit Tiffany goods while knowing or having reason to know that such sellers were infringing Tiffany's mark.

The district court rejected this argument. First, it concluded that to the extent the NOCIs that Tiffany submitted gave eBay reason to know that particular listings were for counterfeit goods, eBay did not continue to carry those listings once it learned that they were specious. *Tiffany, 576 F. Supp. 2d at 515-16*. The court found that eBay's practice was promptly to remove the challenged listing from its website, warn sellers and buyers, cancel fees it earned from that listing, and direct buyers not to consummate the sale of the disputed item. *Id. at 516*. The court therefore declined to hold eBay contributorially liable for the infringing conduct of those sellers.

Disparity in International Court Rulings on Counterfeit Products, 1 No. 2 Landslide 22 (2008) (surveying decisions by European courts in trademark infringement cases brought against eBay).

[169] Amici do so claim. See Electronic Frontier Foundation et al. Amici Br. 6 (arguing that Inwood should "not govern where, as here, the alleged contributory infringer has no direct means to establish whether there is any act of direct infringement in the first place"). We decline to consider this argument. "Although an amicus brief can be helpful in elaborating issues properly presented by the parties, it is normally not a method for injecting new issues into an appeal, at least in cases where the parties are competently represented by counsel." *Universal City Studios, Inc. v. Corley, 273 F.3d 429, 445 (2d Cir. 2001)*.

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Id. at 518. On appeal, Tiffany does not appear to challenge this conclusion. In any event, we agree with the district court that no liability arises with respect to those terminated listings.

Tiffany disagrees vigorously, however, with the district court's further determination that eBay lacked sufficient knowledge of trademark infringement by sellers behind other, non-terminated listings to provide a basis for Inwood liability. Tiffany argued in the district court that eBay knew, or at least had reason to know, that counterfeit Tiffany goods were being sold ubiquitously on its website. *Id. at 507-08*. As evidence, it pointed to, inter alia, the demand letters it sent to eBay in 2003 and 2004, the results of its Buying Programs that it shared with eBay, the thousands of NOCIs it filed with eBay alleging its good faith belief that certain listings were counterfeit, and the various complaints eBay received from buyers claiming that they had purchased one or more counterfeit Tiffany items through eBay's website. *Id. at 507*. Tiffany argued that taken together, this evidence established eBay's knowledge of the widespread sale of counterfeit Tiffany products on its website. Tiffany urged that eBay be held contributorially liable on the basis that despite that knowledge, it continued to make its services available to infringing sellers. *Id. at 507-08*.

The district court rejected this argument. It acknowledged that "[t]he evidence produced at trial demonstrated that eBay had *generalized* notice that some portion of the Tiffany goods sold on its website might be counterfeit." *Id. at 507* (emphasis in original). The court characterized the issue before it as "whether eBay's *generalized* knowledge of trademark infringement on its website was sufficient to meet the 'knowledge or reason to know' prong of the Inwood test." *Id. at 508* (emphasis in original). eBay had argued that "such generalized knowledge is insufficient, and that the law demands more specific knowledge of individual instances of infringement and infringing sellers before imposing a burden upon eBay to remedy the problem." Id.

The district court concluded that "while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the Inwood test to impose upon eBay an affirmative duty to remedy the problem." *Id. at 508*. The court reasoned that Inwood's language explicitly imposes contributory liability on a defendant who "continues to supply its product [–in eBay's case, its service–] to one whom it knows or has reason to know is engaging in trademark infringement." *Id. at 508* (emphasis in original). The court also noted that plaintiffs "bear a high burden in establishing 'knowledge' of contributory infringement," and that courts have

> been reluctant to extend contributory trademark liability to defendants where there is some uncertainty as to the extent or the nature of the infringement. In Inwood, Justice White emphasized in his concurring opinion that a defendant is not "require[d] . . . to refuse to sell to dealers who merely *might* pass off its goods."

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Id. at 508-09 (quoting *Inwood, 456 U.S. at 861* (White, J., concurring) (emphasis and alteration in original).[170]

Accordingly, the district court concluded that for Tiffany to establish eBay's contributory liability, Tiffany would have to show that eBay "knew or had reason to know of specific instances of actual infringement" beyond those that it addressed upon learning of them. *Id. at 510*. Tiffany failed to make such a showing.

On appeal, Tiffany argues that the distinction drawn by the district court between eBay's general knowledge of the sale of counterfeit Tiffany goods through its website, and its specific knowledge as to which particular sellers were making such sales, is a "false" one not required by the law. Appellants' Br. 28. Tiffany posits that the only relevant question is "whether all of the knowledge, when taken together, puts [eBay] on notice that there is a substantial problem of trademark infringement. If so and if it fails to act, [eBay] is liable for contributory trademark infringement." Id. at 29.

We agree with the district court. For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.

We are not persuaded by Tiffany's proposed interpretation of Inwood. Tiffany understands the "lesson of Inwood" to be that an action for contributory trademark infringement lies where "the evidence [of infringing activity] -- direct or circumstantial, taken as a whole -- . . . provide[s] a basis for finding that the defendant knew or should have known that its product or service was being used to further illegal counterfeiting activity." Appellants' Br. 30. We think that Tiffany reads Inwood too broadly. Although the Inwood Court articulated a "knows or has reason to know" prong in setting out its contributory liability test, the Court explicitly declined to apply that prong to the facts then before it. See *Inwood, 456 U.S. at 852 n.12* ("The District Court also found that the petitioners did not continue to provide drugs to retailers whom they knew or should have known were engaging in trademark infringement. The Court of Appeals did not discuss that finding, and we do not address it.") (internal citation omitted). The Court applied only the inducement prong of the test. See *id. at 852-59*.

We therefore do not think that Inwood establishes the contours of the "knows or has reason to know" prong. Insofar as it speaks to the issue, though, the particular phrasing that the Court used–that a defendant will be liable if it "continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement," *id. at 854* (emphasis added)–supports the district court's interpretation of Inwood, not Tiffany's.

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[170] The district court found the cases Tiffany relied on for the proposition that general knowledge of counterfeiting suffices to trigger liability to be inapposite. *Id. at 510*.

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We find helpful the Supreme Court's discussion of Inwood in a subsequent copyright case, *Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984)*. There, defendant Sony manufactured and sold home video tape recorders. *Id. at 419*. Plaintiffs Universal Studios and Walt Disney Productions held copyrights on various television programs that individual television-viewers had taped using the defendant's recorders. *Id. at 419-20*. The plaintiffs contended that this use of the recorders constituted copyright infringement for which the defendants should be held contributorily liable. Id. In ruling for the defendants, the Court discussed Inwood and the differences between contributory liability in trademark versus copyright law.

> If Inwood's *narrow* standard for contributory trademark infringement governed here, [the plaintiffs'] claim of contributory infringement would merit little discussion. Sony certainly does not 'intentionally induce[]' its customers to make infringing uses of [the plaintiffs'] copyrights, nor does it supply its products to *identified individuals known by it* to be engaging in continuing infringement of [the plaintiffs'] copyrights.

Id. at 439 n.19 (quoting *Inwood, 456 U.S. at 855*; emphases added).

Thus, the Court suggested, had the Inwood standard applied in Sony, the fact that Sony might have known that some portion of the purchasers of its product used it to violate the copyrights of others would not have provided a sufficient basis for contributory liability. Inwood's "narrow standard" would have required knowledge by Sony of "identified individuals" engaging in infringing conduct. Tiffany's reading of Inwood is therefore contrary to the interpretation of that case set forth in *Sony*.

Although the Supreme Court's observations in Sony, a copyright case, about the "knows or has reason to know" prong of the contributory trademark infringement test set forth in Inwood were dicta, they constitute the only discussion of that prong by the Supreme Court of which we are aware. We think them to be persuasive authority here.[171]

Applying *Sony's* interpretation of Inwood, we agree with the district court that "Tiffany's general allegations of counterfeiting failed to provide eBay with the knowledge required under Inwood." *Tiffany, 576 F. Supp. 2d at 511*. Tiffany's demand letters and Buying Programs did not identify particular sellers who Tiffany thought were then offering or would offer counterfeit goods. *Id. at 511-13*.[172] And although the NOCIs and buyer complaints gave eBay reason to know that certain sellers had been selling counterfeits, those sellers' listings were removed and repeat

[171]In discussing Inwood's "knows or has reason to know" prong of the contributory infringement test, Sony refers to a defendant's knowledge, but not to its constructive knowledge, of a third party's infringing conduct. *Sony, 464 U.S. at 439 n.19*. We do not take the omission as altering the test Inwood articulates.

[172]The demand letters did say that eBay should presume that sellers offering five or more Tiffany goods were selling counterfeits, *id. at 511*, but we agree with the district court that this presumption was factually unfounded, *id. at 511-12*.

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offenders were suspended from the eBay site. Thus Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods.

Accordingly, we affirm the judgment of the district court insofar as it holds that eBay is not contributorially liable for trademark infringement.

3. Willful Blindness.

Tiffany and its amici express their concern that if eBay is not held liable except when specific counterfeit listings are brought to its attention, eBay will have no incentive to root out such listings from its website. They argue that this will effectively require Tiffany and similarly situated retailers to police eBay's website–and many others like it–"24 hours a day, and 365 days a year." Council of Fashion Designers of America, Inc. Amicus Br. 5. They urge that this is a burden that most mark holders cannot afford to bear.

First, and most obviously, we are interpreting the law and applying it to the facts of this case. We could not, even if we thought it wise, revise the existing law in order to better serve one party's interests at the expense of the other's.

But we are also disposed to think, and the record suggests, that private market forces give eBay and those operating similar businesses a strong incentive to minimize the counterfeit goods sold on their websites. eBay received many complaints from users claiming to have been duped into buying counterfeit Tiffany products sold on eBay. *Tiffany, 576 F. Supp. 2d at 487*. The risk of alienating these users gives eBay a reason to identify and remove counterfeit listings.[173] Indeed, it has spent millions of dollars in that effort.

Moreover, we agree with the district court that if eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, eBay might very well have been charged with knowledge of those sales sufficient to satisfy Inwood's "knows or has reason to know" prong. *Tiffany, 576 F. Supp. 2d at 513-14*. A service provider is not, we think, permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way. See, e.g., *Hard Rock Cafe, 955 F.2d at 1149* ("To be willfully blind, a person must suspect wrongdoing and deliberately fail to investigate."); *Fonovisa*, 76 F.3d at 265 (applying Hard Rock Cafe's reasoning to conclude that "a swap meet can not disregard its vendors' blatant trademark infringements with impunity").[174] In the words of

[173]At the same time, we appreciate the argument that insofar as eBay receives revenue from undetected counterfeit listings and sales through the fees it charges, it has an incentive to permit such listings and sales to continue.

[174]To be clear, a service provider is not contributorially liable under Inwood merely for failing to anticipate that others would use its service to infringe a protected mark. *Inwood, 456 U.S. at 854 n.13* (stating that for contributory liability to lie, a defendant must do more than "reasonably anticipate" a third party's infringing conduct

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the Seventh Circuit, "willful blindness is equivalent to actual knowledge for purposes of the Lanham Act." *Hard Rock Cafe, 955 F.2d at 1149*.[175]

eBay appears to concede that it knew as a general matter that counterfeit Tiffany products were listed and sold through its website. *Tiffany, 576 F. Supp. 2d at 514*. Without more, however, this knowledge is insufficient to trigger liability under Inwood. The district court found, after careful consideration, that eBay was not willfully blind to the counterfeit sales. *Id. at 513*. That finding is not clearly erroneous.[176] eBay did not ignore the information it was given 16 about counterfeit sales on its website.

* * * * *

CONCLUSION

For the foregoing reasons, we affirm the judgment of the district court with respect to the claims of trademark infringement and dilution. Employing a Jacobson remand, we return the cause to the district court for further proceedings with respect to Tiffany's false advertising claim.

[10] Remedies

(internal quotation marks omitted)). But contributory liability may arise where a defendant is (as was eBay here) made aware that there was infringement on its site but (unlike eBay here) ignored that fact.

[175] The principle that willful blindness is tantamount to knowledge is hardly novel. See, e.g. *Harte-Hanks Commc'ns, Inc. v. Connaughton, 491 U.S. 657, 659, 692 (1989)* (concluding in public-official libel case that "purposeful avoidance of the truth" is equivalent to "knowledge that [a statement] was false or [was made] with reckless disregard of whether it was false" (internal quotation marks omitted)); *United States v. Khorozian, 333 F.3d 498, 504 (3d Cir. 2003)* (acting with willful blindness satisfies the intent requirement of the federal bank fraud statute); *Friedman v. Comm'r, 53 F.3d 523, 525 (2d Cir. 1995)* ("The 'innocent spouse' exemption [from the rule that married couples who file a joint tax return are jointly and severally liable for any tax liability found] was not designed to protect willful blindness or to encourage the deliberate cultivation of ignorance."); *Mattingly v. United States, 924 F.2d 785, 792 (8th Cir. 1991)* (concluding in civil tax fraud case that "the element of knowledge may be inferred from deliberate acts amounting to willful blindness to the existence of fact or acts constituting conscious purpose to avoid enlightenment."); *Morrow Shoe Mfg. Co. v. New England Shoe Co., 57 F. 685, 694 (7th Cir. 1893)* ("The mind cannot well avoid the conclusion that if they did not know of the fraudulent purposes of Davis it was because they were willfully blind. Such facility of belief, it has been well said, invites fraud, and may justly be suspected of being its accomplice."); *State Street Trust Co. v. Ernst, 278 N.Y. 104, 112, 15 N.E.2d 416, 419 (1938)* ("[H]eedlessness and reckless disregard of consequence [by an accountant] may take the place of deliberate intention.").

[176]Tiffany's reliance on the "flea market" cases, Hard Rock Café and Fonovisa, is unavailing. eBay's efforts to combat counterfeiting far exceeded the efforts made by the defendants in those cases. See *Hard Rock Café, 955 F.2d at 1146* (defendant did not investigate any of the seizures of counterfeit products at its swap meet, even though it knew they had occurred); *Fonovisa, 76 F.3d at 265* (concluding that plaintiff stated a claim for contributory trademark infringement based on allegation that swap meet "disregard[ed] its vendors' blatant trademark infringements with impunity"). Moreover, neither case concluded that the defendant was willfully blind. The court in Hard Rock Café remanded so that the district court could apply the correct definition of "willful blindness," *955 F.2d at 1149*, and the court in Fonovisa merely sustained the plaintiff's complaint against a motion to dismiss, *76 F.3d at 260-61, 265*.

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USAGE: On page 909, SUBSTITUTE *Comic Strip, Inc. v. Fox Television Stations, Inc.* with the following case:

WARNER BROTHERS ENTERTAINMENT v. THE GLOBAL ASYLUM, INC.
2012 U.S. Dist. LEXIS 185695 (C.D. Cal. 2012)

Philip S. Gutierrez, District Judge

Before the Court is Plaintiffs' ex parte application for a temporary restraining order ("TRO") enjoining the scheduled December 11, 2012 release of Defendant's film, "Age of Hobbits." *See* Dkt. # 9. The Court heard oral arguments on the matter on November 7, 2012. After considering the arguments in support of and opposition to the application, the Court GRANTS Plaintiffs' application.

I. *Background*

Plaintiffs Warner Brothers Entertainment, Inc. ("Warner Brothers"), New Line Cinema, LLC ("New Line"), Metro-Goldwyn-Mayer Studios, Inc. ("MGM"), and The Saul Zaentz Company ("SZC" and, collectively, "Plaintiffs") own the exclusive rights to produce and distribute films based on J.R.R. Tolkien's ("Tolkien") novels "The Hobbit" and "The Lord of the Rings" (collectively, "the Tolkien Works"). SZC also owns various trademarks in the Tolkien Works, which include trademarks in various uses of the word "Hobbit" ("the Hobbit Marks"). New Line owns licenses to produce films of the Tolkien Works and produces such films in association with Warner Brothers and MGM (collectively with New Line, "the Studios"). The Studios have already produced three films based on the Tolkien Works: "The Lord of the Rings Trilogy." The Studios will soon distribute three additional films, which are based on the novel "The Hobbit." The first of the films, "The Hobbit: An Unexpected Journey," is scheduled for release on December 14, 2012.

Defendant The Global Asylum, Inc. ("Asylum) is also a film production company. *Thomas Decl.* ¶¶ 11-13. Among other types of films, Asylum produces "mockbusters," which are cheaper parodies of major films that often have titles very similar to major releases. Asylum is scheduled to release a film entitled "Age of Hobbits" on December 11, 2012, three days before the planned release of New Line's "The Hobbit: An Unexpected Journey." Asylum began to promote "Age of Hobbits" through various online channels in or around August 2012.[177] "Age of Hobbits" will be released directly to DVD, Blu-ray, and online sources, and is currently available for pre-order for $12.99. "Age of Hobbits" is about a recently-discovered species of pre-historic humans that lived in Indonesia. Asylum asserts that it uses the term "Hobbit" in the film title to refer to the species, which was given the nickname "hobbits" by scientists who discovered the species.

Plaintiffs contend that "Age of Hobbits" infringes on their trademark rights in the Hobbit Marks in violation of the Lanham Act, *15 U.S.C. § 1051 et seq. Mot.* 9:12-18. Plaintiffs first

[177] All subsequent dates refer to 2012, unless otherwise specified.

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contacted Asylum about the film on August 31 by sending a cease-and-desist letter to Asylum requesting that Asylum refrain from using the Hobbit Marks in its film. Plaintiffs continued to communicate with Asylum in September and October, during which time the parties discussed Asylum's asserted fair use defense and possible changes to the title, design, and promotional materials for "Age of Hobbits." Pursuant to the discussions, Asylum made several changes to its planned release. Specifically, Asylum changed the design of its promotional materials. The original materials used gold, stylized font in the title, which is similar to the font used in promotional materials for "The Hobbit: An Unexpected Journey" and "The Lord of the Rings Trilogy." The artwork now uses a different design that does not include the stylized gold font. However, Asylum ultimately did not agree to remove the word "Hobbit" from the film title for the domestic release of the film.

On November 7, 2012, Plaintiffs filed a complaint for trademark infringement, false designation of origin, trademark dilution, false advertising, and state law unfair competition. On November 21, 2012, approximately three weeks before the scheduled release of "Age of Hobbits," Plaintiffs filed an ex parte application requesting that this Court enter a temporary restraining order enjoining the December 11 release of Asylum's film under the present title. Specifically, Plaintiffs request a "TRO barring Asylum from releasing its film in any form under the title "Age of Hobbits."

II. *Legal Standard*

"The standard for issuing a temporary restraining order is identical to the standard for issuing a preliminary injunction." *NML Capital, Ltd. v. Spaceport Sys. Int'l, L.P., 788 F. Supp. 2d 1111, 1117 (C.D. Cal. 2011)* (quoting *Lockheed Missile & Space Co. v. Hughes Aircraft Co., 887 F. Supp. 1320, 1323 (N.D. Cal. 1995)*; *see also Stuhlbarg Int'l Sales Co., Inc. v. John D. Brush & Co., Inc., 240 F.3d 832, 839 n.7 (9th Cir. 2001)* (noting that the analysis for a temporary restraining order is "substantially identical" to the analysis for a preliminary injunction). A party seeking a preliminary injunction must make a showing of each of the following elements: (1) a likelihood of success on the merits, (2) a likelihood of irreparable injury to the plaintiff if injunctive relief is not granted, (3) a balance of hardships favoring the plaintiff, and (4) an advancement of the public interest. *See Winter v. Natural Res. Def. Council, 555 U.S. 7, 20 (2008)*. Within this framework, a plaintiff may also succeed by raising "serious questions going to the merits," rather than a likelihood of success, and showing a likelihood of irreparable injury and that "the balance of hardships tips sharply in [its] favor." *Alliance for the Wild Rockies v. Cottrell, 632 F.3d 1127, 1132 (9th Cir. 2011)* (allowing for a *post-Winter* "sliding scale" analysis in preliminary injunction inquiries where "the elements of the preliminary injunction test are balanced, so that a stronger showing of one element may offset a weaker showing of another").

III. *Discussion*

A. *Likelihood of Success on the Merits*

In order to prevail on a motion for a TRO, a plaintiff must show a likelihood of success on the merits. *Winter, 555 U.S. at 20*; *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp., 174 F.3d 1036, 1046-47 (9th Cir. 1999)*. Plaintiffs seek a TRO based on their asserted likelihood of success on their trademark infringement claim pursuant to *15 U.S.C. § 1114* and their trademark dilution

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claim pursuant to *15 U.S.C. § 1125*. Plaintiffs may prevail on their TRO application by showing a likelihood of success on either claim. For the reasons discussed below, the Court concludes that Plaintiffs have shown a likelihood of success on their trademark infringement claim and so does not address whether they may also be entitled to a TRO on their trademark dilution claim.[178]

To prevail on a claim of trademark infringement under the Lanham Act, a party "must prove: (1) that it has a protectable ownership interest in the mark; and (2) that the defendant's use of the mark is likely to cause consumer confusion." *Dep't of Parks & Recreation v. Bazaar Del Mundo Inc., 448 F.3d 1118, 1124 (9th Cir. 2006).*

i. Protectable Interest in the Mark

A trademark is a "word, phrase or symbol that is used to identify a manufacturer or sponsor of a good or the provider of a service." *Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 900 (9th Cir. 2002)*. "The threshold issue in any action for trademark infringement is whether the words used by a manufacturer in connection with his product are entitled to protection." *Transgo, Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001, 1014 (9th Cir. 1985)*. Protectable interest can be shown in any one of three ways: (1) the mark is federally registered; (2) the mark is descriptive but has acquired a secondary meaning in the market; or (3) the mark is suggestive, which makes it inherently distinctive and protectable. *See Applied Info. Scis. Corp. v. eBay, Inc., 511 F.3d 966, 970 (9th Cir. 2007).*

The Hobbit Marks are federally registered on the Principal Register in the Patent and Trademark Office in connection with various uses. The registration most relevant to the present action is a registration of the word "Hobbit" in "printed matter, namely posters, art prints, postcards." This registration covers Asylum's use of the term in its posters promoting "Age of Hobbits" and "constitutes prima facie evidence of the validity of the registered mark and of [the registrant's] exclusive right to use the mark on the goods and services specified in the registration." *See Applied Info. Scis., 511 F.3d at 970*; *Yellow Cab Co. of Sacramento v. Yellow Cab of Elk Grove, Inc., 419 F.3d 925, 928 (9th Cir. 2005)* ("[R]egistration discharges the plaintiff's original common law burden of proving validity in an infringement action."). Therefore, the registration alone is sufficient to prove that the use of the mark in the poster is protectable.

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[178]Asylum does not contest the merits of Plaintiffs' trademark dilution claim. At oral argument, counsel for Asylum asserted that the *First Amendment* defense in *Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989)*, applies to the trademark dilution claim as well as to the trademark infringement claim. However, Asylum has provided the Court with no cases in which a court has applied the *Rogers* defense to a trademark dilution claim. Moreover, in *Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894 (9th Cir. 2004)*, the case in which the Ninth Circuit adopted the *Rogers* defense, the Court applied the *Rogers* defense only to the trademark infringement claim and not to the trademark dilution claim. *Mattel, 296 F.3d at 900-908*. In the absence of any authority holding that the *Rogers* defense applies to trademark dilution, the Court declines to apply the defense to Plaintiffs' trademark dilution claim. Given that Asylum has neither contested the merits of Plaintiffs' trademark dilution claim nor asserted a viable defense to that claim, the Court notes that Plaintiffs would likely succeed on their trademark dilution claim as well.

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However, Plaintiffs are not seeking to enjoin the use of the mark only on the posters promoting "Age of Hobbits" but to enjoin the release of the film itself under that title. Plaintiffs do not submit evidence that the use of the term "Hobbit" in a movie title is registered in the federal registry. As such, the Court also considers whether the mark is distinctive and has developed a secondary meaning in the marketplace. *See Applied Info. Scis., 511 F.3d at 970*; *Levi Strauss & Co. v. Blue Bell, Inc., 778 F.2d 1352, 1354 (9th Cir. 1985)* (noting that a showing of secondary meaning was necessary to extend protection to certain tabs on all garments when the federal registration included only tabs on pants). . . .

Given that the Hobbit Marks are federally registered, that Plaintiffs have submitted survey evidence that nearly 50 percent of respondents associated the marks with Tolkien, and that Plaintiffs have undertaken significant, long-term marketing related to the mark, the Court concludes that Plaintiffs have established a protectable interest in the mark. As such, the first element of the likelihood of success prong is satisfied. *See Applied Info. Scis., 511 F.3d at 970*.

ii. Likelihood of Confusion

"Likelihood of confusion exists when consumers viewing the mark would probably assume that the goods it represents are associated with the source of a different product identified by a similar mark." *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 408 F.3d 596, 608 (9th Cir. 2005)*. The Ninth Circuit employs an eight-factor test in determining whether a likelihood of confusion exists. *AMF, Inc. v. Sleekcraft Boats, 599 F.2d 341, 348-49 (9th Cir. 1979)*. These factors are: (1) the strength of the mark; (2) the proximity or relatedness of the goods; (3) the similarity of the marks; (4) evidence of actual confusion; (5) the marketing channels used; (6) the degree of care customers are likely to exercise in purchasing the goods; (7) the defendant's intent in selecting the mark; and (8) the likelihood of expansion into other markets. *Id.* Although the above factors are all appropriate for consideration in determining whether likelihood of confusion exists, not all of the factors are of equal importance or applicable in every case. *See Downing v. Abercrombie & Fitch, 265 F.3d 994, 1008 (9th Cir. 2001)*. Specifically, the Ninth Circuit has stated that the three factors most probative of confusion are the similarity of the marks, the relatedness of the goods, and the marketing channels used. *See GoTo.com, Inc. v. Walt Disney Co., 202 F.3d 1199, 1205 (9th Cir. 2000)*; *Brookfield, 174 F.3d at 1054*. . . .

a. Strength of the Mark

* * * * *

The Hobbit Marks are in the category of marks that are fanciful or arbitrary, and are thus entitled to the strongest trademark protection. *See Entrepreneur Media, 279 F.3d at 1141*. Fanciful marks are "made-up words with no discernible meaning–such as Kodak film and Sony electronics that are inherently distinctive." *Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Mgmt., Inc., 618 F.3d 1025, 1033 (9th Cir. 2010)*. Arbitrary words are "actual words with no connection to the product." *Id.* The word "Hobbit" is a wholly made-up word with no

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discernible meaning. The term was invented by Tolkien to describe fictional creatures that inhabit the fantasy world he created in his novels. The Hobbit Marks are thus within the category of marks receiving maximum trademark protection.[179]

* * * * *

Finally, courts also consider the commercial strength of the mark. *See GoTo.com, 202 F.3d at 1207-08* ("Disney has cited the tremendous success of GoTo and its rise to the twenty-sixth most visited website on the Internet. Such success only strengthens Go-To's mark."). Here, Plaintiffs have presented evidence of the enormous commercial success of "The Lord of the Rings Trilogy," which grossed billions of dollars worldwide, as well as the high commercial value of related merchandise. The commercial success of "The Lord of the Rings Trilogy" does not add significantly to the strength of the mark, however. Given that many other factors likely contributed to the high commercial success of the films, the success of the trilogy is not necessarily closely related to the Hobbit Marks. However, the Court's reluctance to connect the commercial success of the trilogy to the Hobbit Marks in no way reduces the strength of the Hobbit Marks. The distinctiveness of the mark and the evidence of its actual recognition by consumers is sufficient to demonstrate to the Court that the strength of the mark is high. As such, this factor weighs in favor of finding a likelihood of confusion.

b. Proximity & Relatedness of the Goods

Marks are related when they are used to offer similar products to a similar group of consumers. *Brookfield, 174 F.3d at 1056*. "[T]he danger presented is that the public will mistakenly assume there is an association between the producers of the related goods, though no such association exists." *Sleekcraft, 599 F.2d at 350*. The proximity of goods is measured by whether the products are: (1) complementary; (2) sold to the same class of purchasers; and (3) similar in use and function. *Id.* The reference point for this and the remaining *Sleekcraft* factors "is the typical buyer exercising ordinary caution." *Fortune Dynamic, 618 F.3d at 1038*. . . . .

As in *Brookfield* and *Sleekcraft*, Plaintiffs and Asylum are "companies that compete for the patronage of an overlapping audience." *Brookfield, 174 F.3d at 1056*. Both New Line and Asylum are studios that produce feature-length films. Moreover, the products at issue in this case are both feature-length films in the fantasy genre that are scheduled for release within three days of each other, though Plaintiffs' film will be released theatrically while Asylum's film will be

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[179]At oral argument, counsel for Asylum contended that the term "hobbit" is not fanciful because the word was used in the Middle Ages. Asylum does not present evidence to support this assertion. However, the Court notes that the Oxford English Dictionary contains two definitions of "hobbit." One definition refers to Tolkien's hobbits. The second entry for the word "hobbit," alternatively spelled as "hobbet," defines the term as "seed basket" or a "local measure = 2 1/2 bushels." Oxford English Dictionary. Given this obscure alternate definition, which is absent from many other dictionaries, the term may not be wholly made-up such that it meets the definition of a fanciful term. *See Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Mgmt., Inc., 618 F.3d 1025, 1033 (9th Cir. 2010)*. However, the term used in Tolkien's work may alternatively be classified as arbitrary because the use of the term to refer to the small people who inhabit Tolkien's realm has "no connection" to the use of the term to describe a seed basket or local measure. *Id.* Arbitrary terms, like fanciful terms, are afforded the highest level of trademark protection. *Entrepreneur Media, Inc. v. Smith, 279 F.3d 1135, 1141 (9th Cir. 2002)*. Therefore, the Hobbit Marks are entitled to the strongest trademark protection even though there is some evidence of use of the term prior to Tolkien's works.

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released directly to DVD, Blu-ray, and internet sources. The products are of the same type and are marketed to the same audience at nearly exactly the same time. The relatedness of the products may be even greater here than in *Sleekcraft* and *Brookfield*, as the Court can find no meaningful distinction between the consumers who would be interested in Asylum's products and those who would be interested in Plaintiffs', as both target the general movie-viewing public and specifically viewers interested in fantasy films. Moreover, the fact that Plaintiffs' film is being released to theaters while Asylum's film is being released directly to DVD, Blu-ray, and internet sources is not a meaningful distinction, as many consumers may not be aware of the different modes and timing of release. *See Saksa Decl.* ¶ 4 (citing a 2010 survey finding that almost half of customers are not aware of the timing of movie releases). As such, the competitive proximity and relatedness of the products is high and this factor weighs in favor of Plaintiffs. *See Brookfield, 174 F.3d at 1056*; *Sleekcraft, 599 F.2d at 350*.

c. Similarity of the Marks

"[T]he greater the similarity between the two marks at issue, the greater the likelihood of confusion." *GoTo.com, 202 F.3d at 1206*. There are three axioms that apply to the "similarity" analysis: (1) marks should be considered in their entirety and as they appear in the marketplace; (2) similarity is best adjudged by appearance, sound, and meaning; and (3) similarities weigh more heavily than differences. *Id.*

Here, the mark at issue is the word "Hobbit." "Hobbit" is a trademarked word that Asylum uses in its movie title. The marks are therefore not only similar but identical. Moreover, the imagery surrounding the use of the mark is similar, thus increasing the possibility of confusion. Asylum's poster for "Age of Hobbits" shows the word "Hobbit" with an image that features two characters holding weapons in the center, with fire-breathing dragons, a hooded figure, a mountain, and fire in the background, and a battle scene in the foreground. This imagery is similar to several posters produced by New Line for "The Hobbit: An Unexpected Journey" and "The Lord of the Rings Trilogy." The promotional materials for "The Hobbit: An Unexpected Journey" and "The Lord of the Rings Trilogy" feature characters holding mythical weapons, mythical creatures such as dragons, battle scenes, mountains, and fire, among other images that are similar to those used to promote Asylum's film.

Plaintiffs cannot claim exclusive rights to the images described above–fantastical images of swords, mythical creatures, and the like. *See Vision Sports, Inc. v. Melville Corp., 888 F.2d 609, 616 (9th Cir. 1989)* (noting that the plaintiffs could not claim exclusive rights to a particular color scheme). However, the question is whether, viewing the marks in their entirety as they appear in the marketplace, "the total effect of [Asylum's] product and package on the eye of the ordinary purchaser" is likely to cause confusion. *See id.; see also GoTo.com, 202 F.3d at 1206* (finding similarity after noting that "[w]ith a single glance at the two images, one is immediately struck by their similarity"). Here, viewing the imagery in the posters in connection with the use of the term "Hobbit" in the title "one is immediately struck by the[] similarity" between the two images. *See id.* Given the similar overall appearance of the posters and the prominent use of the

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trademarked term, the Court has "no difficulty concluding that the marks are overwhelmingly similar." *See id.*

Finally, Asylum contends that the titles are not confusingly similar because they are not identical: Asylum's movie is called "Age of Hobbits" while the Studios' film is called "The Hobbit: An Unexpected Journey." This argument is unpersuasive. Courts have commonly found that titles that are not identical but use similar words are confusingly similar under the Lanham Act. For example, Courts have found similarity in the following cases: any use of the term "River Kwai" was confusingly similar to the movie title "Bridge Over River Kwai," *Tri-Star Pictures, Inc. v. Unger, 14 F. Supp. 2d 339, 358 (S.D.N.Y. 1998)*; any the use of the words "Tarz" or "Tarzan," even when used in conjunction with other words, was confusingly similar to the trademarked term "Tarzan," *Edgar Rice Burroughs, Inc. v. Manns Theatres, No. 76-3612-RMT, 1976 U.S. Dist. LEXIS 11754, 1976 WL 20994, at *1 (C.D. Cal. Dec. 20, 1976)*; the record title "Pitbull Starring in Rebelution" was similar to the band name "Rebelution," *Rebelution, LLC v. Perez, 732 F. Supp. 2d 883, 886, 888 (N.D. Cal. 2010)*; the book titles "The Children's Audiobook of Virtues" and "The Children's Book of Virtues" was confusingly similar to the title "The Book of Virtues," *Simon & Schuster v. Dove Audio, Inc., 970 F. Supp. 279, 301 (S.D.N.Y. 1997)*. As was found in these cases, the use of the term "Hobbit" in the title of Asylum's film may be confusingly similar to Plaintiffs' use of the trademark in its movie title even though the titles are not identical. This factor too weighs in favor of Plaintiffs.

d. Evidence of Actual Confusion

* * * * *

Without any supporting evidence, Asylum makes the conclusory assertion that "no one could be confused between the title of Defendant's film *Age of Hobbits* and Plaintiffs' film *The Hobbit: An Unexpected Journey*." This argument is without merit in light of survey evidence presented by Plaintiffs showing that some respondents actually were confused by the titles of the movies. Plaintiffs present evidence from a weekly tracking study conducted by Nielsen National Research Group ("Nielsen") in which approximately 30 to 40 percent of survey respondents exhibited confusion about the source of "Age of Hobbits" ("The Nielsen Survey"). . . . [T]he use of the word "Hobbit" in the title appears to be responsible for 15.8 to 23.68 percent of the confusion about the source of the movie. . . .

Generally, confusion levels of 25 to 50 percent provide "solid support" for a finding of likelihood of confusion, while confusion rates below 20 percent support a finding of confusion only in connection with other corroborating evidence. . . .

The results of the Nielson Survey are slightly below the range that provides "solid support" for a finding of likelihood of confusion. However, the survey results are very close to the level that provides solid support for such a finding. This factor does not weigh particularly strongly in either direction, as the percentages are too low to provide strong support for a finding of likelihood of confusion, but not so low that they undermine such a finding. Moreover, the

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survey targeted a relatively small sample, as only approximately 200 respondents expressed an opinion about the source of "Age of Hobbits." Therefore, the Court views the survey results in connection with other factors weighing in favor of a likelihood of confusion.

e. Marketing Channels

The likelihood of confusion is exacerbated when the parties promote their products through the same marketing channels. *See Brookfield, 174 F.3d at 1057*. Specifically, the use by both parties of the internet to market the products in question is "a factor 'that courts have consistently recognized as exacerbating the likelihood of confusion.'" *GoTo.com, 202 F.3d at 1208* (quoting *Brookfield, 174 F.3d at 1057*). Here, both Plaintiffs and Asylum utilize the internet to promote their movies. Therefore, under *Brookfield* and *GoTo.com*, this factor favors a finding of likelihood of confusion. However, the Court is also cognizant that internet advertising is much more ubiquitous now than it was when *Brookfield* and *GoTo.com* were decided, in 1999 and 2000, respectively, which may diminish the relevance of the use of the internet by both parties. As such, this factor favors Plaintiffs, but not particularly strongly.

f. Degree of Care Used

The degree of care refers to the amount of thought consumers put into the purchase of the goods or services in question. "When goods are expensive, it is assumed that buyers will exercise greater care in their purchases." *Gallo, 967 F.2d at 1293*. "On the other hand, when dealing with inexpensive products, customers are likely to exercise less care, thus making confusion more likely." *Brookfield, 174 F.3d 1060*. Here, the products in question are movie ticket and DVD purchases, both of which cost a consumer less than $15. At oral argument, counsel for Asylum asserted that customers do in fact exercise care when purchasing movies. However, counsel did not present the Court with any evidence to support this assertion, and other courts have found that movies fall into the category of products for which customers exercise little care. *See, e.g., Tri-Star, 14 F. Supp. 2d at 358* ("Motion picture tickets, video rentals and television viewing are relatively inexpensive and thus consumers of such are likely to pay less care and attention when purchasing these products and therefore are inclined to be less sophisticated buyers."). . . . Given the low cost of DVDs, Blu-ray discs, and movie tickets–and the absence of evidence on the record to suggest that purchasers exercise more care when buying a movie than when making purchases of similarly-priced items–the Court finds that this factor too favors Plaintiffs.

g. Asylum's Intent

When a mark is adopted with "the intent to deceive the public," courts may presume that use of the mark will cause confusion. *Brookfield, 174 F.3d at 1059*; *see also Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc., 457 F.3d 1062, 1076 (9th Cir. 2006)* ("When the alleged infringer knowingly adopts a mark similar to another's, reviewing courts presume that the defendant can accomplish his purpose: that is, that the public will be deceived." (quoting *Sleekcraft, 599 F.2d at 354*)). "This factor favors the plaintiff where the alleged infringer adopted his mark with knowledge, actual or constructive, that it was another's trademark." *Brookfield, 174 F.3d at 1059*; *see also Entrepreneur Media, 279 F.3d at 1148*.

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Plaintiffs argue that Asylum adopted the Hobbit Mark in its title with the intent to confuse consumers and so the likelihood of confusion from the use of the mark should be presumed. Plaintiffs advance four arguments in support of this contention: first, the use of the trademarked term in a fantasy film, a work similar to Tolkien's work, is bad faith; second, Asylum describes the film in a manner that associates it with Tolkien's work, such as referring to "peace-loving Hobbits,"; third, the release date three days before the release of "The Hobbit: An Unexpected Journey" demonstrates an intent to capitalize on the publicity surrounding Plaintiffs' film; and fourth, the similar artwork and prominent use of the trademarked term demonstrates an intent to deceive. . . .

[I]n order to prevail on this factor, Plaintiffs need only demonstrate that Asylum used the Hobbit Marks with constructive or actual knowledge of Plaintiffs' ownership of the mark. Plaintiffs have far surpassed this low threshold. Defendant had actual knowledge that the "Hobbit" was Plaintiff's trademark at the latest on August 31 and continued with the distribution of the movie despite this knowledge. Such knowledge–especially in light of the other evidence that Asylum adopted the Hobbit Mark with "the intent to deceive the public"–is sufficient to persuade the Court that this factor weighs heavily in Plaintiffs' favor. *Brookfield, 174 F.3d at 1059*.[180]

h. Likelihood of Expansion

This factor is relatively unimportant in the present case, as the parties are already marketing products in the same field. . . .

I. Balancing of Factors

For the reasons discussed above, the majority of factors weigh in favor of a finding of likelihood of confusion and no factor weighs against such a finding. Moreover, the finding is particularly strong on the three factors that courts have found to be the most important, especially in the context of the internet: similarity of the marks, relatedness of the goods, and use of similar marketing channels. *See GoTo.com, 202 F.3d at 1205*; *Brookfield, 174 F.3d at 1054*. As such, the Court concludes that the *Sleekcraft* factors weigh in favor of a finding of likelihood of confusion.

iii. Defenses

Asylum assert two defenses to its use of the term "Hobbit" in the title of its film. First, Asylum asserts that it is entitled to use the trademarked term pursuant to the test articulated in *Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989)*, which permits a trademarked term to be used in the title of an artistic work if the use of the term has some artistic relevance to the work and does not explicitly mislead consumers as to the source and content of the work. Second, Asylum asserts a nominative fair use defense, which permits the use of a trademarked term in some cases in which the use of the term is the only way to refer to a particular product or service. . . .

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[180]Moreover, even a contrary finding would do nothing to tip the balance in Asylum's favor, as the lack of an intent to deceive is "largely irrelevant in determining if customers likely will be confused as to source." *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp., 174 F.3d 1036, 1059 (9th Cir. 1999)* (quoting *Daddy's Junky Music Stores, Inc. v. Big Daddy's Family Music Ctr., 109 F.3d 275, 287 (6th Cir. 1997))*.

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a. Rogers v. Grimaldi

In *Rogers*, the Second Circuit stated that because of an artist's significant *First Amendment* interest in choosing an appropriate title for his artistic work, the Lanham Act "[s]hould be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression." *Rogers, 875 F.2d at 999*. . . . [T]o succeed on a *Rogers* claim, the defendant must show that (1) the title has artistic relevance to the underlying work and (2) the title does not explicitly mislead as to the source or content of the work. *Id.; see also Mattel, 296 F.3d at 902*. . . .

The Ninth Circuit has adopted the *Rogers* test and applies it to circumstances in which the mark at issue is "imbue[d] . . . with a meaning beyond its source-identifying function." *Mattel, 296 F.3d at 900*; *see also Rebelution, 732 F. Supp. 2d at 888* (stating that the *Rogers* test was not applicable because there was no evidence that the word "rebelution" "entered the public discourse, . . . [had] become an integral part of our vocabulary[, or] been imbued by the public with an alternate meaning"). Therefore, pursuant to the Ninth Circuit's formulation of the *Rogers* test, the Court considers (1) whether the mark has acquired meaning beyond its source-identifying function; (2) whether the use of the mark in the title has at least minimal artistic relevance to the underlying work; and (3) whether the title explicitly misleads consumers as to source or function. *Mattel, 296 F.3d at 901*; *Rebelution, 732 F. Supp. 2d at 887-88.*

1. Whether the Mark Has Acquired Meaning Beyond Its Source-Identifying Function

* * * * *

Here, the mark at issue has not gained such widespread cultural and linguistic prominence as "Barbie," "Rolls Royce" or "aspirin." However, the Court finds sufficient evidence on the record to conclude that the term "hobbit" has taken on "an expressive meaning apart from its source-identifying function." *See Mattel, 296 F.3d at 900*. The term may not be integral to the public's vocabulary, but it has gained some measure of use as a term to refer to small creatures, such as the small human sub-species discovered in Indonesia. As such, the Court moves to prongs two and three of the *Rogers* test.

2. Whether the Mark Has Artistic Relevance to the Underlying Work

The second prong of the *Rogers* test requires the use of the mark in the title to have at least some artistic relevance to the underlying work. *Mattel, 296 F.3d at 901*; *Rogers, 875 F.2d 994*. Though not explicitly required by the holding in *Rogers*, courts within the Ninth Circuit have also required that the "artistic work targets the original and does not merely borrow another's property to get attention," as in such cases "*First Amendment* interests weigh more heavily in the balance." *Mattel, 296 F.2d at 901*. Moreover, Asylum has not pointed the Court to a single case in which a court in this circuit–or any other circuit, for that matter–has permitted a defendant to use the *Rogers* defense when the term did not in some way relate to the original. As such, the use of the mark in the allegedly-infringing title must be in some way related to the meaning associated with

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the mark itself, as it is only in these cases where limiting the use of the term would excessively restrict speech. . . .

Asylum contends that the use of the Hobbit Mark in the title of its movie has artistic relevance to the work itself because it refers to the characters that are the subject of the film, specifically the ancient Indonesian species dubbed "hobbits." However, in order to succeed on this prong, Asylum must also show that the use of the term in the title in some way relates to or references the trademarked term, such as by using the term "Barbie" to conjure a specific image and associated values. *See Mattel, 296 F.3d at 899*; *Rebelution, 732 F. Supp. 2d at 889* ("Defendants must thus show that they used plaintiff's mark to refer to the meaning associated with plaintiff's mark."). Asylum has made no such showing. In fact, Asylum asserts just the opposite: that the film title in no way relates to Tolkien's hobbits. *Opp.* 2:23-28. In its opposition, Asylum states that its "film title refers to *Homo Floresiensis* and not Plaintiffs' fantasy characters." *Id.* 2:27-28. As such, Asylum has not shown that it used Plaintiffs' mark with the intent to reference Plaintiffs' work and the second prong is not satisfied.

3. Whether the Use of the Mark Is Explicitly Misleading

Though Asylum has failed to demonstrate that the *Rogers* test applies to its use of the word "Hobbit" in the title of its film and so the defense fails on that ground alone, the Court concludes that the *Rogers* defense would also fail because the title is explicitly misleading. In determining whether the title explicitly misleads consumers, courts apply the *Sleekcraft* likelihood of confusion factors discussed above. . . . For the reasons discussed in Section III, A, *ii* above, the showing of likelihood of confusion based on the *Sleekcraft* factors is strong, as all of the factors either are neutral or weigh in favor of Plaintiffs. Moreover, the three most important factors all strongly favor Plaintiffs.

4. Conclusion

In sum, Asylum is not entitled to the *Rogers* defense both because it has failed to show that the use of the trademarked term in the title refers to Plaintiffs' trademarked term and because the title is explicitly misleading based on the application of the *Sleekcraft* factors.

b. Fair Use

* * * * *

The nominative fair use defense is available "where the defendant uses a trademark to describe the plaintiff's product, rather than its own [product]." *New Kids on the Block v. News Am. Publ'g, Inc., 971 F.2d 302, 308 (9th Cir. 1992)*. The problem is similar to one presented by genericness and descriptiveness, but the nominative fair use defense targets an issue that is distinct from those that arise when a trademark is generic or purely descriptive. Rather than applying to trademarks that are generic or descriptive, the nominative fair use defense applies to situations in which "goods and services are effectively identifiable only by their trademarks." *Id. at 306*. This defense is not available "[i]f the defendant's use of the plaintiff's trademark refers to

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something other than the plaintiff's product;" in those cases "the traditional fair use inquiry will continue to govern." *Id. at 308*. . . .

Asylum asserts that it is entitled to a fair use defense under *New Kids* because the term "'Hobbits' no longer relates exclusively to Plaintiffs' product [and n]ow it is a common term used to describe *Homo Floresiensis.* Accordingly, Plaintiffs' mark has become generic and should no longer be afforded protection." *Opp*. 12:3-5. Asylum's argument appears to miss the point, however. *New Kids* does not apply to trademarks that have become generic, but to a defendant's use of a trademarked term to describe the plaintiff's product when it would be impossible, or at least exceedingly difficult, to describe the product by other means. *New Kids, 971 F.2d at 306*. Asylum has clearly stated that it in no way intended to refer to Plaintiffs' mark by using the trademarked term. As such, the nominative fair use defense simply does not apply. . . .

B. *Likelihood of Irreparable Injury to Plaintiff Without a TRO*

A plaintiff seeking injunctive relief must prove that irreparable injury is likely in the absence of an injunction. *Winter, 555 U.S. at 20*. The plaintiff must prove that such harm is not only irreparable but imminent. *Caribbean Marine Servs. Co., Inc. v. Baldridge, 844 F.2d 668, 674 (9th Cir. 1988)*. In trademark infringement actions, irreparable harm is presumed once the plaintiff has established a likelihood of confusion. *See GoTo.com, 202 F.3d at 1209*. This is because it is reasonable for a court to assume that continuing infringement will leave the plaintiff with a loss of control of its reputation and a loss of its goodwill. *Apple Computer, Inc. v. Formula Int'l, Inc., 725 F.2d 521, 526 (9th Cir. 1984)*. Here, Plaintiffs have demonstrated a likelihood of confusion. As such, irreparable injury is presumed.

Asylum claims that Plaintiffs have demonstrated that they will not suffer irreparable harm in the absence of a TRO because they delayed in bringing their TRO application. Asylum announced the making of its film in February 2012 and began promoting it around August. On August 31, 2012, Plaintiffs sent Asylum a cease-and-desist letter informing Asylum of Plaintiffs' claims regarding Asylum's film. In the cease-and-desist letter, Plaintiffs informed Asylum of their belief that Asylum's film infringed upon their intellectual property and stated that they would pursue legal action if Asylum continued with the use of the Hobbit Marks in the film. Throughout September and October, Plaintiffs engaged in discussions with Asylum regarding changes to the film. The parties engaged in negotiations through late October, but did not come to an agreement that satisfied Plaintiffs. On November 7, Plaintiffs filed a Complaint against Asylum and then filed this TRO application on November 21. The application was thus filed approximately three to four months after Asylum began promoting its film and three weeks before the scheduled December 11 release of "Age of Hobbits."

Courts may consider a plaintiff's delay when evaluating whether a temporary restraining order or preliminary injunction is appropriate, as a lengthy or unreasonable delay may be evidence that there is a lack of real urgency or irreparable harm. *See Miller v. Cal. Pac. Med. Ctr., 991 F.2d 536, 544 (9th Cir. 1993)*. However, the delay of Plaintiffs' TRO application was neither lengthy nor unreasonable and does not undercut Plaintiffs' claims of urgency or irreparable

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harm. Plaintiffs delayed for approximately four months before filing the TRO application, during which time they engaged in negotiations with Asylum in an attempt to resolve the dispute without legal action. In the Ninth Circuit, a delay of several months that gives the plaintiff an opportunity to investigate its claim and attempt to resolve the dispute out of court is not unreasonable such that injunctive relief should be denied on that ground alone. . . . Therefore, Plaintiffs' four-month delay in filing their TRO application does not undermine the presumption of harm to which Plaintiffs are entitled.

C. *Balance of Hardships*

A court considering injunctive relief must "balance the competing claims of injury and must consider the effect on each party of the granting or withholding of the requested relief." *Amoco Prod. Co. v. Vill. of Gambell, Alaska, 480 U.S. 531, 542 (1987)* (recognizing that a judge is not required to grant an injunction for every violation of the law). There are two potential hardships that Asylum will suffer if the Court enjoins the December 11 release of its movie "Age of Hobbits." First, Asylum has already sent DVDs and Blu-ray discs to retailers and rental outlets, and claims that it will now be impossible (or at least extremely difficult) to prevent their sale. Asylum contends Plaintiffs' delay in filing the TRO application until only three weeks before the scheduled release of "Age of Hobbits" caused this hardship because Plaintiffs waited until after the discs were shipped to file their TRO. Second, Asylum will suffer hardship by being unable to release its movie, which it has already produced. However, neither of these hardships demonstrate to the Court that the balance of equities favors Asylum.

To the extent that Asylum will suffer any hardship due to having already distributed the DVDs and Blu-ray discs, this was a hardship that was of its own making and carries little weight with the Court. Asylum distributed the discs after it was already well-aware that Plaintiffs intended to take legal action to prevent the release of the movie under the title "Age of Hobbits." On August 31, Plaintiffs presented Asylum with a cease-and-desist letter in which it demanded that Asylum, among other things, "cease distributing any products, advertisements or promotional materials containing the mark HOBBIT and destroy same." The cease-and-desist letter further stated that Plaintiffs would "take further legal action" if Asylum failed to cease using the Hobbit Marks. On November 7, Plaintiffs filed their Complaint against Asylum. . . .

[¶] Asylum was served with this Complaint on November 9. Therefore, Asylum was on notice of Plaintiffs' intention to halt the release of its movie under the title "Age of Hobbits" on November 9 at the latest. Ten days later–knowing that legal action against the release was pending–Plaintiff distributed the DVDs and Blu-ray discs. Admittedly, it may be more difficult and costly for Asylum to halt the sale of its movie now after the discs have been distributed, but the Court considers this burden to be of little weight. Asylum assumed the risk of an injunction when it continued with production and distribution of its film after it received notice of Plaintiffs' legal claims in their August 31 cease-and-desist letter and of Plaintiffs' intent to seek an injunction in its Complaint. As such, the Court gives little weight to the hardship Asylum will suffer due to having already distributed the discs of the movie. . . .

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Moreover, "[w]here the only hardship that [the] defendant will suffer is lost profits from an activity which has been shown likely to be infringing, such an argument in defense [against a preliminary injunction] merits little equitable consideration." *Cadence Design Sys., Inc. v. Avant! Corp., 125 F.3d 824, 830 (9th Cir. 1997)*; *see also Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330, 1338 (9th Cir. 1995)* ("[A defendant] cannot complain of the harm that will befall it when properly forced to desist from its infringing activities."). Here, the harm Asylum will suffer is the inability to profit from the sale of "Age of Hobbits," which has been shown to be likely infringing, and from the loss it will suffer because it has already shipped the DVDs and Blu-ray discs to distributors. Asylum's harm is thus merely from lost profits and expenses relating to its infringing activity, and the harm to Asylum carries little weight in the balance of equities, especially in comparison to the harm to Plaintiffs if Asylum goes ahead with the release of its film. The Court concludes that the balance of equities favors granting the TRO.

D. *Public Interest*

Lastly, the Court considers whether granting the preliminary injunction advances the public interest. *Dollar Rent A Car v. Travelers Indem. Co., 774 F.2d 1371, 1374 (9th Cir. 1985)*. In trademark cases, the public interest is the public's right not to be deceived or confused. Indeed, "the most basic public interest at stake in all Lanham Act cases [is] the interest in prevention of confusion, particularly as it affects the public interest in truth and accuracy." *Kos Pharms., Inc. v. Andrx Corp., 369 F.3d 700, 730 (3d Cir. 2004)*. Where "there is a likelihood of consumer confusion created by the use of confusingly similar marks, it follows that if such use continues, the public interest would be damaged. Conversely, a prohibition upon [defendant's] use of [its] mark[] would eliminate that confusion." *Id.* (internal quotation marks omitted) (edits in original). For the reasons discussed in Section III, A, *ii.* above, there is substantial likelihood that consumers will be confused by "Age of Hobbits" and mistakenly purchase the film intending to purchase "The Hobbit: An Unexpected Journey." Indeed, Plaintiffs have presented evidence that Asylum's other films have caused confusion among consumers, who mistakenly purchase Asylum films intending to purchase a different film. The very interest at issue in a trademark infringement case such as this one is avoiding the public from being confused or deceived about a product. As such, a TRO enjoining Asylum's release of "Age of Hobbits" is in the public interest because it will prevent consumer confusion.

IV. *Conclusion*

In sum, Plaintiffs have established (1) a likelihood of success on their Lanham Act claim for trademark infringement; (2) that they will suffer irreparable injury in the absence of a temporary restraining order; (3) that the balance of hardships favors Plaintiffs; and (4) that a TRO would advance the public interest. As such, a temporary restraining order enjoining the release of Asylum's film under the present title, "Age of Hobbits," is appropriate. . . .

For the foregoing reasons, the Court GRANTS Plaintiffs' ex parte application for a temporary restraining order. The Court orders that Asylum and its subsidiaries, officers, agents, servants, directors, employees, partners, representatives, assigns, successors, related companies, and attorneys and all persons in active concert or participation with Asylum or with any of the

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foregoing, during the pendency of a hearing on an order to show cause regarding a preliminary injunction, refrain from advertising, selling or otherwise distributing any film with the title "Age of Hobbits" or using any other title, name, or mark that is confusingly similar to the trademarks "The Hobbit" and "Hobbit" or to the title of Plaintiffs' film "The Hobbit: An Unexpected Journey. . . .

Plaintiffs are ordered to post bond in the amount of $50,000. *See Fed. R. Civ. P. 65(c).* The Court notes that the parties did not address the issue of bond and determines an appropriate bond to be 10 percent of the $500,000 reported budget for "Age of Hobbits.". . .

USAGE: On page 915, SUBSTITUTE note 2 with the following note:

(2) In some jurisdictions special requirements for injunctive relief in trademark cases has been developed. As shown in Warner Bros. Entertainment v. Global Asylum, Inc., 2012 U.S. Dist. LEXIS 185695 (C.D. Cal. 2012), in the Ninth Circuit, a party must show either (1) a combination of probable success on the merits and a possibility of irreparable harm, or (2) the existence of serious questions on the merits and the balance of hardships weighing heavily in its favor. In the Second Circuit, a party seeking a preliminary injunction must establish that (1) absent injunctive relief, it will suffer irreparable harm, and (2) either (a) that it is likely to succeed on the merits, or (b) that there are sufficiently serious questions going to the merits to make them a fair ground for litigation, and that the balance of hardships tips decidedly in favor of the moving party. *Genesse Brewing Co. v. Stroh Brewing Co.*, 124 F.3d 137, 142 (2d Cir. 1997).

[11] Dilution

USAGE: On page 927, ADD the following case after *Hasbro, Inc. v. Clue Computing, Inc.*:

CATERPILLAR INC. v. WALT DISNEY CO.

287 F. Supp. 3d 913 (C.D. Ill. 2003)

McDADE, Chief Judge.

Before the Court is Plaintiff's Motion for Temporary Restraining Order [Doc. # 4]. Plaintiff brings this matter before the Court primarily alleging violations of §§ 32(1), 43(a) and 43(c) of the Lanham Act(15 U.S.C. §§ 1114(1), 1125(a) and 1125(c), respectively), in addition to alleging various theories under Illinois State law. Accordingly, the Court has jurisdiction over

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this matter pursuant to 15 U.S.C. §§ 1121 and 1128 and 28 U.S.C. §§ 1331 and 1338(a) and supplemental jurisdiction over the state law claims pursuant to 28 U.S.C. §§ 1367(a) and 1338(b). Based on the unchallenged allegations in the amended complaint, venue is proper in this Court pursuant to 28 U.S.C. § 1391.

BACKGROUND

Plaintiff Caterpillar, Inc. ("Caterpillar") is a Delaware corporation with its principal place of business in Peoria, Illinois. Caterpillar is engaged in the design, manufacturing and marketing of earth-moving, construction and materials handling machinery and engines for world-wide sales. In this connection, Caterpillar owns multiple registrations for its "Caterpillar," "Cat," "Cat" and design, "Caterpillar" and design, "Caterpillar" stylized, "Cat Diesel Power," "Cat the Rental Store," "Catused.com," "Cat Engineered Durability," and "Cat Plus" marks. In 2002, Caterpillar reported $20.15 billion in multi-national sales and revenues, primarily from the sale of the goods and services listed above bearing its marks. Caterpillar also licenses its marks for use on various products such as clothing, footwear, clothing accessories, and a children's product line from which it reported a total of $850 million in sales and revenues in 2002.

Defendant Walt Disney Company ("Disney") is a Delaware corporation with its principal place of business in Burbank, California. Defendant Buena Vista Home Entertainment, Inc., ("Buena Vista") is a California corporation with its principal place of business in Burbank, California. Caterpillar avers in its complaint that both Disney and Buena Vista conduct business in Peoria, Illinois.

"George of the Jungle 2" ("George 2") is the sequel to the original "George of the Jungle," a comedy that earned the Defendants over $100 million in its theatrical release. Unlike its predecessor, George 2's premiere is limited to the small screen with an estimated 2.2 million copies of the film set for sale in various retail outlets on October 21, 2003. Defendants have staged a national marketing campaign to raise awareness for the release of George 2 in various media outlets throughout the country. These advertisements have highlighted the expected release date, a date that is suddenly in doubt due to this suit and Caterpillar's instant motion for a temporary restraining order ("TRO").

Caterpillar filed the instant suit alleging that the Defendants violated its trademark rights through their production of George 2. George 2 is not scheduled for release until Tuesday, October 21, 2003. As a part of the relief Caterpillar believes that it is entitled to, Caterpillar seeks to enjoin the release of George 2 until the acts allegedly violating its trademarks are undone.

Following an emergency hearing held on October 16, 2003, involving representatives from both Caterpillar and the Defendants, the Court permitted Defendants to file a written response to Caterpillar's TRO motion. In light of George 2's imminent release, the Court also permitted Caterpillar to file a written reply by 9:30 a.m. on October 18, 2003. This Order now follows.

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LEGAL STANDARD

"A party seeking to obtain a preliminary injunction [or temporary restraining order] must demonstrate: (1) its case has some likelihood of success on the merits; (2) that no adequate remedy at law exists; and (3) it will suffer irreparable harm if the injunction is not granted." Ty, Inc. v. Jones Group, Inc., 237 F.3d 891, 895 (7th Cir.2001). If the Court is satisfied that these three conditions are met, the Court must then consider the irreparable harm that the non-moving party will suffer if the injunction is granted and balance such harm against the irreparable harm the moving party will suffer if the injunction is not granted. As a final matter, the Court must consider the public interest when deciding whether to grant or deny the injunction. The preceding considerations are dealt with on a flexible, sliding scale approach. The greater the likelihood of success on the merits, the less irreparable harm is necessary for an injunction to issue. This sliding scale approach is not mathematical in nature, it is instead "more properly characterized as subjective and intuitive, one which permits district courts to weigh the competing considerations and mold appropriate relief." Abbott Labs., 971 F.2d at 12 (citations omitted).

DISCUSSION

George 2 is an 87 minute comedy primarily targeted at children. It chronicles the exploits of its eponymous hero following the first movie. George is a noble man of nature described as the "klutzy king of the jungle" on the website who possesses an unusually thick and durable cranium. He is blessed with a lovely wife Ursula and a five-year-old son. George is also a friendly fellow, beloved by most of the creatures living on Ape Mountain. Indeed, he is a linguist of the highest order by virtue of being able to converse with apparently every animal species in their native tongue. His speeches are admirable for their laconic directness and economy of words. He is a hardy fellow in that he is blessed with an incredible constitution that allows him to survive his rather routine bone-crushing collisions with various inanimate objects throughout the movie that would cripple or kill an ordinary man. There is one area where George is deficient, however, in that he is naive and not particularly skilled in navigating the civilized dissembling world of modern society; thereby confirming Maharbal's observation to Hannibal following the Battle of Cannae in 216 BC that the gods do not give all their gifts to one man.

The plot of the movie revolves around the Machievellian machinations of Ursula's worldly mother, Beatrice, and Ursula's sophisticated fumbling former fiancee, Lyle, to separate George from his beloved wife and son. In his misguided quest for Ursula's love and hand in marriage, Lyle conceives a plot to steal George's deed to Ape Mountain, which would allow him to send his "dastardly disciples" on dozers to destroy Ape Mountain.[181] Presumably, the destruction of George and Ursula's home would somehow drive Ursula back into Lyle's waiting arms. To make

[181]Beatrice and Lyle conceive of several other plans that fail, but this plot is the one most relevant to the issue at hand.

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a long story short, Lyle succeeds in obtaining the deed to Ape Island by theft. With this deed in hand, Lyle's minions move into action which is where Caterpillar enters the picture, *in media res.*

The problem with George 2 from Caterpillar's perspective is that Lyle's minions are shown in the movie driving Caterpillar bulldozers. These are genuine Caterpillar products bearing the Caterpillar and Cat trademarks on them with no apparent alterations. There are four separate scenes featuring the Caterpillar bulldozers. Three of these scenes show brief glimpses of the bulldozers moving toward Ape Mountain at various angles in which a viewer could make out the Caterpillar trademarks. However, these scenes are brief, averaging approximately ten seconds apiece. The final scene is a seven minute battle scene between George and his animal allies against these bulldozers driven by Lyle's minions. Caterpillar's marks are clearly visible in several instances during this battle. While the action is occurring onscreen, the narrator will occasionally chime in with descriptions of the machines as "deleterious dozers," "maniacal machines" and other similar comments. The bulldozers, however, are not computer animated and look and perform as expected of their type; and it is clear that the bulldozers are operated by Lyle's henchmen. George and his allies manage to decommission these bulldozers in several different ways, generally involving instances of combustible ape flatulence and projectile coconuts and animal feces.

Caterpillar contends that the Defendants have infringed its trademarks, engaged in unfair competition, diluted its trademarks and engaged in deceptive trade practices in producing George 2. Should the Court decline to grant Caterpillar the TRO, Caterpillar contends that no adequate remedy exists in law and that it will suffer irreparable harm. Furthermore, Caterpillar maintains that the balancing of harms favors granting of the TRO as well as the public interest. The Court will consider each factor in turn.

I. Likelihood of Success on the Merits

Caterpillar alleges four causes of action against the Defendants in its amended complaint: (1) trademark infringement pursuant to § 32(1) of the Lanham Act, 15 U.S.C. § 1114(1); (2) unfair competition pursuant to § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a); (3) trademark dilution pursuant to § 43(c) of the Lanham Act, 15 U.S.C. § 1125(c); and (4) deceptive trade practices pursuant to the Illinois Uniform Deceptive Trade Practices Act, 815 ILCS § 510, *et seq.* In its brief and during the hearing, Caterpillar stated that trademark infringement and trademark dilution comprise its two main causes of action.[182] Accordingly, the Court will limit its analysis on the likelihood of success prong to these two claims. . . .

[182]Caterpillar couches its claim of infringement under § 32(1) of the Lanham Act, 15 U.S.C. § 1114(1). However, the plain language of the 15 U.S.C. § 1114(1)(a) and (b) require that there be a "reproduction, counterfeit, copy, or colorable imitation of a registered mark" to maintain a suit under this section. This is not the case here. Defendants do not have any copies or reproductions of Caterpillar's trademarks in George 2, they have the actual genuine trademarks. This being the case, it appears that Caterpillar's claim is really one of unfair competition pursuant to § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), which provides as follows:

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b. Trademark Dilution

Caterpillar's other main cause of action involves the concept of trademark dilution. In the movie, the villainous Lyle dispatches his henchmen on Caterpillar bulldozers to raze Ape Mountain. During the scenes leading up to the battle and the battle itself, the narrator describes these bulldozers as "deleterious dozers," "maniacal machinery," and by other similar descriptions. Caterpillar is perhaps rightfully disturbed to see its products associated with the embodiment of evil that is Lyle, although the Court notes that Lyle's evil is of a spectacularly incompetent sort.

To prove dilution, Caterpillar must show that (1) it possesses a famous trademark; and (2) Defendant has caused dilution of the distinctive quality of the trademark. See 15 U.S.C. § 1125(c)(1). In considering whether a trademark is famous and distinctive, the Court should take into account the following factors: (A) the degree of inherent or acquired distinctiveness; (B) the duration and extent of use of the trademark in connection with the goods and services with which the mark is used; (C) the duration and extent of advertising and publicity of the trademark; (D) the geographical extent of the trading area in which the trademark is used; (E) the channels of trade for the goods and services with which the trademark is used; (F) the degree of recognition of the trademark in the trading area and channels of trade used by the trademarks' owner and the person against whom the injunction is sought; (G) the nature and extent of use of the same or similar trademarks by third parties; and (H) whether the trademark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register. 15 U.S.C. § 1125(c)(1)(A)-(H). There is no question in this case that the Caterpillar marks are famous. The key question is whether Defendants have diluted these trademarks through their use of them in their film.

As stated earlier, trademarks serve as an identifier of the source of the products, goods or services in question. See Scandia, 772 F.2d at 1429. That is not the only function that trademarks serve. A trademark can also attest to the quality of the product to which it is associated with. Id. at 1430. In this regard, there is a dynamic interaction between consumers and a trademark. A

(a) Civil Action

> (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--
>
> > (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, *or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person* ... shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.

(emphasis added). However, this change in statute and terminology does not alter the essential analysis, which is whether a likelihood of confusion exists. See James Burrough Ltd. v. Sign of Beefeater, 540 F.2d 266, 274 n. 16 (7th Cir.1976). "Trademark infringement is one form of unfair competition and the same set of facts support a suit for either." Id. (citations omitted). With this in mind and for the purposes of this Order, any reference by the Court to infringement means unfair competition as defined by 15 U.S.C. § 1125(a).

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trademark can lead consumers to expect a certain level of quality in the product to which it is affixed, presumably increasing sales or awareness of the product. Id. Conversely, when consumers purchase a subpar product bearing that trademark and are disappointed, they respond by devaluing the trademark. Id.

In general, dilution appears in two forms--blurring and tarnishment. Blurring is an attack on the identification properties of a trademark that may occur "where the defendant uses or modifies *the plaintiff's trademark* to identify *the defendant's goods and services,* raising the possibility that the mark will lose its ability as a unique identifier of the plaintiff's product." Deere and Co. v. MTD Products, Inc., 41 F.3d 39, 43 (2nd Cir.1994). This is not the case here and Caterpillar does not argue blurring before the Court.

Rather, Caterpillar alleges that the use of its products and trademarks in George 2 will tarnish the reputation of its business and products. *Deere and Co.* defines tarnishment in the following fashion:

> "Tarnishment" generally arises when the plaintiff's trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context likely to evoke unflattering thoughts about the owner's product. In such situations, the trademark's reputation and commercial value might be diminished because the public will associate the lack of quality or the lack of prestige in the defendant's goods with the plaintiff's unrelated goods, or because the defendant's use reduces the trademark's reputation and standing in the eyes of consumers as a wholesome identifier of the owner's products or services.

Id.

There is a threshold matter for the Court to consider before analyzing whether Defendants' use of Caterpillar's trademarks and products constitutes tarnishment. Defendants direct the Court's attention to a recently decided Supreme Court case, *Moseley v. v. Secret Catalogue, Inc.,* 537 U.S. 418, 123 S.Ct. 1115 (2003). *Moseley* states that a plaintiff seeking injunctive relief under § 43(c) of the Lanham Act must make a showing of actual dilution. Moseley, 123 S.Ct. at 1124, 123 S.Ct. 1115. However, this decision discussed only blurring, although it did leave open the question of whether tarnishment is within the scope of § 43(c). See id. Assuming that actual dilution must be shown for tarnishment cases, it is unclear what type of showing Caterpillar must make. *Moseley* makes it clear that plaintiff need not prove actual loss of sales or profits to satisfy this requirement. Id. Nor is direct evidence of dilution via consumer surveys necessary if actual dilution can be reliably proved through circumstantial evidence. Id. at 1125. Not surprisingly, there is nothing in the record to suggest that Caterpillar has actually lost sales or profits, nor is there any consumer survey evidence showing actual dilution; this is understandable since George 2 has not yet been released to the public in the United States. In any event, there is no basis in the record for the Court to find that there is a likelihood that Caterpillar will be able to prove actual dilution. To take a position one way or another would be an exercise in speculation.

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There is nothing in George 2 to even remotely suggest that Caterpillar products are shoddy or of low quality. And indeed, Caterpillar does not press this point. Rather, Caterpillar maintains that the portrayal of its products and trademarks in George 2 casts them in an unwholesome or unsavory light. The Court finds this argument to be unpersuasive.

There are several reasons for this, the first being context. As stated earlier, George 2 is a children's comedy that is really a live action cartoon. It borrows many motifs from its animated forebears such as belated recognition close-ups, collisions so bone-jarring that George's outline is left embedded into a tree and other such well established cartoon cliches that clearly establish the fantastic nature of the movie.

Caterpillar points out that the narrator at various stages describes its products as "deleterious dozers," and "maniacal machines." In a sense, Caterpillar is arguing that the narrator is giving anthropomorphic attributes to the bulldozers, thereby somehow implying that the machines are directly responsible for the attempted destruction of Ape Mountain. However, it is clear to even the most credulous viewer or child that the bulldozers in the movie are operated by humans and are merely inanimate implements of Lyle's environmentally unfriendly schemes. Accordingly, the Court does not find that Caterpillar is likely to succeed on its claims of trademark dilution.

II. Balancing of Harms

The Court has already determined that Caterpillar's likelihood of success on the merits of its unfair competition claim is slight. Under the sliding scale approach used in this circuit, Caterpillar's burden of showing that the balance of irreparable harms favoring it is therefore correspondingly heavier. See Ty, Inc., 237 F.3d at 895.

Should the Court deny the TRO, the public will be free to purchase George 2 on October 21, 2003. As a result, Caterpillar believes that its business reputation will be irreparably harmed. Irreparable harm is generally presumed in cases of trademark infringement and trademark dilution. See Eli Lilly, 233 F.3d at 469; see also Abbott Labs., 971 F.2d at 16 (regarding the "well-established presumption that injuries arising from Lanham Act violations are irreparable, even absent a showing of business loss"); American Dairy Queen Corp. v. New Line Productions, Inc., 35 F.Supp.2d 727, 729 (D.Minn.1998) (presuming irreparable harm by dilution). Additionally, it has been recognized that such irreparable harm is "not susceptible to adequate measurement for remedy at law...." See International Kennel Club, 846 F.2d at 1092.

As a practical matter, however, the harm to Caterpillar will be slight. It is incredible for this Court to imagine a consumer's decision to purchase Caterpillar's primary product line of heavy machinery and equipment, costing substantial sums of money, being affected after watching this film. The Court does not believe that the consumers of heavy machinery and equipment from which Caterpillar derives the bulk of its revenues would be susceptible to having their purchasing decisions affected by this movie. At best, there is the possibility that children

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traumatized by the use of Caterpillar bulldozers in this movie will refuse to purchase licensed Caterpillar goods such as "I love Cat Machines" videos. As stated earlier, Caterpillar derived approximately $850 million in sales and revenues from the sale of licensed goods in 2002, or less than five percent of its overall sales and revenues that year. It is unclear what percentage children's products comprise of that total. As a result, the Court cannot gauge the effect the release of George 2 might have on Caterpillar's children's merchandise.

Conversely, should the Court impose a TRO on the release of George 2, the Defendants would lose the benefits of its ongoing nationwide marketing campaign promoting the imminent release date of October 21, 2003. This would entail the disruption of simultaneous marketing campaigns mounted by retailers and other associated parties made in reliance of the October 21, 2003, release date. Re-release of George 2 would require mounting another, potentially more costly marketing campaign and would result in the loss of more time during the holiday season. Furthermore, the costs and time lost in making the alterations desired by Caterpillar will be substantial. As a result, the Court holds that granting the TRO will do more than merely preserve the status quo.

It is clear to the Court from the preceding that the balance of harms substantially favors Defendants. In reaching this conclusion, the Court must also consider the interest of the public and private interests. In this regard, the Court should attempt to "minimize the costs of being mistaken." In this regard, the Court holds that the costs of being mistaken are substantially higher for the Defendants than for Caterpillar. Accordingly, the Court denies Caterpillar's Motion for Temporary Restraining Order.

CONCLUSION

IT IS THEREFORE ORDERED that Plaintiff's Motion for Temporary Restraining Order [Doc. # 4] is DENIED. . . .

USAGE: On page 938, ADD the following material at the end of note 3:

Subsequently, Congress passed the Trademark Dilution Revision Act of 2006 that, among other changes in federal trademark dilution law, requires plaintiffs to prove merely a likelihood of dilution.

15 U.S.C. § 1125 (§ 43 of the Lanham Act)

* * * * *

(c) Dilution by blurring; dilution by tarnishment

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(1) Injunctive relief

Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

(2) Definitions

(A) For purposes of paragraph (1), a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner. In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following:

(i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.

(ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark.

(iii) The extent of actual recognition of the mark.

(iv) Whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

(B) For purposes of paragraph (1), “dilution by blurring” is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark. In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

(i) The degree of similarity between the mark or trade name and the famous mark.

(ii) The degree of inherent or acquired distinctiveness of the famous mark.

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(iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.

(iv) The degree of recognition of the famous mark.

(v) Whether the user of the mark or trade name intended to create an association with the famous mark.

(vi) Any actual association between the mark or trade name and the famous mark.

(C) For purposes of paragraph (1), "dilution by tarnishment" is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.

(3) Exclusions

The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

(A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with–

(i) advertising or promotion that permits consumers to compare goods or services; or

(ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

(B) All forms of news reporting and news commentary.

(C) Any noncommercial use of a mark.

(4) Burden of proof

In a civil action for trade dress dilution under this chapter for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that–

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(A) the claimed trade dress, taken as a whole, is not functional and is famous; and

(B) if the claimed trade dress includes any mark or marks registered on the principal register, the unregistered matter, taken as a whole, is famous separate and apart from any fame of such registered marks.

(5) Additional remedies

In an action brought under this subsection, the owner of the famous mark shall be entitled to injunctive relief as set forth in section 1116 of this title. The owner of the famous mark shall also be entitled to the remedies set forth in sections 1117(a) and 1118 of this title, subject to the discretion of the court and the principles of equity if–

(A) the mark or trade name that is likely to cause dilution by blurring or dilution by tarnishment was first used in commerce by the person against whom the injunction is sought after October 6, 2006; and

(B) in a claim arising under this subsection–

(i) by reason of dilution by blurring, the person against whom the injunction is sought willfully intended to trade on the recognition of the famous mark; or

(ii) by reason of dilution by tarnishment, the person against whom the injunction is sought willfully intended to harm the reputation of the famous mark.

(6) Ownership of valid registration a complete bar to action

The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register under this chapter shall be a complete bar to an action against that person, with respect to that mark, that–

(A)(i) is brought by another person under the common law or a statute of a State; and

(ii) seeks to prevent dilution by blurring or dilution by tarnishment; or

(B) asserts any claim of actual or likely damage or harm to the distinctiveness or reputation of a mark, label, or form of advertisement.

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(7) Savings clause

Nothing in this subsection shall be construed to impair, modify, or supersede the applicability of the patent laws of the United States.

[13] Limitations/Defenses

[e] First Amendment

USAGE: On page 1000, ADD the following case after *Mattel, Inc. v. MCA Records, Inc.*:

LOUIS VUITTON MALLATIER S.A. v. WARNER BROS. ENTERTAINMENT INC.
868 F. Supp. 2d 172(S.D.N.Y. 2012)

ANDREW L. CARTER, JR., District Judge.

On December 22, 2011, Louis Vuitton Malletier, S.A. ("Louis Vuitton") filed a complaint against Warner Bros. Entertainment Inc. ("Warner Bros."), focusing on Warner Bros.' use of a travel bag in the film "The Hangover: Part II" that allegedly infringes upon Louis Vuitton's trademarks. Plaintiff's complaint asserts three claims for relief: (1) false designation of origin/unfair competition in violation of § 43(a) of the Lanham Act; (2) common law unfair competition; and (3) trademark dilution in violation N.Y. Gen. Bus. Law 360–*l*. On March 14, 2012, defendant filed a motion to dismiss the complaint with prejudice for failure to state a claim upon which relief can be granted pursuant to Fed.R.Civ.P. 12(b). The court has fully considered the parties' arguments, and for the reasons set forth below, defendant's motion is granted.

BACKGROUND

Louis Vuitton is one of the premier luxury fashion houses in the world, renowned for, among other things, its high-quality luggage, trunks, and handbags. (Compl.¶ 12.) Louis Vuitton's principle trademark is the highly-distinctive and famous Toile Monogram. (*Id.* at ¶ 14.) Registered in 1932, this trademark, along with its component marks (collectively, the "LVM Marks"), are famous, distinctive, and incontestable. (*Id.*); *see Louis Vuitton Malletier, S.A. v. LY USA,* No. 06–cv–13463 (AKH), 2008 WL 5637161, at *2 (S.D.N.Y. Oct. 3, 2008).Louis Vuitton has invested millions of dollars and decades of time and effort to create a global recognition that causes consumers to associate the LVM Marks with high-quality, luxury goods emanating exclusively from Louis Vuitton (*Id.* at ¶¶ 1820); *see Louis Vuitton Malletier v. Dooney & Bourke, Inc.,* 454 F.3d 108, 112 (2d Cir.2006) (describing Louis Vuitton's business model, trademarks, and marketing expenditures).

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Warner Bros. is one of the oldest and most respected producers of motion pictures and television shows in the country and the world. (*Id.* at ¶¶ 28–29.) In the summer of 2011, Warner Bros. released "The Hangover: Part IF" ("the Film"), the sequel to the 2009 hit bachelor-party-gone-awry-comedy "The Hangover." The Film has grossed roughly $580 million globally as of the date of the Complaint, becoming the highest-gross R-rated comedy of all time and one of the highest grossing movies in 2011. (*Id.* at ¶ 31.)

Diophy is a company that creates products which use a monogram design that is a knock-off of the famous Toile Monogram (the "Knock–Off Monogram Design"). (*Id.* at ¶ 24.) The Diophy products bearing the Knock-Off Monogram Design have been extensively distributed throughout the United States, causing enormous harm to Louis Vuitton. (*Id.* at ¶ 27.) Despite the inferior quality of Diophy's products, demand for its products bearing the Knock–Off Monogram Design remains high because they are far less expensive than genuine Louis Vuitton products. (*Id.*)

A. The Airport Scene

As alleged in the complaint, in one early scene in the Film the "four main characters in Los Angeles International Airport before a flight to Thailand for the character Stu's bachelor party and wedding." (*Id.* at ¶ 32.) "[A]s the characters are walking through the airport, a porter is pushing on a dolly what appears to be Louis Vuitton trunks, some hard-sided luggage, and two Louis Vuitton Keepall travel bags." (*Id.* at ¶ 33.) Alan, one of the characters, is carrying what appears to be a matching over-the-shoulder Louis Vuitton "Keepall" bag, but it is actually an infringing Diophy bag.[183] (*Id.*) Moments later, Alan is seen sitting on a bench in the airport lounge and places his bag (i.e., the Diophy bag) on the empty seat next to him. (*Id.* at ¶ 34.) Stu, who is sitting in the chair to the other side of the bag, moves the bag so that Teddy, Stu's future brother-in-law, can sit down between him and Alan. (*Id.*) Alan reacts by saying: "Careful that is ... that is a Lewis Vuitton." (*Id.*) No other reference to Louis Vuitton or the Diophy bag is made after this point.

After the movie was released in theaters, Louis Vuitton sent Warner Bros.' a cease and desist letter noting its objection to the use of the Diophy bag in the Film. (*Id.* at ¶¶ 38–39). Despite being informed of its objection, on December 6, 2011, Warner Bros. released the Film in the United States on DVD and Blu–Ray. (*Id.* at ¶ 41.) The complaint alleges that "many consumers believed the Diophy [b]ag" used in the Film "was, in fact, a genuine Louis Vuitton," and that Louis Vuitton consented to Warner Bros.' "misrepresentation" that the Diophy bag was a genuine Louis Vuitton product. (*Id.* at ¶¶ 36, 45.) Louis Vuitton claims that its harm has been "exacerbated by the prominent use of the aforementioned scenes and the LVM Marks in commercials and advertisements for the [F]ilm," and that Alan's "Lewis Vuitton" line has "become an oft-repeated and hallmark quote from the movie." (*Id.* at ¶ 44.) Louis Vuitton attaches to the complaint, as Exhibit E, what it claims are "[r]epresentative Internet references and

[183]Warner Bros. does not dispute for the purposes of this motion that Louis Vuitton's representations with respect to the source of the bag are accurate.

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blog excerpts" demonstrating that consumers mistakenly believe that the Diophy bag is a genuine Louis Vuitton bag. (*Id.* at ¶ 45.)[184]

B. The Present Motion

It is instructive to consider what this case is about and what it is not. Louis Vuitton does not object to Warner Bros.' unauthorized use of the LVM Marks or reference to the name Louis Vuitton in the Film. Nor does Louis Vuitton claim that Warner Bros. misled the public into believing that Louis Vuitton sponsored or was affiliated with the Film. Rather, Louis Vuitton contends that Warner Bros. impermissibly used a third-party's bag that allegedly infringes on the LVM Marks.[185] According to the complaint, "[b]y using the infringing Diophy [b]ag and affirmatively misrepresenting that it is a Louis Vuitton bag, the public is likely to be confused into believing that the Diophy [b]ag is an authentic Louis Vuitton product and that Louis Vuitton has sponsored and approved Warner Bros.' use and misrepresentation of the infringing Diophy [b]ag as a genuine product of Louis Vuitton in *The Hangover: Part II."* (Compl.¶ 35.) The complaint further alleges that "Warner Bros.' use and misrepresentation of the Diophy [b]ag bearing the Knock–Off Monogram Design as an authentic Louis Vuitton bag is likely to blur the distinctiveness of the LVM Marks" and "tarnish the LVM Marks by associating Louis Vuitton with the poor quality and shoddy reputation of the cheap products bearing the Knock–Off Monogram Design." (*Id.* at ¶¶ 46–47.) On the basis of Warner Bros.' use of the allegedly infringing Diophy bag in the Film, Louis Vuitton asserts three causes of action: (1) false designation of origin/unfair competition in violation of 15 U.S.C. § 1125(a), (2) common law unfair competition,[186] and (3) trademark dilution in violation of New York General Business Law § 360–*l.* (*Id.* at ¶¶ 5069.)

Warner Bros. now moves to dismiss the complaint in its entirety on the ground that its use of the Diophy bag in the Film is protected by the First Amendment under the framework established by *Rogers v. Grimaldi,* 875 F.2d 994 (2d Cir.1989).[187]

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[184]Although the Court takes as true the allegations of the complaint, none of the Internet references and blog excerpts attached to the complaint in Exhibit E show that anyone is confused or mistaken into believing that the Diophy bag was a real Louis Vuitton bag. In one blog post, a commenter notes that the luggage on the cart is real, but the bag carried by Alan is a "replica." Although a few other posts and comments refer to the bags generally as Louis Vuitton bags, no one else specifically writes about Alan's bag, let alone its authenticity.

[185]Warner Bros. refers to this bag a prop bag throughout its moving papers, and I see no reason why this characterization is not apt.

[186]The standards for § 43(a) claims of the Lanham Act and common law unfair competition claims "are almost indistinguishable." *Tri–Star Pictures. Inc. v. Unger,* 14 F.Supp.2d 339, 363 (S.D.N.Y.1998); *Louis Vuitton Malletier v. Donkey & Bourke, Inc.,* 561 F.Supp.2d 368, 381 (S.D.N.Y.2008) (noting that the elements of unfair competition "mirror" the Lanham Act, except that plaintiffs must additionally show bad faith on the state law claim).

[187]In the alternative, Warner Bros. contends that dismissal of these claims is mandated by basic principles of trademark law: specifically, that Louis Vuitton fails to allege confusion related to consumer purchasing decisions; that Warner Bros. has not engaged in any actionable "trademark use" of Louis Vuitton's mark; and the accused use of Louis Vuitton's marks is legally *de minimis.* (Memorandum of Law in Support of Motion to Dismiss ("Mot.") at 3.) Because the Court agrees that the use of the Diophy bag is protected by the First Amendment, and this ruling disposes of the state-law claims premised on the same conduct, the Court need not address these arguments.

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DISCUSSION

* * * * *

B. Lanham Act claim

To state a claim for trademark infringement under the Lanham Act, in addition to showing that it has a valid mark, the plaintiff must show that the defendant's use of its mark is likely to cause “an appreciable number of ordinarily prudent purchasers” “confusion as to the origin, sponsorship, or approval” of the defendant's product .[188] *Savin Corp. v. Savin Group,* 391 F.3d 439, 456 (2d Cir.2004) (quotation omitted); 15 U.S.C. § 1125(a)(1)(A). Courts look to the eight factor test first articulated in *Polaroid Corp. v. Polaroid Elecs. Corp.,* 287 F.2d 492, 495 (2d Cir.1961), to determine whether there is a likelihood of confusion.[189] When applying these factors, courts should focus “on the ultimate question of whether consumers are likely to be confused.” *Charles Atlas, Ltd. v. DC Comics, Inc.,* 112 F. Supp. 2d 330, 339 (S.D.N.Y.2000) (quoting *Nabisco, Inc. v. Warner–Lambert Co.,* 220 F.3d 43, 45–46 (2d Cir.2000)).

1. *First Amendment*

In *Rogers v. Grimaldi,* the Second Circuit held that the Lanham Act is inapplicable to “artistic works” as long as the defendant's use of the mark is (1) “artistically relevant” to the work and (2) not “explicitly misleading” as to the source or content of the work.[190] 875 F.2d at 999; *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.,* 996 F.2d 1366, 1379 (2d Cir.1993). Louis Vuitton does not dispute that Warner Bros.' challenged use of the mark is noncommercial, placing it firmly within the purview of an “artistic work” under *Rogers. See Joseph Burstyn, Inc. v. Wilson,* 343 U.S. 495, 502 (1952) (holding that motion pictures are protected speech); *see also United States v. United Foods, Inc.,* 533 U.S. 405, 409 (2001) (defining “commercial speech” as “speech that does no more than propose a commercial transaction”).

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[188]There is no dispute in this case that Louis Vuitton has a valid mark.

[189]The *Polaroid* factors are: (1) the strength of the senior mark; (2) the degree of similarity between the two marks; (3) the proximity of the products; (4) the likelihood that the prior owner will “bridge the gap”; (5) actual confusion; (6) the defendant's good faith (or bad faith) in adopting its own mark; (7) the quality of defendant's product; and (8) the sophistication of the buyers. *Polaroid,* 287 F.2d at 495.

[190]The court in *Rogers* applied this test to the use of a trademark in a movie title, but courts have extended it to the content of expressive works as well. *Cliffs Notes, Inc. v. Bantam Doubleday Dell Publ'g Group, Inc.,* 886 F.2d 490, 495 (2d Cir.1989) (“[T]he *Rogers* balancing approach is generally applicable to Lanham claims against works of artistic expression.”); *see also E.S.S. Entm't 2000, Inc. v. Rock Star Videos Inc.,* 547 F.3d 1095, 1099 (9th Cir.2008) (“Rock Star Videos”) (“[T]here is no principled reason why [the *Rogers* test] ought not also apply to the use of a trademark in the body of the work.”) (citing *Mattel. Inc. v. Walking Mountain Prods.,* 353 F.3d 792, 809 n. 17 (9th Cir.2003)). The parties do not dispute the application of *Rogers* to the content of a movie.

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Louis Vuitton objects to the present motion on the following grounds: (1) whether the use was “artistically relevant” is an issue of fact that requires discovery; (2) the “explicitly misleading” prong is not limited to confusion as to the source or content of the defendant's work; (3) Warner Bros. is not afforded First Amendment protection for using an infringing product; and (4) disposing this case on a motion to dismiss is otherwise inappropriate.

a. Artistic Relevance

The threshold for “artistic relevance” is purposely low and will be satisfied unless the use “has *no* artistic relevance to the underlying work *whatsoever.” Rogers,* 875 F.2d at 999 (emphasis added); *see also Rock Star Videos Inc.,* 547 F.3d at 1100 (holding that, under *Rogers,* “the level of relevance merely must be above zero”); *Dillinger, LLC v. Elec. Arts Inc.,* No. 09–cv–1236 (JMS)(DKL), 2011 WL 2457678, at *6 (S.D. Ind. June 16, 2011) (“[I]t is not the role of the Court to determine how meaningful the relationship between a trademark and the content of a literary work must be; consistent with *Rogers,* any connection whatsoever is enough.”). The artistic relevance prong ensures that the defendant intended an artistic--i.e., noncommercial--association with the plaintiff's mark, as opposed to one in which the defendant intends to associate with the mark to exploit the mark's popularity and good will. *See Rogers,* 875 F.2d at 1001 (finding that the defendant satisfied the artistic relevance prong where its use of the trademark was “not arbitrarily chosen just to exploit the publicity value of [the plaintiffs' mark] but instead ha[d] genuine relevance to the film's story”).

Warner Bros.' use of the Diophy bag meets this low threshold. Alan's terse remark to Teddy to “[be][c]areful” because his bag “is a Lewis Vuitton” comes across as snobbish only because the public signifies Louis Vuitton-to which the Diophy bag looks confusingly similar-with luxury and a high society lifestyle. (*See* Compl. ¶ 20.) His remark also comes across as funny because he mispronounces the French “Louis” like the English “Lewis,” and ironic because he cannot correctly pronounce the brand name of one of his expensive possessions, adding to the image of Alan as a socially inept and comically misinformed character.[191] This scene also introduces the comedic tension between Alan and Teddy that appears throughout the Film.

Louis Vuitton contends that the Court cannot determine that the use of the Diophy bag was artistically relevant until after discovery. Specifically, Louis Vuitton maintains that it should be able to review the script and depose the Film's creators to determine whether Warner Bros. intended to use an authentic Louis Vuitton bag or Diophy's knock-off bag. (Memorandum of Louis Vuitton Malletier, S.A. in Opposition to Warner Bros.' Motion to Dismiss (“Opp.”) at 11.) However, the significance of the airport scene relies on Alan's bag--authentic or not--looking like a Louis Vuitton bag. Louis Vuitton does not dispute this was Warner Bros.' intention, and

[191]For example, while at the wedding rehearsal dinner in Thailand, Alan unexpectedly decides to give a toast to Stu, ostensibly to restore his buddy's good image after the bride's father relentlessly mocked Stu in front of all the guests by likening him to, among other things, “soft white rice in lukewarm water.” In a complete non sequitur, Alan begins his toast by offering a few “fun facts” about the population and chief exports of Thailand, which he naturally pronounces as “Thigh-land.”

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therefore the discovery it seeks is irrelevant. The Court is satisfied that Warner Bros.' use of the Diophy bag (whether intentional or inadvertent) was intended to create an artistic association with Louis Vuitton, and there is no indication that its use was commercially motivated. *See Rogers,* 875 F.2d at 1001.[192]

Accordingly, the Court concludes that the use of the Diophy bag has some artistic relevance to the plot of the Film.[193]

b. Explicitly Misleading

Since using the Diophy bag has some relevance to the Film, Warner Bros.' use of it is unprotected only if it "explicitly misleads as to the source or the content of the work." *Rogers,* 875 F.2d at 999. The Second Circuit has explained that the relevant question is whether the defendant's use of the mark "is misleading in the sense that it induces members of the public to believe [the work] was prepared or otherwise authorized" by the plaintiff. *Twin Peaks,* 996 F.2d at 1379. The explicitly misleading determination "must be made, in the first instance, by application of the venerable *Polaroid* [likelihood of confusion] factors." *Id.* (citing *Cliffs Notes,* 886 F.3d at 495 n. 3). Only a "particularly compelling" finding of likelihood of confusion can overcome the First Amendment interests. *Id.*

Rogers and the cases adopting its holding have consistently framed the applicable standard in terms of confusion as to the defendant's artistic work. *See Rogers,* 875 F.2d at 1001 ("The title 'Ginger and Fred' contains no explicit indication that Rogers endorsed the *[defendant's] film* or had a role in producing it.") (emphasis added); *see also, e.g., Walking Mountain,* 353 F.3d at 807 ("The photograph titles do not explicitly mislead as to [plaintiff] Mattel's sponsorship of *[defendant's] works."*) (emphasis added); *Parks,* 329 F.3d at 459 ("[T]he title "Rosa Parks"

[192]For this reason, the present case is distinguishable from the cases cited by Louis Vuitton. In those cases, the court disbelieved the defendant's claim that a communicative message was intended and/or expressed concern that the mark's use was commercially motivated. *See Am. Dairy Queen Corp. v. New Line Prods., Inc.,* 35 F. Supp. 2d 727, 734 (D. Minn.1998) (defendant movie producers' position was that their proposed movie title was not "designed to evoke or even suggest any relationship at all to [plaintiff's] trademarked name or any of its products"); *Sherwood 48 Assocs. v. Sony Corp. of Am.,* 76 Fed. Appx. 389, 392 (2d Cir.2003) (plaintiffs alleged that the defendant altered the plaintiffs' marks "to generate revenue for their film," and the defendant had not pled that the alteration had "at least some artistic relevance in order to assert a valid First Amendment defense"); *Parks v. LaFace Records,* 329 F.3d 437, 453 (6th Cir.2003) (finding that "reasonable persons could conclude that there is no relationship of any kind between Rosa Park's name and the content of the song," and noting that the "marketing power" of the song's title "unquestionably enhanced the song's potential sale to the consuming public").

[193]Louis Vuitton cites three cases for the proposition that artistic relevance cannot be decided on a motion to dismiss, none of which actually hold this. (Opp. at 9.) In *Burck v. Mars, Inc.,* the court addressed whether the defendant's use of the mark was a parody and entitled to the *Rogers* protection as an artistic work, not whether defendant had met the relevance prong. 571 F.Supp.2d 446, 456–57 (S.D.N.Y.2008). In *DeClemente v. Columbia Pictures Indus., Inc.,* the court expressly stated that that the parties did not dispute that the film title had "considerable artistic relevance," and so the court did not address that issue. 860 F.Supp. 30, 51 (E.D.N.Y.1994). In *Groden v. Random House, Inc.,* the court noted that ruling for the plaintiff would raise free speech issues, but it too did not at all address the artistic relevance prong. 61 F.3d 1045, 1052 (2d Cir.1995).

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makes no explicit statement that the *[defendant's] work* is about that person in any direct sense.") (emphasis added); *Westchester Media v. PRL USA Holdings, Inc.,* 214 F.3d 658, 668 (5th Cir.2000) (finding that consumers could plausibly believe "that [*defendant's magazine*] is associated with [plaintiff's goods]") (emphasis added); *Twin Peaks,* 996 F.2d at 1379 ("The question then is whether the title is misleading in the sense that it induces members of the public to believe *[defendant's] Book* was prepared or otherwise authorized by [the plaintiff].") (emphasis added); *Cliffs Notes,* 866 F.2d at 495 ("[W]e do not believe that there is a likelihood that an ordinarily prudent purchaser would think that *[defendant's book]* is actually a study guide produced by appellee.") (emphasis added); *Dillinger,* 2011 WL 2457678, at *6 (stating the legal issue as whether "[plaintiff's] label [is] explicitly misleading as to the source and content of the *[defendant's] games"*) (emphasis added).

It is not a coincidence that courts frame the confusion in relation to the defendant's artistic work, and not to someone else's. This narrow construction of the Lanham Act accommodates the public's interest in free expression by restricting its application to those situations that present the greatest risk of consumer confusion: namely, when trademarks are used to "dupe [ ] consumers into buying a product they mistakenly believe is sponsored by the trademark owner." *Rock Star Videos,* 547 F.3d at 1100 (quoting *Walking Mountain,* 353 F.3d at 806). When this concern is present it will generally outweigh the public's interest in free expression. *See Rogers,* 875 F.2d at 1000 ("If such explicit references [signifying endorsement] were used in a title and were false as applied to the underlying work, the consumer's interest in avoiding deception would warrant application of the Lanham Act, even if the title had some artistic relevance to the work."). However, if a trademark is not used, "in any direct sense," to designate the source or sponsorship of the defendant's work, then "the consumer interest in avoiding deception is too slight to warrant application of the Lanham Act." *Syler v. Woodruff,* 610 F. Supp. 2d 256, 266 (S.D.N.Y.2009) (quoting *Rogers,* 875 F.2d at 1000); *see also* 4 McCarthy on Trademarks and Unfair Competition § 23:11 .50 (4th ed.) ("[I]f the defendant does not use the accused designation as defendant's own identifying trademark, then confusion will usually be unlikely. Then there are not the requisite two similar marks confusing the viewer into believing that the two marks identify a single source.").

Louis Vuitton contends that the explicitly misleading prong is not limited to confusion as to the source or content of the Film, but rather, extends to confusion as to the source or content of a third-party's goods. (Opp. at 12.) Curiously, Louis Vuitton makes this argument without addressing the clear rule set forth in *Twin Peaks* and instead relies on Dallas Cowboys *Cheerleaders, Inc. v. Pussycat Cinema, Ltd.,* 604 F.2d 200, 205 (2d Cir.1979), a decision whose First Amendment approach *Rogers* expressly declined to follow and which has been criticized by other courts. *Rogers,* 875 F.2d at 999 n. 4; *see Parks,* 329 F.3d at 449–50 (discussing the problems that *Rogers* and other courts have found with the *Dallas Cowboys Cheerleaders* approach to First Amendment issues). Notwithstanding the inapplicability of *Dallas Cowboys Cheerleaders* to noncommercial speech, like the speech at issue here, that case does not stand for the proposition Louis Vuitton claims it does.

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In *Dallas Cowboys Cheerleaders,* the Second Circuit affirmed a preliminary injunction barring the defendants from exhibiting or distributing a pornographic film that depicted the plaintiff's trademarked cheerleader uniforms. 604 F.2d 200. There, the court rejected the defendants' argument that the Lanham Act only prevents confusion as to the origin of the film, and ruled that the Act also prevents confusion that "the mark's owner sponsored or otherwise approved the use of the trademark." *Id.* at 205. Although Louis Vuitton latches onto the "approved the use of the trademark" language, when read in the context of the decision it is clear that the court was referring to confusion that the mark's owner sponsored or approved of the film, for this was the precise type of confusion the court found actionable: "Plaintiff expects to establish on trial that the public may associate it with defendants' movie and be confused into believing that plaintiff sponsored the movie, provided some of the actors, licensed defendants to use the uniform, or was in some other way connected with the production." *Id.*[194]

The other cases Louis Vuitton cites in support of this position are similarly misplaced, because those cases merely cite to the same legal principle that *Dallas Cowboys Cheerleaders* stands for: namely, that the Lanham Act recognizes confusion as to the sponsorship of the defendant's product (in addition to confusion as to the source of it). *See Famous Horse Inc. v. 5th Avenue Photo Inc.,* 624 F.3d 106, 109 (2d Cir.2010) (finding that the complaint adequately alleged confusion where the defendant implied that plaintiff "was a satisfied customer" of the defendant's goods and services); *Pirone v. MacMillian,* 894 F.2d 579, 585 (2d Cir.1990) (agreeing with the district court that plaintiff "cannot possibly show confusion as to source or sponsorship of the [defendant's] calendar") (internal quotation marks omitted). Additionally, neither of these cases dealt with noncommercial speech.[195]

Here, the complaint alleges two distinct theories of confusion: (1) that consumers will be confused into believing that the Diophy bag is really a genuine Louis Vuitton bag; and (2) that Louis Vuitton approved the use of the Diophy bag in the Film. However, even drawing all reasonable inferences in the light most favorable to Louis Vuitton, as the Court is required to do, neither of these allegations involves confusion as to Warner Bros.' artistic work. Specifically, Louis Vuitton does not allege that Warner Bros. used the Diophy bag in order to mislead consumers into believing that Louis Vuitton produced or endorsed the Film. Therefore, the

[194]Other courts in this circuit discussing *Dallas Cowboys Cheerleaders* have interpreted it this way as well. *See, e.g., Courtenay Commc'ns Corp. v. Hall,* 334 F.3d 210, 213 n. 1 (2d Cir.2003) (quoting the same language above in finding merit with plaintiff's allegation that defendant used the plaintiff's mark to claim that plaintiff had endorsed defendant's marketing website); *Hormel Foods Corp. v. Jim Henson Prods., Inc.,* 73 F.3d 497, 502 (2d Cir.1996) (citing *Dallas Cowboys Cheerleaders* for the proposition that plaintiff's trademark is protected against "confusion as to plaintiff's sponsorship or endorsement of the [defendant's] junior mark").

[195]Louis Vuitton's claim that *Rogers* itself also supports its argument because the court there referred to "source" and "content" confusion is puzzling. (Opp. at 13.) The source/content dichotomy refers to confusion about the source of the work or confusion about the content of the work. *See Rogers,* 875 F.2d at 1001 ("[Plaintiff] claims there is a likelihood of confusion that (1) Rogers produced, endorsed, sponsored, or approved *the film,* and/or (2) *the film* is about Rogers and Astaire ....") (emphasis added). Hence, *Rogers* supports Warner Bros .' position that the confusion (of source or content) refers to the defendant's film.

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complaint fails to even allege the type of confusion that could potentially overcome the *Rogers* protection.

Even if the Court assumes, *arguendo,* that Louis Vuitton has stated a cognizable claim of confusion, its claim would fail anyway. The Second Circuit in *Rogers* emphasized that when First Amendment values are involved, courts should narrowly construe the Lanham Act and "weigh the public interest in free expression against the public interest in avoiding customer confusion." *Cliff Notes,* 886 F.2d at 494 (citing *Rogers,* 875 F.2d at 989–99); *see also Univ. of Alabama Bd. of Trustees v. New Life Art, Inc.,* ___ F.3d ___, No. 09–cv–16412, 2012 WL 2076691, at *7 (11th Cir. June 11, 2012); *Rock Star Videos,* 547 F.3d at 1099. As such, where an expressive work is alleged to infringe a trademark, "the likelihood of confusion must be *particularly compelling." Twin Peaks,* 996 F.2d at 1379 (emphasis added); *see also Westchester Media,* 214 F.3d at 665.

The Court concludes that Louis Vuitton's allegations of confusion are not plausible, let alone "particularly compelling." First, it is highly unlikely that an appreciable number of people watching the Film would even notice that Alan's bag is a knock-off. *Cf. Gottlieb Dev. LLC v. Paramount Pictures Corp.,* 590 F. Supp. 2d 625, 634–35 (S.D.N.Y.2008) (Chin, J.) (no confusion of plaintiff sponsoring defendant's film where "it would be difficult for even a keen observer to pick out [plaintiff's] trademark" since "it appears in the background of the scene" and "occupies only a minute fraction [of] the frame for three segments lasting approximately three seconds each"). In this regard, Louis Vuitton is trying to have it both ways: arguing that the Diophy bags are so similar as to create consumer confusion but at the same time so obviously dissimilar that someone watching the Film would notice the slightly different symbols used on the Diophy bag. Yet, the Diophy bag appears on screen for no more than a few seconds at a time and for less than thirty seconds in total, and when it is on screen, it is usually in the background, out of focus, or partially obscured by other things. Like the appearance of the plaintiff's mark in *Gottlieb,* the Court finds that the difference between the authentic and knock-off bag is so difficult to even notice, that a claim of confusion under the Lanham Act "is simply not plausible." *Gottlieb,* 590 F.Supp.2d at 635. Furthermore, Louis Vuitton's position assumes that viewers of the Film would take seriously enough Alan's statements about designer handbags (even about those he does not correctly pronounce) that they would attribute his views to the company that produced the Film.[196] This assumption is hardly conceivable, and it does not cross the line into the realm of plausibility. *See Twombly,* 550 U.S. at 570. Lastly, Louis Vuitton is objecting to a statement made by a fictional character in a fictional movie, which it characterizes as an affirmative misrepresentation. However, this assumes that the fictional Alan character knew that his bag was a knock-off; otherwise, he would simply be (innocently) misinformed about the origin of his bag. For these reasons, the Court concludes that the likelihood of confusion is at best minimal, and when balanced against the First Amendment concerns implicated here, it is not nearly significant enough to be considered "particularly compelling." *See Twin Peaks,* 996 F.2d at 1379.

[196]Moreover, Louis Vuitton does not cite to any legal authority for the proposition that a reference to a trademark made by "a fictional character in a creative work constitutes a legal representation of origin by the creators of the work." (Mot. at 3.)

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Under the expansive view Louis Vuitton advances, Warner Bros. would be liable--not for identifying its own product with the LVM Marks--but for identifying the Diophy bag with the LVM Marks or, alternatively, for implying that Louis Vuitton approved the use of the Diophy bag in the Film. The public's interest in avoiding consumer confusion (assuming the Lanham Act covers this type of confusion) is not so great as to overcome the significant threats to free expression from holding Warner Bros. liable for its noncommercial speech in this case. This is especially true since the relevant confusion is caused by a third-party—one with whom Warner Bros. has no relationship whatsoever.[197] Any confusion created by Warner Bros. is at most indirect and thus "too slight to warrant application of the Lanham Act." *See Syler,* 610 F. Supp. 2d at 266 (quoting *Rogers,* 875 F.2d at 1000).[198]

Louis Vuitton maintains that the *Rogers* test cannot be assessed on a motion to dismiss. (Opp. at 14–18.) The Court disagrees. Although many courts have considered the *Rogers* test on a summary judgment motion, not on a motion to dismiss, the circuit has never stated that a court cannot properly apply the *Rogers* test (or the likelihood of confusion factors) on a motion to dismiss. In fact, the Second Circuit has suggested that it would be appropriate "where the court is satisfied that the products or marks are so dissimilar that no question of fact is presented." *Pirone,* 894 F.2d at 584 (affirming grant of summary judgment); *cf. Peter F. Gaito Architecture, LLC v. Simone Dev. Corp.,* 602 F.3d 57, 64 (2d Cir.2010) (holding that no discovery or fact-finding is necessary to consider whether works are "substantially similar" under copyright law where all that is required is a visual comparison of the works). In the context of a motion to dismiss, courts have disposed of trademark claims where simply looking at the work itself, and the context in which it appears, demonstrates how implausible it is that a viewer will be confused into believing

[197]The notion that a defendant must have a connection to the sale of the confusingly similar goods in order to be held liable under the Lanham Act is reflected in the doctrine of contributory trademark infringement, which requires that the defendant "intentionally induces another to infringe a trademark," or "continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." *Tiffany (NJ) Inc. v. eBay Inc.,* 600 F.3d 93, 104 (2d Cir.2010) (quoting *Inwood Labs. v. Ives Labs.,* 456 U.S. 844, 102 S.Ct. 2182, 72 L.Ed.2d 606 (1982)). The Court is not aware of any case in which this doctrine has been applied to noncommercial speech, and Louis Vuitton does not claim it applies here.

[198]This limitation on the reach of the Lanham Act is consistent with the text of § 43(a)(1)(A), which expressly requires the "confusion," "mistake," or "dece[ption]" to be "of [the defendant's] goods, services, or commercial activities," and with the core concern of trademark law, which is confusion related to purchasing decisions and not confusion generally. *See Lang v. Ret. Living Pub. Co., Inc.,* 949 F.2d 576, 582–83 (2d Cir.1991); *see also Dastar Corp. v. Twentieth Century Fox Film Corp.,* 539 U.S. 23, 32–33 (2003) ("The words of the Lanham Act should not be stretched to cover matters that are typically of no consequence to purchasers."). That is why the Act generally applies in a commercial context to "a seller [who seeks] to pass of his goods as the goods of another," and not to a defendant who has no connection to the sale of the confusingly similar goods-especially one engaged in expressive speech. *Lang,* 949 F.2d at 582–83; *see also 1–800 Contacts, Inc. v. WhenU.Com, Inc.,* 414 F.3d 400, 406–07 (2d Cir.2005) (holding that a trademark infringement claim pursuant to 15 U.S.C. § 1114 or § 1125(a)(1) requires a plaintiff to establish, *inter alia,* "that the defendant used the mark ... *in connection with the sale or advertising of goods or services."*) (emphasis added) (internal citations, ellipses, and quotation marks omitted); *Bosely Medical Institute, Inc. v. Kremer,* 403 F.3d 672, 676 (9th Cir.2005) ("Infringement claims are subject to a commercial use requirement.").

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that the plaintiff endorsed the defendant's work (and without relying on the likelihood of confusion factors to do so).[199] *See, e.g., Stewart Surfboards, Inc. v. Disney Book Group, LLC,* No. 10–cv–2982, slip. op. (C.D. Cal. May 11, 2011) (no likelihood of confusion that readers would believe that plaintiff surfboard manufacturer endorsed a Hannah Montana book because one of its surfboards appeared on the back cover); *Gottlieb,* 590 F. Supp. 2d at 630 (no likelihood of confusion that viewers would believe plaintiff pinball machine owner endorsed the movie "What Women Want" because it appeared in the background of a few scenes); *Burnett v. Twentieth Century Fox Film Corp.,* 491 F. Supp. 2d 962, 973 (C.D. Cal.2007) (no likelihood of confusion that viewers would believe plaintiff Carol Burnett endorsed a Family Guy sketch making fun of her); *cf. Wham–O, Inc. v. Paramount Pictures Corp.,* 286 F. Supp. 2d 1254 (N.D. Cal.2003) (denying preliminary injunction without discovery where no likelihood of confusion that viewers would believe that plaintiff maker of the Slip 'N Slide endorsed the movie "Dickie Roberts: Former Child Star" because the protagonist (mis)used the toy water slide in one scene of the movie).

Here, there is no likelihood of confusion that viewers would believe that the Diophy bag is a real Louis Vuitton bag just because a fictional character made this claim in the context of a fictional movie. Neither is there a likelihood of confusion that this statement would cause viewers to believe that Louis Vuitton approved of Warner Bros.' use of the Diophy bag. In a case such as this one, no amount of discovery will tilt the scales in favor of the mark holder at the expense of the public's right to free expression.[200]

Therefore, even assuming, *arguendo,* that Louis Vuitton could state a cognizable claim of confusion, Warner Bros.' use of the Diophy bag is protected under *Rogers* because it has some artistic relevance to the Film and is not explicitly misleading.[201]

C. State Law Claims

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[199] *See generally Cliffs Notes,* 886 F.2d at 495 n. 3 (noting the "awkward" fit of the *Polaroid* test in the context of noncommercial speech).

[200] Even if Louis Vuitton did allege confusion as to the Film, applying the *Polaroid* factors demonstrates just how unlikely is the possibility of sponsorship confusion between the Film and Louis Vuitton. Factors (2), (3), (4), (6), and (8) all strongly come out in favor of Warner Bros., while factors (1) and (6) do not really apply. The marks and products are entirely dissimilar; Louis Vuitton and Warner Bros. are in different industries and not in competition with each other; there is little chance that Louis Vuitton will "bridge the gap" to movie production; there is no claim that Warner Bros. knowingly used a knock-off when filming the movie; and moviegoers are sophisticated enough to know that the mere presence of a brand name in a film, especially one that is briefly and intermittently shown, does not indicate that the brand sponsored the movie, *see Modular Cinemas of Am., Inc. v. Mini Cinemas Corp.,* 348 F. Supp. 578, 583 (S.D.N.Y.1972), and consumers of handbags are sophisticated enough to know the difference between a real bag and a knock-off. *Malletier v. Dooney & Bourke, Inc.,* 561 F.Supp.2d 368, 389 (S.D.N.Y.2008). Even assuming that factor (5), actual confusion, favors Louis Vuitton, *Rogers* teaches that mark owner's must accept "some" confusion when outweighed by free speech interests. 875 F.2d at 1001; *see also New Life Art, Inc.,* 2012 WL 2076691, at *9.

[201] The Court has considered Louis Vuitton's argument that Warner Bros. is not afforded First Amendment protection for using an infringing product and finds it to be without merit.

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Louis Vuitton's pendant state law claim under New York's anti-dilution statute and its common law claim of unfair competition are likewise dismissed because they are based on the same permissible conduct as its Lanham Act claim. *See Charles Atlas, Ltd. v. DC Comics, Inc.,* 112 F. Supp. 2d 330, 341 (S.D.N.Y.2000); *Yankee Publ'g Inc. v. News America Publ'g Inc.,* 809 F. Supp. 267, 282 (S.D.N.Y.1992) ("[T]he same First Amendment considerations that limit a cause of action under the Lanham Act apply also to a cause of action under New York law."); *cf. L.L. Bean, Inc. v. Drake Publishers, Inc.,* 811 F.2d 26, 32 (1st Cir.1987) ("It offends the Constitution ... to invoke the [Maine] anti-dilution statute as a basis for enjoining the noncommercial use of a trademark by a defendant engaged in a protected form of expression.").

CONCLUSION

For the reasons discussed above, defendant's motion to dismiss the complaint is granted.

USAGE: On page 1001, ADD the following material after note 2:

(3) In Winchester Mystery House, LLC v. Global Asylum, Inc. 210 Cal. App. 4th 579 (2012), the owners of a famous haunted house and the related word mark "Winchester Mystery House" sued the defendant film producer for trademark infringement and unfair competition over the defendant's release of a film entitled "Haunting of Winchester House." The court, applying the Rogers factors, upheld the trial court's summary judgment in defendant's favor, finding that the use of the title "Haunting of Winchester House" and depiction of a similar Victorian mansion on the DVD cover art were artistically relevant to the defendant's film and did not explicitly mislead as to the source or content of the work.

(4) Congress passed the Anticybersquatting Consumer Protection Act ["ACPA"] in 1999. Pub. L. No. 106-113, 113 Stat 1501 (1999), codified at 15 U.S.C. § 1125(d) and 15 U.S.C. § 1129 [Lanham Act § 43(d) and § 52]. Cybersquatting, also known as cyberpiracy, is the act of registering an Internet domain name that consists of or is similar to a trademark or personal name for the purpose of selling the domain name to the owner of the trademark or the person whose name is used.

Pursuant to the ACPA, An action can be brought against a cybersquatter without regard to the goods or services of the parties. See 15 U.S.C. § 1125(d)(1)(A) [Lanham Act § 43(d)(1)(A)]. The trademark owner must prove that the defendant registers, traffics in or uses as a domain name a statutorily designated term. The trademark owner must prove that the defendant has a bad faith intent to profit from the plaintiff's mark. See 15 U.S.C. § 1125(d)(1)(A)(i) [Lanham Act § 43(d)(1)(A)(i)]; Mattel, Inc. v. Internet Dimensions, Inc., 55 U.S.P.Q.2d 1620 (S.D.N.Y. 2000).

15 U.S.C. § 1125 (§ 43 of the Lanham Act)

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* * * * *

(d) Cyberpiracy prevention

(1)(A) A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person

(i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and

(ii) registers, traffics in, or uses a domain name that–

(I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;

(II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; or

(III) is a trademark, word, or name protected by reason of section 706 of Title 18 or section 220506 of Title 36.

(B)(i) In determining whether a person has a bad faith intent described under subparagraph (a), a court may consider factors such as, but not limited to

(I) the trademark or other intellectual property rights of the person, if any, in the domain name;

(II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;

(III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;

(IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;

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(V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;

(VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;

(VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;

(VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and

(IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c) of this section.

(ii) Bad faith intent described under subparagraph (A) shall not be found in any case in which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.

(C) In any civil action involving the registration, trafficking, or use of a domain name under this paragraph, a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark.

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(D) A person shall be liable for using a domain name under subparagraph (A) only if that person is the domain name registrant or that registrant's authorized licensee.

(E) As used in this paragraph, the term "traffics in" refers to transactions that include, but are not limited to, sales, purchases, loans, pledges, licenses, exchanges of currency, and any other transfer for consideration or receipt in exchange for consideration.

(2)(A) The owner of a mark may file an in rem civil action against a domain name in the judicial district in which the domain name registrar, domain name registry, or other domain name authority that registered or assigned the domain name is located if

(i) the domain name violates any right of the owner of a mark registered in the Patent and Trademark Office, or protected under subsection (a) or (c) of this section; and

(ii) the court finds that the owner–

(I) is not able to obtain in personam jurisdiction over a person who would have been a defendant in a civil action under paragraph (1); or

(II) through due diligence was not able to find a person who would have been a defendant in a civil action under paragraph (1) by–

(aa) sending a notice of the alleged violation and intent to proceed under this paragraph to the registrant of the domain name at the postal and e-mail address provided by the registrant to the registrar; and

(bb) publishing notice of the action as the court may direct promptly after filing the action.

(B) The actions under subparagraph (A)(ii) shall constitute service of process.

(C) In an in rem action under this paragraph, a domain name shall be deemed to have its situs in the judicial district in which

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(i) the domain name registrar, registry, or other domain name authority that registered or assigned the domain name is located; or

(ii) documents sufficient to establish control and authority regarding the disposition of the registration and use of the domain name are deposited with the court.

(D)(i) The remedies in an in rem action under this paragraph shall be limited to a court order for the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark. upon receipt of written notification of a filed, stamped copy of a complaint filed by the owner of a mark in a United States district court under this paragraph, the domain name registrar, domain name registry, or other domain name authority shall

(I) expeditiously deposit with the court documents sufficient to establish the court's control and authority regarding the disposition of the registration and use of the domain name to the court; and

(II) not transfer, suspend, or otherwise modify the domain name during the pendency of the action, except upon order of the court.

(ii) The domain name registrar or registry or other domain name authority shall not be liable for injunctive or monetary relief under this paragraph except in the case of bad faith or reckless disregard, which includes a willful failure to comply with any such court order.

(3) The civil action established under paragraph (1) and the in rem action established under paragraph (2), and any remedy available under either such action, shall be in addition to any other civil action or remedy otherwise applicable.

(4) The in rem jurisdiction established under paragraph (2) shall be in addition to any other jurisdiction that otherwise exists, whether in rem or in personam.

Read the following case to understand the application of the ACPA.

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TICKETMASTER CORP. v. DEVANE

2008 U.S. Dist. LEXIS 39369 (E.D. N.C. 2008)

JAMES C. FOX, Senior District Judge.

This matter is before the court upon the Motion for Default Judgment [DE-18] by Plaintiff Ticketmaster Corporation ("Ticketmaster") against Defendant Daniel DeVane ("DeVane").

I. PROCEDURAL HISTORY

Ticketmaster initiated this action against DeVane on November 29, 2007, alleging (1) a violation of the Anti-Cybsersquatting and Consumer Protection Act, 15 U.S.C. § 1125(d) ("ACPA"); (2) an infringement of Ticketmaster's trademark rights in violation of Section 32 of the Lanham Act, 15 U.S.C. § 1114; (3) unfair competition in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a); and (4) trademark dilution by blurring and tarnishment in violation of Section 43(c) of the Lanham Act, 15. U.S .C. § 1125(c). The record shows that DeVane was served with process pursuant to Rule 4 of the Federal Rules of Civil Procedure by personal delivery of a copy of the Summons and Complaint to him at his residence on January 16, 2008. *See* Return of Service [DE-9]. Proof of service was filed with this court on January 22, 2008. See id. DeVane did not file a responsive pleading to the Complaint, and the Clerk of Court for the Eastern District of North Carolina entered default against DeVane on April 3, 2008. *See* Entry of Default [DE-13]. Ticketmaster now moves for entry of default judgment against DeVane, and seeks statutory damages under the ACPA, along with injunctive relief pursuant to the ACPA and Lanham Act and attorney's fees. DeVane has not filed a response to Ticketmaster's Motion for Default Judgment.

II. DISCUSSION

Ticketmaster's Motion for Default Judgment raises three issues for this court: First, is entry of default judgment appropriate under Rule 55? Second, has Ticketmaster adequately stated its claims such that the court may enter default judgment thereon? Third, to what relief is Ticketmaster entitled?

A. Propriety of Default Judgment

This court has subject matter jurisdiction over this matter pursuant to 28 U.S.C. §§ 1338 and 1367. Service on DeVane was obtained in accordance with Rule 4 of the Federal Rules of Civil Procedure, as described above, and DeVane was, at the time of the institution of this action, domiciled within North Carolina. Accordingly, this court has personal jurisdiction over him. The Clerk of Court having filed entry of default on April 3, 2008, the court concludes that the procedural requirements for entry of default judgment have been met.

B. Causes of Action

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Although Ticketmaster meets the technical requirements for entry of default judgment, the inquiry does not stop there. It is well settled that upon default, the facts alleged in the Complaint are deemed admitted. See Ryan v. Homecomings Fin. Network, 253 F.3d 778, 780 (4th Cir.2001). The court, however, determines whether the facts, as alleged, support a claim and the relief sought. Id. In the Motion Default Judgment, Ticketmaster indicates that it seeks relief in the form of damages pursuant to the ACPA, injunctive relief pursuant to the ACPA and the Lanham Act, and attorney's fees pursuant to the Lanham Act.

With respect to the claim under ACPA, the court finds that Plaintiff is entitled to judgment thereon. For a plaintiff to succeed on a claim under the ACPA, it must show that: (1) its marks are distinctive or famous; (2) the defendant's domain names are identical or confusingly similar to the plaintiff's marks; and (3) the defendant registered its domain names with a bad faith intent to profit from them. 16 U.S.C. § 1125(d)(1)(A); PETA v. Doughney, 263 F.3d 359, 367 (4th Cir.2001). The statute lists nine non-exclusive factors a court may consider to determine bad faith.[202] The court finds that Ticketmaster adequately alleges facts showing that it owned a

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[202]These non-exclusive factors include:

(I) the trademark or other intellectual property rights of the person, if any, in the domain name;

(II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;

(III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;

(IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;

(V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, or affiliation, or endorsement of the site;

(VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;

(VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;

(VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and

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distinctive or famous mark. Compl. [DE-1] ¶¶ 5-9 (alleging that Ticketmaster owns the "TICKETMASTER" mark, and through its extensive marketing and sales, the public has come to recognize and associate the mark with Ticketmaster and its services). Ticketmaster also adequately alleges that DeVane has registered and is using the domain name "*ticketmasterevent.com* " which is confusingly similar to Ticketmaster's "TICKETMASTER" mark. Id. at ¶¶ 14-16. Finally, the allegations in the Complaint establish that (1) DeVane has no rights or legitimate interest with respect to the "*ticketmasterevent.com* " name; (2) DeVane used the domain name to promote his ticketing website in direct competition with Ticketmaster, and (3) the domain name uses Ticketmaster's legal name. Id. at ¶¶ 19-21. Consequently, Ticketmaster has alleged adequate facts to support a finding that DeVane registered the "*ticketmasterevent.com* " name with the bad faith intent to profit from the use of it. 15 U.S.C. § 1125(d)(1)(B).

Similarly, Ticketmaster is entitled to judgment on its claims for trademark infringement and unfair competition under 15 U.S.C. §§ 1114 and 1125(a). To prevail on claims for trademark infringement and unfair competition under the Lanham Act, a plaintiff must prove:

> (1) that it possesses a mark; (2) that the defendant used the mark; (3) that the defendant's use of the mark occurred "in commerce"; (4) that the defendant used the mark "in connection with the sale, offering for sale, distribution, or advertising" of goods or services; and (5) that the defendant used the mark in a manner likely to confuse consumers.

PETA, 263 F.3d at 364 (quoting 15 U.S.C. §§ 1114, 1125(a)). In this case, Ticketmaster adequately alleges that it owns the TICKETMASTER marks. Compl. [DE-1] ¶¶ 5-10. It also adequately alleges that DeVane used the TICKETMASTER marks, in commerce, and in connection with the sale of goods or services. Id. at ¶¶ 13-17 (alleging that DeVane used the TICKETMASTER mark in the "*www.ticketmasterevent.com* " domain name to direct internet users to his website for his ticketing business). Finally, Ticketmaster adequately alleges that DeVane's unauthorized use and registration of the "*www.ticketmaster.com* " domain name is likely to cause confusion among consumers. Id. at ¶¶ 15-25. Thus, the allegations in the Complaint establish claims for trademark infringement and unfair competition under the Lanham Act.

Finally, Ticketmaster seeks judgment on its claim under the Federal Trademark Dilution Act ("FTDA"), 15 U.S.C. § 1125(c). The FTDA provides that the owner of a famous mark may enjoin "another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark." CareFirst of Maryland, Inc. v. First Care, 434 F.3d 263, 274 (4th Cir.2006)(citing 15 U.S.C. §

> (IV) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c) of this section.

15 U.S.C. § 1125(d)(1)(B)(i).

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1127). The Fourth Circuit has defined dilution as " 'the lessening of the capacity of a famous mark to identify and distinguish goods or services.' " Id. (quoting 15 U.S.C. § 1127). To establish a claim under the FTDA in the context of this case, a plaintiff must prove that:

> it owns valid and enforceable rights in the mark, the mark is famous and became so prior to the registration and/or use of the domain name, registration and/or use of the domain name constitutes use of the mark in commerce, and the registration and/or use of the domain name dilutes the distinctive quality of the mark.

Graduate Mgmt. Admission Council v. Raju, 267 F.Supp.2d 505, 511 (E.D.Va.2003).

Ticketmaster's allegations provide an adequate factual basis for its FTDA claim. Ticketmaster owns valid and enforceable rights in the TICKETMASTER marks. Compl. [DE-1] ¶¶ 9-10. The marks are famous and became so prior to DeVane's registration and use of the domain name, and DeVane is using the TICKETMASTER mark in commerce. Id. at ¶¶ 9-14. DeVane's domain name contains the TICKETMASTER mark, and would immediately be associated with Ticketmaster. Id. at ¶¶ 15-16. By using the TICKETMASTER mark in the domain name, DeVane potentially prevented internet users from accessing Ticketmaster's service over the internet. Thus, DeVane has diminished the value of Ticketmaster's marks. See, e.g ., Pinehurst, Inc. v. Wick, 256 F.Supp.2d 424, 431-32 (M.D.N.C.2003)(finding that defendants' registration of domain names "Pinehurstresort.com" and "Pinehurstresorts.com" diluted plaintiff's marks, "Pinehurst" and "Pinehurst Resort and Country Club"). The admitted allegations, therefore, establish that Ticketmaster is entitled to judgment on the FTDA claim.

C. Relief

Ticketmaster seeks a permanent injunction against DeVane's infringing conduct, an award of statutory damages, and an award of attorney's fees

Both the ACPA and the FTDA provide that a prevailing plaintiff is entitled to injunctive relief. Section 1125(c)(1) provides that the owner of a famous mark is entitled to an injunction against another person's use of the mark in commerce. Additionally, the ACPA expressly provides that the "court may order the forfeiture or cancellation of the domain name or transfer of the domain name to the owner of the mark." 15U.S.C. § 1125(d)(1)(C). Based on the factual allegations in the Complaint, which are deemed admitted by virtue of DeVane's default, the court concludes that Ticketmaster's requested injunctive relief is warranted.

Ticketmaster also seeks statutory damages under the ACPA. The Lanham Act allows a plaintiff who has demonstrated a violation of ACPA to recover statutory damages "in the amount of not less than $1,000 and not more than $100,000 per domain name, as the court considers just." 15 U.S.C. § 1117(d). In this case, Ticketmaster is seeking $10,000.00 in statutory damages. Based on the circumstances of this case, and the fact that DeVane, in bad faith, attempted to deceive

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internet consumers and direct traffic to his competing ticket website, the court finds that $5,000.00 in statutory damages is just and reasonable.

The court also concludes that Ticketmaster is entitled to attorney's fees under the Lanham Act, which gives a court discretion to award attorney's fees in "exceptional" cases brought under the statute. 15 U.S.C. § 1117(a). The Fourth Circuit has defined "exceptional case" to be one in which "the defendant's conduct was malicious, fraudulent, willful or deliberate in nature," or in other words, the defendant "acted in bad faith." PETA, 263 F.3d at 370 (internal quotations omitted). The showing of bad faith necessary to establish a violation of the ACPA, however, is not alone sufficient to establish the maliciousness or willfulness necessary to recover attorney's fees. Id. at 369. The court finds that the admitted allegations in this case establish the necessary showing of bad faith, in that: (1) DeVane continued to use the TICKETMASTER trademarks even after receiving a cease and desist letter; (2) he failed to make an appearance in this action, and (3) he has no rights or legitimate interest in the "*www.ticketmasterevents.com* " domain name. See, e.g., Agri-Supply Co., Inc. v. Agrisupply.Com, 457 F.Supp.2d 660, 667 (E.D.Va.2006) (determining that attorney's fees were warranted where defendant ignored requests to settle and lawsuit, and had no rights to contested domain name); Aztar Corp. v. MGM Casino, No. 00-833-A, 20001 WL 939070 at * 6 (E.D.Va. April 9, 2001)(concluding that attorney's fees were warranted where defendant continued with willful and bad faith infringement and dilution of plaintiff's trademark after receiving a cease and desist letter). Consequently, the court concludes that Ticketmaster is entitled to an award of reasonable attorney's fees.

IV. CONCLUSION

Based on the foregoing, it is hereby ORDERED, ADJUDGED AND DECREED that:

1. The defendant, Daniel DeVane, and his agents, servants, employees, attorneys, successors and assigns and all others in active concert or participation with him, are permanently enjoined from:

> a) registering or maintaining any registration of the domain name "*www.ticketmasterevents.com* " or any other names, words, designations or symbols consisting of, incorporating in whole or part, or otherwise confusingly similar to the TICKETMASTER mark or any other trade names, trademarks or service marks of Ticketmaster;
>
> b) using the domain name "www.ticketmasterevents.com" or any other names, words, designations or symbols consisting of, incorporating in whole or part, or otherwise confusingly similar to the TICKETMASTER mark or any other trade names, trademarks or service marks of Ticketmaster;

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c) using any names, words, designations or symbols consisting of, incorporating in whole or part, or otherwise similar to the TICKETMASTER mark or any other Ticketmaster trademark anywhere on any web site or web sites of DeVane.

d) using any names, words, designations or symbols consisting of, incorporating in whole or part, or otherwise similar to the TICKETMASTER mark or any other Ticketmaster trademark in any buried code, metatags, search terms, keywords, key terms, hits generating pages, or any other devices used, intended, or likely to cause any web site or web sites of DeVane to be listed by any Internet search engines in response to any searches that include any terms identical with or confusingly similar to the TICKETMASTER mark or any other Ticketmaster trademarks;

e) using any names, words, designations or symbols consisting of, incorporating in whole or part, or otherwise similar to the TICKETMASTER mark or any other Ticketmaster trademark in any e-mail or other marketing solicitations sent to consumers;

f) otherwise infringing Ticketmaster's trademarks;

g) making any description or representation stating or implying that DeVane's goods or services, domain names or web sites are in any way affiliated, associated, authorized, sponsored, endorsed or otherwise connected with Ticketmaster; and

h) any other conduct that is likely to cause confusion or to cause mistake or to deceive as to the source, affiliation, connection or association of DeVane's domain names, web sites, products or services with Ticketmaster.

2. Plaintiff Ticketmaster have and recover of Defendant DeVane the amount of $5,000.00 in statutory damages under the Anti-Cybersquatting Consumer Protection Act; and

3. Plaintiff Ticketmaster have and recover of Defendant DeVane its reasonable attorney's fees and costs in this action Ticketmaster is DIRECTED to file, within ten (10) days of the filing date of this order, an affidavit setting forth its attorney's fees and costs. Ticketmaster should demonstrate why such a fee is reasonable for the time and labor expended, the customary fee for like work, and the experience and ability of the attorney(s) rendering such services.

Ticketmaster's Motion for Entry of Default Judgment [DE-18] is hereby ALLOWED.

SO ORDERED.

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Chapter 4

CREDIT

§ 4.02 Legal Theories and Sources of Credit Obligations

[C] Statutory and Common Law

USAGE: On page 1073, ADD the following case after the Notes:

CLAUSON v. ESLINGER
455 F. Supp. 2d 256 (S.D.N.Y 2006)

SPRIZZO, District Judge.

Plaintiff, Sean Clauson ("plaintiff"), brings the above-captioned action against defendant, Ryan Eslinger ("defendant"), seeking injunctive relief and damages, pursuant to both the Lanham Act, 15 U.S.C. § 1125(a), and New York state law. Plaintiff seeks a preliminary injunction requiring defendant to credit plaintiff as producer of the film "Madness and Genius" ("the film") and to take various steps to change the perception that defendant was producer. . . . [Defendant brings a motion to dismiss plaintiff's] Complaint for failure to state a claim upon which relief can be granted. For the reasons set forth below, the Court denies defendant's motion.[203]

BACKGROUND

"Madness and Genius," written by defendant when he was thirteen years old, centers on four characters who are academically brilliant but lead emotionally barren lives. Defendant began pre-production for the film in 2001, using $20,000 that he had saved over the course of several years. Star actor Tom Noonan has a lead role in the film, and critics have given the film positive reviews.

Plaintiff's involvement with the film grew out of a chance meeting with defendant at an NYU gym, at which defendant asked plaintiff if he wanted to help out with the film. According to plaintiff, he subsequently called defendant and told him he wanted to "produce this film," as defendant had commented that he had dismissed two producers from the project. The parties never discussed how plaintiff would be credited for his work.

[203] Plaintiff originally argued that defendant violated both sections 43(a)(1)(A) and 43(a)(1)(B) of the Lanham Act. At oral argument, however, plaintiff agreed that the Supreme Court's decision in Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23 (2003), precludes any claim under section 43(a)(1)(A) in this case. See Hr'g Tr., Apr. 7, 2004 ("Apr.Tr.") at 9–10.

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In the pre-production and production phases of the film, plaintiff hired the majority of the crew members, procured free and reduced-price equipment rentals and food, obtained shooting locations, arranged for the crew's transportation, prepared the film's shooting schedule and budget, advertised and promoted the film, maintained a production log, and attempted to locate missing equipment.

In addition, documents prepared by plaintiff, to which defendant did not object, listed plaintiff as producer. A contract between the two also listed plaintiff as producer of the film, although defendant contends that he was coerced into signing it. Plaintiff, however, forged defendant's signature on a Screen Actors Guild ("SAG") contract, thereby indicating that defendant was the film's producer. Defendant, therefore, is potentially liable to SAG as the film's producer.

Plaintiff's participation in the post-production phase of the film, however, was less extensive. Although plaintiff contends that his limited involvement was the result of defendant's refusal to allow him to participate, the record indicates that plaintiff did not expressly state his desire to participate in post-production until April 2003, after he learned that the film had been accepted to the Toronto Film Festival and after most of the post-production work had been completed.

Following his work on the film, plaintiff posted a resume on an industry website advertising himself as a line producer. He suggested on the resume that he was qualified for a line producer position because of his experience in "budgeting, fundraising, scheduling, auditions, rehearsals, crew assembly, location procural, insurance, permits, transportation, equipment, food." Plaintiff's resume also stated, however, that he is "currently producing HD feature," a reference to "Madness and Genius."

The film appeared in the Toronto Film Festival. Plaintiff received no credit as either producer or line producer in any of defendant's submissions to that festival, to other festivals, or in any other promotional materials prepared for the film. In addition, the Internet Movie Database (IMDb), a database used in the film industry to check resume accuracy, has been contacted by both parties regarding this disagreement and currently lists plaintiff as line producer and coproducer and defendant as producer. . . .

DISCUSSION

A. *Preliminary Injunction*

A party seeking a preliminary injunction must demonstrate (1) that it will be irreparably harmed in the absence of an injunction, and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits of the case to make it a fair ground for litigation, and a balance of hardships tipping decidedly in its favor. Where, as here, a mandatory injunction is sought, relief should only be granted "'upon a clear showing that the moving party is

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entitled to the relief requested, or where extreme or very serious damage will result from a denial of preliminary relief.'" Tom Doherty Assocs. v. Saban Entm't, Inc., 60 F.3d 27, 34 (2d Cir.1995) (quoting Abdul Wali v. Coughlin, 754 F.2d 1015, 1025 (2d Cir.1985)).

Plaintiff seeks an order enjoining defendant from "showing, delivering, transferring, or contracting as to the film" until he lists plaintiff as producer in the film's credits; ordering defendant to credit plaintiff as being the sole producer in all promotional materials related to the film; ordering defendant to notify the Toronto Film Festival, *Variety*, IMDb, and all persons (such as reviewers, film industry executives, and film publicity agents) with whom defendant had communicated regarding the film that plaintiff, and not defendant, was the producer; and mandating that defendant take out a quarter page ad for three weeks in a row in *Variety*, in a form approved by plaintiff, stating that plaintiff was the producer of the film.

1. *Likelihood of Success on the Merits*

Although plaintiff's contention that he was the film's producer is supported by the statements of several witnesses and by several documents, other parts of the record indicate that it was actually defendant who produced "Madness and Genius."

Several of the witnesses stated in a conclusory fashion that plaintiff was producer, but none managed to describe the roles of producer and line producer with any objective lines of demarcation between the two roles. In fact, all agreed that on small budget films such as "Madness and Genius" the responsibilities of producer and line producer are essentially identical, thereby weakening the witnesses' assertions that plaintiff was producer and not merely line producer. Defendant, moreover, submitted definitions of the roles that do provide clear lines of demarcation. Those definitions, taken from film textbooks and filmmaking guides, indicate that, given the parties' responsibilities on the film, defendant was, in fact, producer. Plaintiff's resume buttresses defendant's definition of the role of line producer, as it suggests that budgeting, fundraising, scheduling, crew assembly, location procural and other like tasks—essentially plaintiff's responsibilities on "Madness and Genius"—are the qualifications for the position of line producer.

Plaintiff, furthermore, did not participate in the film's post-production phase, and the parties agree that post-production work is an essential responsibility of a producer. Although plaintiff argues that defendant would not allow him to participate in post-production, the record is not so clear. Although defendant ignored plaintiff's phone calls and emails in Fall 2003, plaintiff did not expressly offer to participate in post-production until April 2003, after the film had been accepted to the Toronto Film Festival and after most of the post-production was already complete.

While defendant did not object to several pre-production documents which listed plaintiff as producer, those documents were prepared by plaintiff, not defendant. Plaintiff, however, forged defendant's name on a Screen Actors Guild Agreement, naming defendant as the film's

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producer, and making defendant potentially liable to SAG. Furthermore, that forgery undermines the credibility of plaintiff's testimony.

Plaintiff therefore has not demonstrated a likelihood of success on the merits.

2. *Balance of Hardships*

Assuming that there are substantial questions going to the merits of plaintiff's claims, plaintiff still must demonstrate that the balance of hardships tips in his favor. MONY Group, Inc., 368 F.3d at 143 (quoting Forest City Daly Hous., Inc. v. Town of North Hempstead, 175 F.3d 144, 149 (2d Cir. 1999)). Plaintiff has failed to carry that burden.

Denial of plaintiff's application would indeed hinder plaintiff's ability to leverage his role in "Madness and Genius" to obtain work as a producer on other projects. Plaintiff, however, has also posted a resume seeking employment as a line producer, credit which defendant is readily willing to give plaintiff. The burden that the proposed preliminary injunction would impose on defendant, furthermore, would not be trivial: defendant would be mandated to pay for three quarter-page ads in the industry magazine *Variety*, and to contact all persons in the film industry with whom defendant had communicated regarding the film and announce that plaintiff was producer.

Based on the foregoing, this Court finds that plaintiff has not met its burden of showing that it is entitled to a preliminary injunction, much less the "clear showing" required for the mandatory injunction sought in this case.

B. *Motion to Dismiss*

On a motion to dismiss, a court must accept all of the allegations set forth in the complaint as true, and must draw all reasonable inferences in favor of the plaintiffs. Rombach v. Chang, 355 F.3d 164, 169 (2d Cir.2004) (quoting Ganino v. Citizens Utilities Co., 228 F.3d 154, 161 (2d Cir. 2000)); Halperin v. eBanker USA.com, Inc., 295 F.3d 352, 356 (2d Cir. 2002) (citing Kalnit v. Eichler, 264 F.3d 131, 137 (2d Cir. 2001)). Dismissal is appropriate only when it is clear from the pleadings that the plaintiffs can prove no set of facts in support of their claims that would entitle them to relief.

Plaintiff originally claimed a violation of both section 43(a)(1)(A) and section 43(a)(1)(B) of the Lanham Act. 15 U.S.C. § 1125(a). Section 43(a)(1)(A) prohibits representations in commerce which are "likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." 15 U.S.C. § 1125(a)(1)(A). Section 43(a)(1)(B) prohibits misrepresentations in commercial advertising or promotion of the "nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(B). Plaintiff now concedes, however, that any section 43(a)(1)(A) claim in this case is precluded by Supreme Court's ruling in *Dastar*.

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In that case, Dastar released a video about World War II that used significant footage taken from a television series previously broadcast by Twentieth Century Fox. *Dastar*, 539 U.S. at 25-27. The Fox television series came into the public domain in 1977, so Fox sued under section 43(a)(1)(A) of the Lanham Act, claiming that Dastar's statement that it was the producer of the series constituted a false designation of origin. See id. at 26–27. The Court rejected Fox's claim, holding that the term "origin" in section 43(a)(1)(A) is not so broad as to include the "author of any idea, concept, or communication embodied in those goods." Id. at 37. Rather, the Court held, "origin" applies only to "the producer of the tangible goods that are offered for sale." *Id*.

The Court's holding in *Dastar* addressed only the applicability of section 43(a)(1)(A) to reverse passing off claims; Fox did not assert a claim under section 43(a)(1)(B). See *id*. 36, 38. The Court grounded its holding in what it ruled was the "natural understanding" of section 43(a)(1)(A)'s phrase "origin of goods." See id. at 32–32, 37. It concluded, in short, that although this phrase does not extend to the originator of the idea that the goods embody, it does reach beyond geographic origin to origin of production of the physical goods at issue. See id. at 32, 37. In contrast. Congress did not incorporate any such reference into section 43(a)(1)(B), the false advertising prong of the Lanham Act. 15 U.S.C. § 1125(a)(1)(B). Instead, in section 43(a)(1)(B), it mandated liability for misrepresentation of "the nature, characteristics, [or] qualities" of goods in commercial advertising or promotion. 15 U.S.C. § 1125(a)(1)(B). The *Dastar* Court explicitly left open the possibility that some false authorship claims could be vindicated under the auspices of this section's prohibition on false advertising. See *Dastar*, 539 U.S. at 38; Zyla v. Wadsworth, Div. of Thomson Corp., 360 F.3d 243, 252 n. 8 (1st Cir.2004).[204]

Here, plaintiff has pleaded that the film's credits and promotional materials wrongly credit defendant as being producer. As such, plaintiff has alleged a misrepresentation and therefore has stated a claim under section 43(a)(1)(B). See 15 U.S.C. § 1125(a)(1)(B). Based on the foregoing, this Court denies defendant's motion to dismiss.

CONCLUSION

This Court hereby denies both plaintiff's motion for a preliminary injunction and defendant's motion to dismiss. . . .

[204]Defendant also seeks dismissal of plaintiff's contract claim. See Def.'s Mem. of Law at 13–15, dated Feb. 25, 2004. On its face, the complaint states a cause of action for breach of contract. Compl. ¶¶ 30–32. It pleads that the parties entered into a contract to make a film, that contrary to the terms of the contract, defendant publicly and falsely claimed that he is the producer of the film and has falsely failed to give plaintiff any credit for his work as producer. Id. There is no basis to grant a motion to dismiss under Rule 12(b)(6). As such, defendant's motion to dismiss plaintiff's contract claim shall be and hereby is denied.

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Chapter 5

COMPENSATION

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§ 5.05 Contingent Compensation

USAGE: On page 1200, ADD the following case after *Self-Dealing Sets Backend Furor*:

WOLF v. SUPERIOR COURT (II)

114 Cal. App. 4th 1343, 8 Cal. Rptr. 3d 649 (2004)

JOHNSON, J.

An author seeks a writ of mandate to compel the trial court to vacate its order granting summary adjudication of issues in favor of an entertainment industry conglomerate on its cross-claims for a declaration it was not required to pay royalties on the value of promotional agreements with third parties for which it received no cash. At issue is whether the term "gross receipts" as used in the royalty agreement is reasonably susceptible to an interpretation urged by the author to mean other valuable in-kind consideration as well as cash. The trial court found the term "gross receipts" clearly and unambiguously meant "cash" only, and rejected expert extrinsic evidence indicating the term in the entertainment context meant money as well as the value of other consideration received. We conclude the trial court erred in concluding the term "gross receipts" was not reasonably susceptible to the interpretation urged by the author. Accordingly, we grant the petition for writ of mandate with directions for the trial court to vacate its order granting summary adjudication and remand for further proceedings.

FACTS AND PROCEEDINGS BELOW

Gary K. Wolf and his company Cry Wolf!, Inc. (Wolf), are the petitioners in this case. Petitioner, Gary K. Wolf, is the author of an original novel entitled Who Censored Roger Rabbit? In his novel Wolf created characters such as Roger Rabbit, Jessica Rabbit, Baby Herman and Detective Eddie Valiant. Wolf's novel also created and introduced the concept of Toontown as the place where these cartoon characters lived.

Shortly after the book's release in 1981, real party in interest, Walt Disney Pictures and Television (Disney), reached an agreement with Wolf to option nearly all rights to Who Censored Roger Rabbit? Disney memorialized the terms of the parties' oral agreement in a letter dated May 1981. According to this deal memo, if Disney exercised its option, Wolf would be entitled to a 5 percent royalty on children's story books, children's story-telling records and on merchandise based on the characters he had developed in Who Censored Roger Rabbit? as well as other rights.

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In 1983, Disney exercised its option to purchase the rights to Who Censored Roger Rabbit? The parties thereafter executed a "long form" purchase agreement. This 1983 agreement superseded the 1981 "deal memo" and expanded on the parties' respective rights regarding motion picture rights, television series rights, and other matters. In the 1983 agreement, Wolf also assigned to Disney the right to exploit the characters he created in his novel.

Not one of the parties who played a role in, or who helped negotiate the terms of, the 1983 agreement could recall any discussion they held at the time regarding the meaning of the term "gross receipts" as used in paragraph 21 governing royalty rights to character merchandise.

Thereafter, Disney developed and coproduced the motion picture Who Framed Roger Rabbit? with Steven Spielberg's Amblin Entertainment. Disney released the movie in June 1988. It proved to be an extraordinarily successful feature combining cartoon and live action actors.

By 1989 a dispute arose among the parties regarding use of Wolf characters at theme parks and in movie cels, auditing rights, and other matters. The parties resolved their dispute by entering into another agreement in 1989 which clarified and/or modified certain terms of the 1983 agreement. However, Wolf's right to a 5 percent royalty on merchandise depicting his characters remained intact. Again, none of the negotiating parties to the 1989 agreement could recall any discussion regarding the meaning of Wolf's right to a royalty on "gross receipts" from character merchandise.

In order to promote the theatrical and home video releases of the film (and at various times thereafter to promote and sustain the Roger Rabbit franchise), Disney entered into alliance agreements with corporate entities such as Kodak, Coca-Cola, and Burger King, licensing them to use Roger Rabbit and Disney characters in their advertising and promotions. The terms of Disney's promotional agreements with these third parties varied: sometimes Disney received money from the other company; sometimes Disney paid the other company, and in still other situations, no cash exchanged hands. An example of this latter type of agreement is a Disney/McDonald's agreement entered into in 1988 in connection with the picture's release. In this agreement Disney allowed McDonald's to use Wolf as well as Disney characters in a "tie-in" promotion between its menu items and the motion picture Who Framed Roger Rabbit? Under this agreement McDonald's agreed to: (1) conduct a promotion featuring the licensed characters on 18 million collector cups; (2) purchase $12 million worth of specified advertising themed to the motion picture; and (3) place approximately $100 worth of point-of-purchase materials at each of the McDonald's stores throughout the United States. Disney received no cash directly from McDonald's under this particular licensing agreement.

In 1991, Disney entered into another so-called alliance agreement with Eckerd/Kodak. The agreement called for Eckerd Drug Company to fund and produce television and radios ads, print ads, in-store advertisements and to undertake other promotional efforts. The agreement required Kodak to underwrite the cost of producing hundreds of thousands of Walt Disney World collector pins depicting Disney as well as Roger Rabbit characters. In exchange, Disney provided

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six grand prize travel packages to Walt Disney World. Disney received no cash directly from this arrangement.

On the other hand, Disney did receive cash under its 1995 licensing agreement with McDonald's to promote Disneyland's 40th anniversary. McDonald's Disneyland 40th Anniversary Happy Meal agreement was a licensing arrangement which allowed McDonald's to give away eight toy car "premiums" featuring various Disney characters, including one car which featured two of the Roger Rabbit characters. McDonald's paid Disney $400,000 under the licensing agreement for the eight cars. Because the Wolf characters represented one eighth of this amount, Disney reported $50,000 attributable to the Roger Rabbit characters and paid Wolf 5 percent of this amount, or $2,500.

Wolf claimed he was entitled to a 5 percent royalty every time Disney licensed Roger Rabbit characters for use in any merchandising venture by Disney or through its alliance agreements. He asserted he was entitled to this royalty based on the value of the licensing agreement to Disney from use of the Roger Rabbit characters, whether or not Disney chose to receive the benefit in cash. Disney countered it was not obligated to pay Wolf any royalty unless or until it received actual cash from a licensing agreement.

Unable to resolve the dispute, Wolf filed suit against Disney in May 2001. In March 2002, Disney filed a cross-complaint for declaratory relief, reformation, money had and received and unjust enrichment. In October 2002, Disney moved for summary adjudication on three of the causes of action in its cross-complaint which sought a declaration the parties' 1983 contract only obligated it to pay a 5 percent royalty on cash it received for character merchandising, and that it had no obligation to pay a royalty on any noncash consideration it received from licensing Wolf's characters for use in merchandise for promotional purposes.[205]

In its motion Disney argued it was entitled to summary adjudication of issues because the "clear and unambiguous meaning" of "gross receipts" in the contract could only mean receipt of cash money. Disney claimed the contract language was clear and unambiguous because the contract did not obligate it to account for royalties to Wolf unless and until it had *received* funds in the United States. In opposition, Wolf presented extrinsic evidence in the form of expert testimony to refute Disney's assertion. According to Wolf's expert, the term "gross receipts" in the entertainment industry means "money or the value of other consideration received by the studio," when not otherwise defined or limited by written agreement.

[205]Specifically, the motion for summary adjudication of issues sought declarations: (1) Disney had no obligation to pay Wolf anything in connection with the 1991 Eckerd/Kodak promotional agreement because neither Disney nor its subsidiaries received cash under this particular agreement; (2) Disney had already satisfied its contractual obligation to pay Wolf what it owed in connection with the McDonald's Disneyland 40th Anniversary Happy Meal agreement; and (3) Disney had no obligation to pay Wolf anything in connection with any third party agreement if Disney or its subsidiaries received, or will receive, no cash from the third party, because the parties' 1983 agreement specifies its obligation to pay royalties does not accrue unless or until monies are received by Disney or its subsidiaries.

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The trial court heard several hours of arguments on the motion over two court days. The trial court questioned Wolf regarding his proffered extrinsic evidence that the term "gross receipts" was interpreted in the entertainment industry to mean cash or other valuable consideration.[206] The court acknowledged Wolf's expert's testimony created an ambiguity regarding the meaning of the term "gross receipts." However, the court was persuaded the contract term clearly and unambiguously meant Disney's obligation to pay Wolf royalties only arose with actual receipt of cash in connection with the merchandising of Wolf's characters. The trial court found the term "gross receipts" was not reasonably susceptible to the meaning urged by Wolf and rejected his proffered extrinsic evidence.

In its written order the trial court ruled Disney had met its burden of showing there were no triable issues of material fact and Wolf had failed to raise a triable issue of material fact. The court thus granted summary adjudication in favor of Disney on its first, fourth and seventh causes of action in its cross-complaint. The court reasoned: "Wolfe [*sic*] claims entitlement to 5% of the 'promotional value' of the two Alliance Agreements at issue, that is, monies *not actually received* by Disney. However, the plain and unambiguous language of [ ] Wolfe's [*sic*] contract provides that he is entitled to 5% of the monies *received* by Disney. The contract at issue was negotiated at arms length between the parties. The contract is clear and unambiguous and extrinsic evidence is not received to interpret the contract. The contract does not require the addition of fictional receipts, nor does it require payment to Wolfe [*sic*] of 5% of monies that were never received by Disney.

"Cross-Complainants' motion for summary adjudication of issues on the first, fourth, and seventh causes of action of Disney's cross-complaint against Wolfe [*sic*], filed on March 11, 2002, is granted. Pursuant to [ ] paragraph 21 of the 1983 agreement, with regard to the July 18, 1991 Kodak agreement and the March 21, 1995 McDonald's agreement, Disney has no obligation to pay Wolfe [*sic*] 5% of the gross receipts, until monies have been received by Disney. Although the court has read all papers filed in support of and opposition to the instant motion, extrinsic evidence is not admitted for the reasons stated. Only admissible nonextrinsic evidence has been considered in deciding this motion."[207]

Wolf filed a petition for writ of mandate to compel the trial court to vacate its order for summary adjudication. We issued an order directing the trial court to either vacate its order for summary adjudication and make a new and different order denying the motion for summary adjudication, or in the alternative, to show cause why the requested relief should not be granted. Respondent Superior Court did not respond and we now consider the petition.

DISCUSSION

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[206]The trial court read, and thus to this extent, "considered" Wolf's proffered extrinsic evidence.
[207]Italics in original.

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On review of an order summarily adjudicating issues, we review the record de novo to determine whether the prevailing party has conclusively negated necessary elements of his opponent's case or demonstrated under no hypothesis is there a material issue of fact which requires the process of a trial.[208]

II. *THE TERM "GROSS RECEIPTS" IN PARAGRAPH 21 OF THE 1983 AGREEMENT CAN BE REASONABLY INTERPRETED TO MEAN CASH AS WELL AS VALUABLE IN-KIND CONSIDERATION.*

The dispute in this case is over the meaning of the term "gross receipts" for purposes of triggering Disney's obligation to pay Wolf royalties on character merchandising. Wolf contends "gross receipts" as used in the royalty agreement means "cash and other valuable consideration." Disney contends the agreement clearly and unambiguously provides its obligation to pay Wolf royalties from the exploitation of certain merchandising rights arises only upon receipt of monies. The trial court ruled the term "gross receipts" was not ambiguous--it meant only cash actually received by Disney. The court further found the term was not reasonably susceptible to the meaning Wolf urged claiming the term as used in this context included not just cash, but also other valuable consideration such as promotions undertaken by third parties employing his characters. We disagree with the trial court.

"Where the meaning of the words used in a contract is disputed, the trial court must provisionally receive any proffered extrinsic evidence which is relevant to show whether the contract is reasonably susceptible of a particular meaning. (*Pacific Gas & E. Co. v. G.W. Thomas Drayage etc. Co.* (1968) 69 Cal.2d 33, 39-40, 69 Cal.Rptr. 561, 442 P.2d 641; *Gas & Electric Co. v. Zuckerman* (1987) 189 Cal.App.3d 1113, 1140-1141, 234 Cal.Rptr. 630.) Indeed, it is reversible error for a trial court to refuse to consider such extrinsic evidence on the basis of the trial court's own conclusion that the language of the contract appears to be clear and unambiguous on its face. Even if a contract appears unambiguous on its face, a latent ambiguity may be exposed by extrinsic evidence which reveals more than one possible meaning to which the language of the contract is yet reasonably susceptible. (*Pacific Gas & E. Co. v. G.W. Thomas Drayage etc. Co., supra,* 69 Cal.2d at p. 40 & fn. 8, 69 Cal.Rptr. 561, 442 P.2d 641; *Pacific Gas & Electric Co. v. Zuckerman, supra,* 189 Cal.App.3d at pp. 1140-1141, 234 Cal.Rptr. 630.)"[209]

The interpretation of a contract involves "a two-step process: 'First the court provisionally receives (without actually admitting) all credible evidence concerning the parties' intentions to determine "ambiguity," i.e., whether the language is "reasonably susceptible" to the interpretation urged by a party. If in light of the extrinsic evidence the court decides the language is "reasonably susceptible" to the interpretation urged, the extrinsic evidence is then admitted to aid in the second step--interpreting the contract. [Citation.]' (*Winet v. Price* (1992) 4 Cal.App.4th 1159, 1165, 6 Cal.Rptr.2d 554.) The trial court's determination of whether an ambiguity exists is a

[208]See *Ann M. v. Pacific Plaza Shopping Center* (1993) 6 Cal.4th 666, 673-674, 25 Cal. Rptr. 2d 137, 863 P.2d 207.

[209]*Morey v. Vannucci* (1998) 64 Cal.App.4th 904, 912, 75 Cal.Rptr.2d 573.

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question of law, subject to independent review on appeal. (*Ibid.*) The trial court's resolution of an ambiguity is also a question of law if no parol evidence is admitted or if the parol evidence is not in conflict. However, where the parol evidence is in conflict, the trial court's resolution of that conflict is a question of fact and must be upheld if supported by substantial evidence. (*Id.* at p. 1166, 6 Cal.Rptr.2d 554.) Furthermore, '[w]hen two equally plausible interpretations of the language of a contract may be made ... parol evidence is admissible to aid in interpreting the agreement, thereby presenting a question of fact which precludes summary judgment if the evidence is contradictory.' (*Walter E. Heller Western, Inc. v. Tecrim Corp.* (1987) 196 Cal.App.3d 149, 158, 241 Cal.Rptr. 677.)"[210]

The term "gross receipts" appears several times in the parties' agreement. In the exhibit attached to the contract discussing motion picture rights, the term appears in a separate section heading and is given a specific definition peculiar to motion picture revenue and exclusions. "Gross receipts" also appears as a separate section heading in the exhibit discussing television series rights. Again, the term is defined and given a peculiar meaning tied to revenue sources and exclusions uniquely relevant to production of a potential television series. In the section of the contract discussing Wolf's royalty rights to *character merchandising* the term "gross receipts" again appears. This time, however, the term does not appear in a separate section heading, and "gross receipts" is not defined. Moreover, the term is not even capitalized to suggest it has a special or limited meaning in the merchandising context. As a result, the term "gross receipts" must be considered in light of all the circumstances and the overall context of the contract.

Paragraph 2 of the agreement describes the merchandising rights Disney purchased:

"(h) The sole and exclusive right to make, publish and vend, throughout the world, or to license others so to make, publish and vend, representations of the characters created by the Seller [Wolf] which are in the work (including said characters from the work appearing in any such motion pictures or other adaptations), upon, in and/or in connection with articles of merchandise, or the advertising, display or exploitation of merchandise or in connection with any commercial activities."[211]

Paragraph 21 of the 1983 agreement concerns Disney's obligation to pay royalties for the merchandising of Wolf's characters. This paragraph provides:

"21. In the event that Purchaser [Disney] exercises any of the rights granted to it in and by Subparagraph 2(h), (i) and (k) hereof, Purchaser agrees to pay to Seller [Wolf] a sum equal to five percent (5%) of Purchaser's *gross receipts* derived from the exercise of such rights, which, in the

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[210] *WYDA Associates v. Merner* (1996) 42 Cal. App. 4th 1702, 1710, 50 Cal.Rptr.2d 323; see also *Morey v. Vannucci, supra,* 64 Cal. App. 4th 904, 913, 75 Cal. Rptr. 2d 573 ["An appellate court is *not* bound by a trial court's construction of a contract where (a) the trial court's contractual interpretation is based solely upon the terms of the written instrument *without* the aid of extrinsic evidence; ..."].

[211] Disney also purchased the right to use Wolf's characters in children's storytelling recordings, and in various types of children's books.

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event of Purchaser's licensing of any such rights to others, shall be composed of Purchaser's royalties so derived from the licensee. In the event that such licensee is a subsidiary of Purchaser, then such royalties received by Purchaser from such subsidiary shall be deemed to be not less than five percent (5%) of such subsidiary's gross receipts derived from the exercise of such rights. Purchaser's obligation to pay such sums to Seller shall not accrue unless and until monies with respect to which the same are to be paid shall have been received within the United States of America by, and placed at the unrestricted disposal of, Purchaser or Purchaser's subsidiary (or if restricted from being transmitted to the United States by applicable law or regulations ['restricted funds'] then the restricted funds shall be deemed to have been so received to the extent used by Purchaser or Purchaser's subsidiary in such territory from which such monies would have otherwise been transmitted). So long as such monies are so received, Purchaser shall render semi-annual statements to the Seller within forty-five (45) days after the end of each half of the calendar year, showing the sums of money so received during the preceding half with respect to which the said obligation applies; and said statements shall be accompanied by payment of the amount appearing thereby to be then due from Purchaser to Seller. All such statements shall be mailed to Seller at the address specified for notices herein, unless or until Purchaser is otherwise instructed in writing. All statements and accountings furnished by Purchaser hereunder shall be conclusively deemed correct unless the same shall be objected to within ninety (90) days from Purchaser's rendition thereof...."[212]

Disney emphasizes this paragraph uses the terms "monies" and "monies so received" and discusses "statements" for monies "so received." Based on this language in the paragraph on royalty rights Disney argues "gross receipts" clearly and unambiguously means only cash, and then only when actual cash is received.

In support of its argument "gross receipts" can only mean "cash received," Disney relies on the decision in *County of Sacramento v. Pacific Gas and Electric Company.*[213] There the court held the utility's gross receipts for purposes of calculating its franchise fee did not include the value of electricity consumed by the utility itself in generating electricity for sale to consumers. The decision in *County of Sacramento* is of no assistance here. In the context of franchise fees on

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[212]Italics added. The balance of paragraph 21 provides: "Purchaser's said obligation shall not apply to picture books or other books containing no text material (or containing text material averaging not more than two lines per page), comic strips, comic books, magazines or other similar types of publications, nor to or in connection with publication of, or sound recordings or record albums of, only music or lyrics, or both (as distinguished from children's storytelling records under Subparagraph 2(i)), from any of the Purchaser's versions of the work. Nothing in this paragraph contained shall be construed as requiring Purchaser to manufacture, publish or sell, or to license the manufacture, publication or sale of, any items which are the subject hereof. In the case of restricted funds, at the request and expense of Seller, and subject to applicable law and banking regulations, Purchaser agrees to cause an amount equal to the sum otherwise payable to Seller hereunder with respect to such restricted funds, to be deposited in a bank account in the territory involved in Seller's name, and such deposit shall constitute payment by Purchaser to Seller hereunder. If, other factors being equal, Purchaser has a choice between an interest and noninterest bearing bank account at the same bank, the deposit will be made in the bank account which is interest bearing. Purchaser shall in no event be liable for interest on sums deposited regardless of whether such deposit is made in an interest or non-interest bearing account."

[213]*County of Sacramento v. Pacific Gas & Elec. Co.* (1987) 193 Cal. App. 3d 300, 238 Cal. Rptr. 305.

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public utilities, the definition of the term "gross receipts" was dictated by statute and prior decisions interpreting the statute at issue, which excluded the monetary value of electricity consumed internally and not sold for cash. Accordingly, the decision in *County of Sacramento* sheds no light on the issue whether the term "gross receipts" may be subject to multiple meanings in a private contract in the entertainment industry context.

Wolf offered extrinsic evidence to show the term "gross receipts" meant not just cash receipts but also other valuable consideration received. Wolf pointed out the interpretation he urged was consistent with the legal definition of "gross receipts" as defined in Black's Law Dictionary, namely, "[t]he total amount of money or the value of other consideration received from selling property or from performing services."[214] Wolf also referred the court to an appellate decision in which the court stated the term "gross receipts" was such a familiar and commonplace term in accounting and taxation that when used in its ordinary sense it meant the "total amount of money or the value of other consideration received."[215]

Wolf argued this is the definition of "gross receipts" customarily used in the entertainment industry when the term is not otherwise limited or defined by written contract. Wolf thus urged the court to read paragraph 21 in the context of custom and practice in the entertainment industry. The extrinsic evidence Wolf offered to explain industry custom consisted of expert testimony from David Held. Mr. Held is an attorney who has worked in the motion picture industry since 1973. United Artists Corporation, Paramount Pictures Corporation and the Samuel Goldwyn Company have employed him. He initially worked as an attorney in the legal department then in such capacities as Director of Business Affairs, Vice President of Business Affairs and was ultimately promoted to the position of Executive Vice President in Charge of Business Affairs in Paramount's Motion Picture Group. Since 1988, Held has been employed as a consultant in the entertainment industry. In his 28 years of experience Held had personally negotiated, or supervised negotiations of, thousands of agreements and also reviewed thousands of proposals involving third party participation agreements, film performance reports, and the like.

Held stated, from the start of his career until the present, the term "gross receipts" in the entertainment industry "means the total amount of money or the value of other consideration received by the studio" when not otherwise specifically defined to limit the term's meaning.

In his declaration, Held explained the portion of paragraph 21 which uses the terms "monies" does not purport to define the term "gross receipts." Instead, it specifies Disney's obligation to pay royalties does not arise unless or until potential or proposed licensing of the Wolf characters became a fait accompli and the terms of such agreements carried out so as to ensure the studio did not become responsible to pay royalties on failed or aborted projects. Regarding alliance agreements in which the licensor received promotional benefits rather than

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[214] Black's Law Dictionary (6th ed.1990) page 703, 2d column.

[215] See *County of Sacramento v. Pacific Gas & Elec. Co., supra,* 193 Cal.App.3d 300, 309, 238 Cal. Rptr. 305 ["the courts have always considered that gross receipts are measured by money or other consideration actually received by a party or paid for his benefit"].

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cash, Held stated industry custom for purposes of paying royalties was to attribute a cash value to the benefits a studio received.

The trial court read Held's declaration and questioned Wolf about its meaning. The court noted, "So where we are here is that personally I think 'gross receipts,' as the parties wrote it in paragraph 21, means 'money.' But if I have to consider that Held declaration, you win the summary judgment. There's a disputed issue of fact. That's where we are. That's the bottom line." Ultimately, the trial court concluded it did not need to consider Wolf's extrinsic evidence, finding the term "gross receipts" unambiguously meant cash money.

We find the trial court erred in its treatment of the proffered extrinsic evidence on the issue whether the contract was ambiguous. At the very least, this conflicting evidence exposed an ambiguity in the term's meaning. If Held's definition is the industry norm, then the competing definitions were equally plausible. Disney, on the other hand, argues the parties' contract did not use the term "gross receipts" in a technical sense and for this reason the expert's declaration of industry custom and practice was inadmissible. However, we note, Disney did not--and does not attempt to-- refute the expert's factual assertion through independent evidence that in the entertainment industry context "gross receipts" means not only cash, but also the value of other consideration received. Accordingly, the trial court was not justified in rejecting this extrinsic evidence on the ground it did not comport with the court's own view of the contract language as unambiguous.

This case is analogous to the situation presented in *Pacific Gas and Electric Company v. G.W. Thomas Drayage & Rigging Company.*[216] In *Thomas Drayage,* the Supreme Court considered a contract clause in which the defendant agreed to indemnify the plaintiff for injury to property arising out of or connected with the performance of the contract. The trial court agreed with the defendant the clause could be read to cover only injury to the property of third parties. The trial court nevertheless held the "plain language" of the agreement also required defendant to indemnify plaintiff for injuries to plaintiff's property. Once the trial court concluded the contract had a plain meaning it refused to admit any extrinsic evidence contradicting its interpretation.[217] The Supreme Court observed, "[w]hen the court interprets a contract on this basis, it determines the meaning of the instrument in accordance with the ' ... extrinsic evidence of the judge's own linguistic education and experience.' [Citation.] The exclusion of testimony that might contradict the linguistic background of the judge reflects a judicial belief in the possibility of perfect verbal expression...."[218]

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[216]*Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co.* (1968) 69 Cal.2d 33, 69 Cal.Rptr. 561, 442 P.2d 641.

[217]*Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co., supra,* 69 Cal.2d 33, 36, 69 Cal.Rptr. 561, 442 P.2d 641.

[218]*Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co., supra,* 69 Cal.2d 33, 36-37, 69 Cal.Rptr. 561, 442 P.2d 641; see also *Southern Pacific Transportation Co. v. Santa Fe Pacific Pipelines, Inc.* (1999) 74 Cal.App.4th 1232, 88 Cal.Rptr.2d 777 [court erroneously refused to even consider extrinsic evidence of trade usage and custom in evaluating the fair market value of pipeline easements].

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The court explained the test for admitting extrinsic evidence as an aid in interpreting contract terms as follows: "The test of admissibility of extrinsic evidence to explain the meaning of a written instrument is not whether it appears to the court to be plain and unambiguous on its face, but whether the offered evidence is relevant to prove a meaning to which the language of the instrument is reasonably susceptible."[219] [Citations.]

"The fundamental goal of contractual interpretation is to give effect to the mutual intention of the parties."[220] "The mutual intention to which the courts give effect is determined by objective manifestations of the parties' intent, including the words used in the agreement, as well as extrinsic evidence of such objective matters as the surrounding circumstances under which the parties negotiated or entered into the contract; the object, nature and subject matter of the contract; and the subsequent conduct of the parties. (Civ.Code, §§ 1635-1656; Code Civ. Proc., §§ 1859-1861, 1864; *Hernandez v. Badger Construction Equipment Co.* (1994) 28 Cal.App.4th 1791, 1814, 34 Cal.Rptr.2d 732; 1 Witkin, Summary of Cal. Law (9th ed. 1987) Contracts, §§ 688-689, pp. 621-623.)"[221]

Because there is no evidence in this case of objective manifestations of the parties' intent,[222] and because the term at issue is undefined in the parties' contract, the only way to construe the meaning of the term "gross receipts" is to consider the nature of the contract and the circumstances under which the parties negotiated.[223] In this case, both the nature of the contract and the circumstances involved the motion picture industry. The offered evidence of industry

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[219] *Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co., supra,* 69 Cal.2d 33, 37, 69 Cal.Rptr. 561, 442 P.2d 641. The Supreme Court provided examples of how extrinsic evidence of trade usage or custom revealed latent ambiguities in the meaning of terms otherwise unambiguous on their face. Such evidence had been admitted to show the word "ton" in a lease meant a long ton or 2,240 pounds and not the statutory ton of 2,000 pounds; the word "stubble" in a lease included not only stumps left in the ground but everything left on the ground after the harvest; the term "north" in a contract dividing mining claims indicated a boundary line running along the magnetic and not the true meridian; and a form contract for purchase and sale was actually an agency contract. (*Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co., supra,* 69 Cal.2d 33, 39, fn. 6, 69 Cal.Rptr. 561, 442 P.2d 641 and cases cited.)

[220] *Bank of the West v. Superior Court* (1992) 2 Cal.4th 1254, 1264, 10 Cal.Rptr.2d 538, 833 P.2d 545; *Parsons v. Bristol Development Co.* (1965) 62 Cal.2d 861, 865, 44 Cal.Rptr. 767, 402 P.2d 839.

[221] *Morey v. Vannucci, supra,* 64 Cal.App.4th 904, 912, 75 Cal.Rptr.2d 573.

[222] This is distinct from evidence of the uncommunicated *subjective* intent of two of Disney's employees who acknowledged never discussing the term with Wolf or his representatives, but who testified they understood the term "gross receipts" to mean cash received. These employees could only assume Wolf and his representatives had the same meaning in mind. Based on these Disney employees' testimony, Disney invokes the rule that when a term is found to be ambiguous, "it must be interpreted in the sense in which the promisor believed, at the time of making it, that the promisee understood it." (Civ.Code, § 1649; *Bank of the West v. Superior Court, supra,* 2 Cal.4th 1254, 1264-1265, 10 Cal.Rptr.2d 538, 833 P.2d 545.) This rule does not, as Disney suggests, mean the promisor's subjective intent controls. The rule is instead designed to override the promisor's subjective intent whenever necessary to protect the promisee's objectively reasonable expectations. (*Bank of the West v. Superior Court, supra,* 2 Cal.4th 1254, 1265, 10 Cal.Rptr.2d 538, 833 P.2d 545.) As we later note, Wolf's objectively reasonable expectations at the time of negotiations remains a material triable issue of fact.

[223] See, e.g., *General Motors Corp. v. Superior Court* (1993) 12 Cal.App.4th 435, 442, 15 Cal.Rptr.2d 622.

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custom and usage revealed the term "gross receipts" had more than one possible meaning. Thus, the industry expert's statements of fact were relevant and admissible to expose the latent ambiguity in the contract language regarding the industry's customary usage of the term. Held's declaration did not violate the parol evidence rule, as Disney suggests.[224] On the contrary, the proffered evidence regarding trade usage and custom was relevant to prove an interpretation to which the agreements were reasonably susceptible in the entertainment industry context.

The Supreme Court discussed the rule regarding the admission of trade usage and custom in *Ermolieff v. R.K.O. Radio Pictures, Inc.*[225] In *Ermolieff* the parties were producers and distributors in the motion picture industry. The plaintiff had reserved distribution rights in all countries not listed in an exhibit attached to the contract. The exhibit listed the United Kingdom as an area for which plaintiff had assigned his distribution rights. A dispute arose over the question whether Ireland, or the "Free Irish State," was included within the global term "United Kingdom." The plaintiff argued the plain language of the contract made clear Ireland was excluded because it was not a part of the United Kingdom. The studio countered including Ireland within the term "United Kingdom" was the custom and practice in the motion picture industry and such usage was part of the contract.[226] Both parties sought declaratory relief.

At the close of the plaintiff's case the trial court ruled the evidence of trade usage incompetent, struck the defendant's evidence, and entered judgment in favor of the plaintiff.[227] The Supreme Court reversed. "The correct rule with reference to the admissibility of evidence as to trade usage under the circumstances here presented is that while words in a contract are ordinarily to be construed according to their plain, ordinary, popular or legal meaning, as the case may be, yet if in reference to the subject matter of the contract, particular expressions have by trade usage acquired a different meaning, and both parties are engaged in that trade, the parties to the contract are deemed to have used them according to their different and peculiar sense as shown by such trade usage. Parol evidence is admissible to establish the trade usage, and that is true even though the words are in their ordinary or legal meaning entirely unambiguous, inasmuch as by reason of the usage the words are used by the parties in a different sense. [Citations.] The basis of this rule is that to accomplish a purpose of paramount importance in interpretation of documents, namely, to ascertain the true intent of the parties, it may well be said that the usage evidence does not alter the contract of the parties, but on the contrary gives the effect to the words there used as intended by the parties. The usage becomes a part of the contract in aid of its correct interpretation."[228]

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[224]Compare *Bionghi v. Metropolitan Water Dist. of So. California* (1999) 70 Cal.App.4th 1358, 83 Cal.Rptr.2d 388 [integrated agreement which gave the district the right to cancel the contract on 30 days' written notice could not be contradicted by the plaintiff's proposed additional condition of cancellation only with good cause]; *General Motors Corp. v. Superior Court, supra,* 12 Cal.App.4th 435, 15 Cal.Rptr.2d 622 [current counsel who had not negotiated settlement and release agreement could not offer competent testimony regarding the contracting parties' subjective intent when executing the agreement].

[225]*Ermolieff v. R.K.O. Radio Pictures, Inc.* (1942) 19 Cal.2d 543, 122 P.2d 3.

[226]*Ermolieff v. R.K.O. Radio Pictures, Inc., supra,* 19 Cal.2d 543, 545-546, 122 P.2d 3.

[227]*Ermolieff v. R.K.O. Radio Pictures, Inc., supra,* 19 Cal.2d 543, 546, 122 P.2d 3.

[228]*Ermolieff v. R.K.O. Radio Pictures, Inc., supra,* 19 Cal.2d 543, 550, 122 P.2d 3.

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In *Ermolieff* the trial court at least considered the proffered extrinsic evidence throughout the plaintiff's entire case-in-chief. In the present case, by contrast, the trial court rejected the evidence after reading the expert's declaration and questioning Wolf on its content. Yet, this extrinsic evidence of trade usage exposed a latent ambiguity in the contract language and presented an alternative interpretation to which the term "gross receipts" was reasonably susceptible in the circumstances. Accordingly, we conclude the trial court erred in rejecting the extrinsic evidence and in concluding the term "gross receipts" was not reasonably susceptible to the interpretation urged by Wolf that according to industry custom and usage "gross receipts" meant cash and other valuable consideration received.

III. *THE CONFLICTING INTERPRETATIONS OF THE CONTRACT TERM RAISE FACTUAL ISSUES WHICH PRECLUDE A DETERMINATION AS A MATTER OF LAW.*

Having determined the contract is reasonably susceptible to the meaning given it by Wolf, we address the second step in the analysis--the ultimate construction to be placed on the ambiguous language. As noted, where no extrinsic evidence is introduced or the evidence is not in conflict, an appellate court will independently construe the contract.[229] "Where, however, a conflict in the evidence exists, it must be resolved in the trial court, as with any question of fact, before the court can declare the meaning of the contract as a matter of law."[230]

From what this court has observed earlier, it is apparent triable issues of fact remain regarding the proper meaning to be given the term "gross receipts," thus precluding our independent interpretation of the contract as a matter of law. By way of example only, Disney claims it receives nothing from the noncash alliance agreements. In the alternative, Disney argues even if it derives some intrinsic benefit from participating in joint promotions, it is not feasible for third parties to ascribe values to these promotional activities unless Disney receives cash. Disney thus claims under Wolf's interpretation it would be impossible to comply with its contract obligation to provide an accounting for fictional benefits allegedly derived from noncash alliance agreements.

Wolf, by contrast, asserts Disney and its vast enterprises receive benefits from the third party promotions in the form of good will, increased theme part attendance, increased merchandise sales, film attendance and the like, most of these benefits not reflected in increased royalty payments to Wolf. For these reasons, Wolf claims attribution of monetary values for in-kind promotional activities is a routine matter in the entertainment industry.

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[229]*Parsons v. Bristol Development Co., supra,* 62 Cal.2d 861, 866, 44 Cal.Rptr. 767, 402 P.2d 839.

[230]*Southern Cal. Edison Co. v. Superior Court* (1995) 37 Cal.App.4th 839, 852, 44 Cal.Rptr.2d 227; see also *Walter E. Heller Western, Inc. v. Tecrim Corp.* (1987) 196 Cal.App.3d 149, 158, 241 Cal.Rptr. 677 ["(w)hen two equally plausible interpretations of the language of a contract may be made ... parol evidence is admissible to aid in interpreting the agreement, thereby presenting a question of fact which precludes summary judgment if the evidence is contradictory"].

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The reasonableness of the competing interpretations thus must be tested in light of these concerns.

Also as noted, neither side presented any direct or objective evidence regarding the negotiating parties' understanding of the term "gross receipts" at the time the parties entered into the contract. Accordingly, Wolf's and Disney's objectively reasonable expectations regarding the scope of the term when they agreed to the contract remain additional triable issues of material fact.

DISPOSITION

Let a peremptory writ issue directing the trial court to vacate its order granting the motion for summary adjudication of the cross-complainant's first, fourth and seventh causes of action for declaratory relief and to enter a new and different order denying said motion. Petitioners are entitled to costs in this proceeding.

USAGE: On page 1223, ADD the following text, case and article after note 15:

§5.06 Royalties

In the music industry, artists and songwriters are largely compensated by the payment of royalties. Generally, record companies and music publishers pay an advance to an artist or a songwriter which is recoupable from royalties generated from the exploitation of sound recordings and musical compositions. Music publishers represent musical compositions written by songwriters and record companies represent sound recordings recorded by artists.

With the advent of digital technology, music is almost everywhere and as such, music income sources have greatly increased since the early 2000s. However, since then, piracy has caused a huge decrease in the amount of income generated from music exploitation. Beginning around 2003, legitimate avenues of digital music consumption emerged beginning with the birth of the iTunes Music Store where consumers could download a song for $0.99. Of that $0.99, Apple keeps a certain amount and the remaining pennies are split between the sound recording and musical composition owner/administrator. If the artist(s) who recorded that sound recording and the songwriter(s) who wrote that musical composition are signed to a record deal and publishing deal (respectively), then Apple would pay that record label and that music publisher the remaining pennies, and the record label and music publisher would then, in-turn, pay the artist(s) and writer(s).

Since the birth of the iTunes store, several legal music sites have sprung up that monetize music and pay the record labels and publishers from the exploitation of music on their site. For example, streaming sites like Spotify, Pandora, and YouTube generate income from either

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advertising on the site (e.g., a pre-roll ad before a video begins on YouTube or an audio ad that plays every few songs on Spotify) or from paid subscriptions (e.g., subscribers pay a monthly fee for unlimited mobile access to the site).

In addition to digital income, several other exploitation methods generate income in the music industry. Such other methods include physical product sales, such as CDs and vinyl records; fees paid by film and TV companies and advertisers to use a song in a movie, TV program, or commercial; public performance income generated from radio air-play and live concerts; print income from sheet music sales; merchandising sales, ring-tone sales, and the list goes on. Once the record company or music publisher collect the income from the various exploitation methods, it processes the income into its royalty system, and then allocates a certain royalty percentage to the artist (from a record company) or songwriter (from the music publisher). The typical royalty percentage paid to the artist or songwriter varies by income type, so for example, a songwriter or artist might receive a different royalty percentage from the sale of a digital download as compared to a synchronization licensee fee for the placement of a song in a TV show. Typical royalty paragraphs can be found in the recording and publishing agreements contained in the Document Supplement.

[A] Recorded Music Branch

The case below demonstrates a dispute between a major artist's production company and a record label over the royalty percentage due to such artist's production company for the sale of digital downloads on the iTunes Music Store.

F.B.T. PRODUCTIONS, LLC v. AFTERMATH RECORDS

621 F.3d 958 (9th Cir. 2010)

SILVERMAN, Circuit Judge.

This dispute concerns the percentage of royalties due to Plaintiffs F.B.T. Productions, LLC, and Em2M, LLC, under their contracts with Defendant Aftermath in connection with the recordings of Marshal B. Mathers, III, professionally known as the rap artist Eminem. Specifically, F.B.T. and Aftermath disagree on whether the contracts' "Records Sold" provision or "Masters Licensed" provision sets the royalty rate for sales of Eminem's records in the form of permanent downloads and mastertones. Before trial, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to permanent downloads and mastertones. The district court denied the motion. At the close of evidence, F.B.T. did not move for judgment as a matter of law, and the jury returned a verdict in favor of Aftermath. On appeal, F.B.T. reasserts that the Masters Licensed provision unambiguously applies to permanent downloads and mastertones. We agree that the contracts are unambiguous and that the district court should have

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granted summary judgment to F.B.T. We therefore reverse the judgment and vacate the district court's order awarding Aftermath its attorneys' fees.

BACKGROUND

F.B.T. signed Eminem in 1995, gaining exclusive rights to his recordings. In 1998, F.B.T. signed an agreement transferring Eminem's exclusive recording services to Aftermath. The "Records Sold" provision of that agreement provides that F.B.T. is to receive between 12% and 20% of the adjusted retail price of all "full price records sold in the United States . . . through normal retail channels." The agreement further provides that "[n]otwithstanding the foregoing," F.B.T. is to receive 50% of Aftermath's net receipts "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses." The parties refer to this provision as the "Masters Licensed" provision. The contract defines "master" as a "recording of sound, without or with visual images, which is used or useful in the recording, production or manufacture of records." The agreement does not contain a definition of the terms "licensed" or "normal retail channels."

In 2002, Aftermath's parent company, Defendant UMG Recordings, Inc., concluded an agreement with Apple Computer, Inc., that enabled UMG's sound recordings, including the Eminem masters, to be sold through Apple's iTunes store as permanent downloads. Permanent downloads are digital copies of recordings that, once downloaded over the Internet, remain on an end-user's computer or other device until deleted. The contract between UMG and Apple is but one example of the many agreements that Aftermath has concluded to sell sound recordings in digital formats since approximately 2001. Since 2003, Aftermath has also concluded contracts with major cellular telephone network carriers to sell sound recordings as mastertones, which are short clips of songs that can be purchased by users to signal incoming calls, popularly known as ringtones.

In 2003, F.B.T. and Aftermath entered into a new agreement that terminated the 1998 agreement. The 2003 agreement increased some royalty rates, but incorporated the wording of the Records Sold and Masters Licensed provisions from the 1998 agreement. In 2004, the parties amended the agreement to provide that "Sales of Albums by way of permanent download shall be treated as [U.S. Normal Retail Channel] Net Sales for the purposes of escalations." Escalations are increases in the royalty rate when total album sales surpass certain targets. The amendment further provides, "Except as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect."

F.B.T. brought suit after a 2006 audit showed that Aftermath had been applying the Records Sold provision to calculate the royalties due to F.B.T. for sales of Eminem's recordings in the form of permanent downloads and mastertones. Before trial, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to those sales. Aftermath cross-moved for summary judgment. It argued, in part, that the 2004 amendment showed that the parties intended the Records Sold provision to apply to permanent downloads.

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After provisionally reviewing the undisputed extrinsic evidence, the district court concluded that the agreements were reasonably susceptible to either party's interpretation and denied both motions for summary judgment. At trial, only Aftermath moved for judgment as a matter of law at the close of the evidence. The court denied the motion. The jury returned a verdict in favor of Aftermath, and the district court awarded Aftermath its attorneys' fees of over $ 2.4 million. F.B.T. timely appealed the district court's final judgment and award of attorneys' fees. We have jurisdiction pursuant to *28 U.S.C. § 1291* and we reverse.

DISCUSSION

I. *F.B.T. Is Not Precluded from Arguing that the Masters Licensed Provision Unambiguously Applies to Permanent Downloads and Mastertones*.

F.B.T. did not file a pre-verdict motion for judgment as a matter of law pursuant to *Federal Rule of Civil Procedure 50*, so it has not preserved "a challenge to the sufficiency of the evidence to support the verdict" in this case. *Nitco Holding Corp. v. Boujikian, 491 F.3d 1086, 1089 (9th Cir. 2007)*. However, F.B.T.'s argument that the contracts are unambiguous raises an issue of law that does not rest on the sufficiency of the evidence to support the jury's verdict. *See Wolf v. Superior Court, 114 Cal. App. 4th 1343, 8 Cal. Rptr. 3d 649, 656 (Ct. App. 2004)* ("The trial court's determination of whether an ambiguity exists is a question of law, subject to independent review on appeal."). F.B.T. therefore did not have to present that argument in a motion for judgment as a matter of law. Rather, F.B.T. had to raise the argument at some point before the judge submitted the case to the jury, which it did. *See Cochran v. City of L.A., 222 F.3d 1195, 1200 (9th Cir. 2000)* (holding that an issue of law that "does not concern the sufficiency of the evidence presented to the jury" need not be raised in a motion for judgment as a matter of law to preserve the issue for appeal); *Landes Constr. Co. v. Royal Bank of Can., 833 F.2d 1365, 1370 (9th Cir. 1987)* ("As long as a party properly raises an issue of law before the case goes to the jury, it need not include the issue in a motion for a directed verdict in order to preserve the question on appeal.").

F.B.T. argued that the contract was unambiguous in its motion for summary judgment, and the district court denied the motion. A district court's denial of summary judgment is subject to review on appeal, despite full trial on the merits, "where the district court made an error of law that, if not made, would have required the district court to grant the motion.". . . . For example, in *Wilson Arlington Co. v. Prudential Insurance Co., 912 F.2d 366, 370-71 (9th Cir. 1990)*, we reversed the denial of a summary judgment motion after a jury trial because the contract in question was unambiguous as a matter of law. . . .

Just as in *Wilson*, we may review the district court's determination that the contracts in this case are ambiguous. Under California law, "[t]he language of a contract is to govern its interpretation, if the language is clear and explicit, and does not involve an absurdity." *Cal. Civ. Code § 1638*. Parol evidence is properly admitted to construe a contract only when its language is ambiguous. . . . Despite the trial court's provisional review of extrinsic evidence, its determination of whether an ambiguity exists remains "a question of law, subject to independent review on appeal." *Wolf, 8 Cal. Rptr. at 656*; *see also City of Hope Nat'l Med. Ctr. v. Genetech, Inc., 43*

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Cal. 4th 375, 75 Cal. Rptr. 3d 333, 181 P.3d 142, 156 (Cal. 2008) (stating that contract interpretation is a question of law for the court "when it is based on the words of the instrument alone [or] when there is no conflict in the extrinsic evidence").

Here, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to permanent downloads and mastertones. The district court denied F.B.T.'s motion because it determined that the agreements were reasonably susceptible to Aftermath's contrary interpretation that the Records Sold provision applied. That determination was on a "question of law," *Wolf, 8 Cal. Rptr. 3d at 656*, that if decided in F.B.T.'s favor "would have required the district court to grant the [summary judgment] motion," . . . . We may therefore review the district court's denial of summary judgment despite full trial on the merits.

II. ***The District Court Erred in Determining that the Contracts Were Ambiguous***.

Turning to the agreements in question, the Records Sold provision contains the royalty rate for "full price records sold in the United States . . . through normal retail channels." On summary judgment, Aftermath argued that the Records Sold provision applied because permanent downloads and mastertones are records, and because iTunes and other digital music providers are normal retail channels in the United States.

However, the agreements also provide that "notwithstanding" the Records Sold provision, F.B.T. is to receive a 50% royalty on "masters licensed by [Aftermath]. . . to others for their manufacture and sale of records or for any other uses." The parties' use of the word "notwithstanding" plainly indicates that even if a transaction arguably falls within the scope of the Records Sold provision, F.B.T. is to receive a 50% royalty if Aftermath licenses an Eminem master to a third party for "any" use. A contractual term is not ambiguous just because it is broad. Here, the Masters Licensed provision explicitly applies to (1) masters (2) that are licensed to third parties for the manufacture of records "or for any other uses," (3) "notwithstanding" the Record Sold provision. This provision is admittedly broad, but it is not unclear or ambiguous.

Accordingly, to determine whether the Masters Licensed provision applies, we must decide whether Aftermath licensed the Eminem masters to third parties. Aftermath argues that there was no evidence that it or F.B.T. used the term "licensed" in a technical sense. *See Cal. Civ. Code § 1644* ("The words of a contract are to be understood in their ordinary and popular sense, rather than according to their strict legal meaning; unless used by the parties in a technical sense . . . ."). In the ordinary sense of the word, a license is simply "permission to act." WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE 1304 (2002). Aftermath did not dispute that it entered into agreements that permitted iTunes, cellular phone carriers, and other third parties to use its sound recordings to produce and sell permanent downloads and mastertones. Those agreements therefore qualify as licenses under Aftermath's own proposed construction of the term.

The conclusion that Aftermath licensed the Eminem masters to third parties also comports well with and finds additional support in federal copyright law. When one looks to the Copyright

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Act, the terms "license" and "sale" have well differentiated meanings, and the differences between the two play an important role in the overall structures and policies that govern artistic rights. For example, under the language of the Act and the Supreme Court's interpretations, a "sale" of a work may either be a transfer in title of an individual copy of a work, or a sale of all exclusive intellectual property rights in a work. *See 17 U.S.C. § 109* (describing the "first sale" doctrine); *Quality King Distribs. v. L'Anza Research Int'l, 523 U.S. 135, 145, 118 S. Ct. 1125, 140 L. Ed. 2d 254 (1998)* (describing the transfer of an individual copy of a work as a sale); *see also* 3-10 *NIMMER ON COPYRIGHT § 10.02* (2009) (describing a transfer of all ownership in a copyright as a sale).

There is no dispute that Aftermath was at all relevant times the owner of the copyrights to the Eminem recordings at issue in this case, having obtained those rights through the recording contracts in exchange for specified royalty payments. Pursuant to its agreements with Apple and other third parties, however, Aftermath did not "sell" anything to the download distributors. The download distributors did not obtain title to the digital files. The ownership of those files remained with Aftermath, Aftermath reserved the right to regain possession of the files at any time, and Aftermath obtained recurring benefits in the form of payments based on the volume of downloads.

Much as *Section 109* describes a "sale" under the "first sale" doctrine, various other sections of the Copyright Act illuminate the meaning of the term "license." For example, *section 114(f)*, titled "Licenses for Certain Nonexempt Transmissions," describes the statutory authorization for a third party to exercise public performance rights that otherwise remain the exclusive rights of a copyright holder and defines this authorization as a "license." *17 U.S.C. § 114(f)*; *see also 17 U.S.C. §§ 111(a)*, *114(d)(2)*. *Section 115*, titled "Scope of Exclusive Rights in Nondramatic Musical Works: Compulsory License for Making and Distributing Phonorecords," refers directly to the statutory authorization for artists to exercise the copyright owner's right to make and distribute phonorecord "covers" as a license, but again makes it clear that title remains with the copyright owner. *17 U.S.C. § 115*.

Under our case law interpreting and applying the Copyright Act, too, it is well settled that where a copyright owner transfers a copy of copyrighted material, retains title, limits the uses to which the material may be put, and is compensated periodically based on the transferee's exploitation of the material, the transaction is a license. *See, e.g., Wall Data Inc. v. Los Angeles County Sheriff's Dep't, 447 F.3d 769, 785 (9th Cir. 2006)*; *MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993)*; *United States v. Wise, 550 F.2d 1180, 1190-91 (9th Cir. 1977)*; *Hampton v. Paramount Pictures Corp., 279 F.2d 100, 103 (9th Cir. 1960)*.

It is easily gleaned from these sources of federal copyright law that a license is an authorization by the copyright owner to enable another party to engage in behavior that would otherwise be the exclusive right of the copyright owner, but without transferring title in those rights. This permission can be granted for the copyright itself, for the physical media containing the copyrighted work, or for both the copyright and the physical media.

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When the facts of this case are viewed through the lens of federal copyright law, it is all the more clear that Aftermath's agreements with the third-party download vendors are "licenses" to use the Eminem master recordings for specific purposes authorized thereby–i.e., to create and distribute permanent downloads and mastertones–in exchange for periodic payments based on the volume of downloads, without any transfer in title of Aftermath's copyrights to the recordings. Thus, federal copyright law supports and reinforces our conclusion that Aftermath's agreements permitting third parties to use its sound recordings to produce and sell permanent downloads and mastertones are licenses.

Furthermore, the sound recordings that Aftermath provided to third parties qualify as masters. The contracts define a "master" as a "recording of sound . . . which is used or useful in the recording, production or manufacture of records." Aftermath admitted that permanent downloads and mastertones are records. The sound recordings that Aftermath supplied to third parties were "used or useful" in the production of permanent downloads and mastertones, so those sound recordings were masters. Because Aftermath permitted third parties to use the Eminem masters to produce and sell records, in the form of permanent downloads and mastertones, F.B.T. is entitled to a 50% royalty under the plain terms of the agreements.

Aftermath argues that the 2004 amendment to the agreements clarified that the Records Sold provision sets the royalty for permanent downloads. However, the 2004 amendment states only that albums sold as permanent downloads are to be counted "for purposes of escalations" under the Records Sold provision, and that "[e]xcept as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect." Read in context, the plain language of the amendment provides that sales of permanent downloads by third parties count towards escalations on the royalty owed when Aftermath itself sells records through normal retail channels. It does not state, and in no way implies, that the royalty rate for the sale of the permanent downloads by third parties is set by the Records Sold provision.

Nor did any of the evidence regarding industry custom or the parties' course of performance support Aftermath's interpretation that the Records Sold provision applies. Aftermath's expert explained that the Masters Licensed provision had in the past been applied "only to compilation records and incorporation into movies, TV shows, and commercials." It was, however, undisputed that permanent downloads and mastertones only came into existence from 2001 to 2003. Consequently, the fact that the Masters Licensed provision had never previously been applied to those forms of licensing is immaterial. There is no indication that the parties intended to confine the contract to the state of the industry in 1998. To the contrary, the contract contemplated advances in technology. It provided that Aftermath had the right to exploit the "masters in any and all forms of media now known and hereinafter developed." Aftermath's evidence of how the Masters Licensed provision had been applied in the past therefore did not cast doubt on its application to permanent downloads and mastertones.

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Furthermore, Aftermath renewed its agreement with F.B.T. in 2003, by which time permanent downloads and mastertones were coming into existence. Aftermath argued that subsequent to renewal, F.B.T. had "never objected to Defendants' payment of royalties under the Records Sold provision until the auditor raised the issue in 2006." However, Aftermath provided no evidence that F.B.T. knowingly acquiesced to payment under the Records Sold provision between 2003 and 2006. It showed that F.B.T. had received statements that included royalties for permanent downloads and mastertones, but it was uncontroverted that F.B.T. did not audit those royalty statements until 2006. F.B.T. had no obligation to audit the statements any earlier than it did, and it immediately raised the issue with Aftermath after the audit. Accordingly, Aftermath cannot use F.B.T.'s lack of objection to payments made before 2006 to prove how it interpreted the agreements. . . . The undisputed extrinsic evidence provisionally reviewed by the district court therefore did not support Aftermath's interpretation that the Records Sold provision applies.

In sum, the agreements unambiguously provide that "notwithstanding" the Records Sold provision, Aftermath owed F.B.T. a 50% royalty under the Masters Licensed provision for licensing the Eminem masters to third parties for any use. It was undisputed that Aftermath permitted third parties to use the Eminem masters to produce and sell permanent downloads and mastertones. Neither the 2004 amendment nor any of the parole evidence provisionally reviewed by the district court supported Aftermath's interpretation that the Records Sold provision applied. Because the agreements were unambiguous and were not reasonably susceptible to Aftermath's interpretation, the district court erred in denying F.B.T. summary judgment.

The judgment in favor of aftermath is reversed, the district court's order granting aftermath its attorneys' fees is vacated, and the case is remanded for further proceedings consistent with this opinion.

Notes and Questions

(1) After *F.T.B. Productions v. Aftermath Records* was decided in F.T.B.'s favor, the parties returned to court to determine the damages award to F.T.B., however, the parties ultimately settled on the damages issue privately out of court.

(2) What impact might the ruling in *F.T.B. Productions v. Aftermath Records* have on how record company lawyers draft recording agreements going forward?

(3) Following the *F.T.B*. decision, several artists including, The Temptations, Kenny Rogers, James Taylor, 'Weird Al' Yankovic, Rob Zombie, the Estate of Rick James, Sister Sledge, and Whitesnake, brought legal challenges against their record labels, ranging from Universal Music Group, Sony Music Entertainment, and Warner Music Group, claiming that they too should have been paid a 50% royalty for digital downloads sold via licensees such as Apple. See, e.g., Matthew Belloni, *Sister Sledge Files Class Action Against Warner Music Over Digital Royalties (Exclusive)*, Hollywood Reporter (Feb. 3, 2012),

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http://www.hollywoodreporter.com/thr-esq/sister-sledge-files-class-action-286903; Eriq Gardner, *The Temptations Join Chorus of Lawsuits Over iTunes Royalties (Exclusive),* Hollywood Reporter (Mar. 15, 2012), http://www.hollywoodreporter.com/thr-esq/temptations-itunes-lawsuits-300733; Sara Gates, *Weird Al Yankovic Files $5 Million Lawsuit Against Sony Music*, The Huffington Post (Apr. 2, 2012), http://www.huffingtonpost.com/2012/04/02/weird-al-yankovic-sues-sony_n_1396364.html; Ben Sisario, *Lawsuit Seeking Greater Digital Royalties for Eminem's Music Is Settled,* L.A. Times (Oct. 30, 2012), http://mediadecoder.blogs.nytimes.com/2012/10/30/lawsuit-seeking-greater-digital-royalties-for-eminems-music-is-settled/; Ben Sisario, *Suit Seeks Higher Royalties From Universal Music,* N.Y. Times (May 19, 2011), http://mediadecoder.blogs.nytimes.com/2011/05/19/suit-seeks-higher-royalties-from-universal-music/#postComment.

In addition to royalty payments from records sales and licensing, artists also receive compensation from ancillary sources of income such as touring and playing live concerts, merchandise sales, sponsorships, endorsements and fan clubs. Traditionally, record labels did not participate in these ancillary income sources. However, beginning in the mid 2000s, record labels began entering into a new form of recording agreement called a "360 deal" where the record company participates in these other income sources in addition to income generated from the exploitation of recorded masters.

A 360 deal can take various forms. One form is for the record company to enter into a traditional record agreement with the artist plus a separate ancillary income agreement which allows the record company to be paid a certain percentage of the revenue generated from the artists ancillary activities outside of record sales and licensing. In this type of agreement, the record company is treated as a passive income participant, meaning the record company does not have an active role in making decisions regarding those ancillary income streams. Another form of a 360 deal is where the record company and the artist enter into one agreement for both recording of masters *and* other ancillary income streams, and the record company pays the artist one royalty rate (e.g., 50% of net receipts) for all income streams. In such an arrangement, the record company might take an active role in the artist's ancillary activities meaning the artist might need to cede some creative control with respect to merchandising, touring, and music publishing to the record company.

Although increasingly common, particularly for new artists, 360 deals have remained a controversial topic because many artists and music industry professionals believe that a record company should not participate in ancillary income sources. The below article explains more about 360 deals and addresses some of the concerns artists may have with the 360 deal model.

Negotiating a 360 Deal: Considerations on the Promises and Perils of a New Music Business Model

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27 Entertainment & Sports Lawyer 4 (Winter 2010)
By Edward Pierson[231]

It is seldom in a banquet hall full of lawyers that one can ever hear a pin drop. But, in the moment when the famous artist luncheon speaker at this year's Annual Meeting of the Forum Committee on the Entertainment and Sports Industries in New York City told his audience of entertainment and sports lawyers that all new artists who signed to his label had to sign non-negotiable 360 degree deals, one could hear a pin (and see many jaws) drop. . . .

Using the phrase "non-negotiable" to a room of transaction lawyers is much like saying "fire" to a crowded room of firemen. . . .

While one needs to see and consider the exact language of a proposed 360 deal, as well as the position and intent of the client, generally the notion that a long-term exclusive agreement such as a so called 360 deal is "non-negotiable" is hard for transactional lawyers to understand or accept. Historically it has been some transactional lawyers view that the more willing a party is to negotiable their proposed agreement, the better that party will act and behave during the term of the agreement and thereafter. Conversely, contracts that tend to be non-negotiable, needing to be signed the day or hour of presentation or on a "take it or leave it" basis, tend to end in tears or at an appellate court level. . . .

The 360 deal itself (even without the "non-negotiable" part) remains a concept of current and substantial debate, broad application and evolution. The so-called 360 deal exists in many variations. Some companies profess to have or require it and really don't. Other companies, never use the phrase yet effectively acquire 360 or expanded rights in their agreements. In some cases, what is labeled as a 360 deal is an "old school" contract configuration of management, recording and publishing agreements which effectively allowed the label/manager/publisher to share in all income sources of the artist. Such agreements were common beginning in the 1960's and viewed in recent years by some as a type of 360 deal. There's also a new school variety of 360 deal, which generally does not include the management function but does provide the label or party signing the artist participation in multiple revenue streams of the artist's career. Be it old school, new school or something in between, a 360 deal is one that involves a substantial commitment on the part of the artist and one that requires careful review, consideration and negotiation.

The description of 360 deals in Wikipedia is not a bad one and worthy of citing for this discussion:[232]

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[231]Ed Pierson is a Seattle based attorney in private practice and an Adjunct Professor of Law at Southwestern Law School. He is the co-author of "Law and Business of the Entertainment Industries" now in its Fifth Edition, the former Chair of the Forum Committee on the Entertainment and Sports Industries, and can be contacted at: ed.pierson@gmail.com.

[232]http://en.wikipedia.org/wiki/360_deal.

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> In the music industry, a **360 deal** is a business relationship between an artist and a music industry company. The company agrees to provide financial support for the artist, including direct advances as well as funds for marketing, promotion and touring, as an investment to the artist's lucrative potential. The artist agrees to give the company a percentage of all of their interests, including sales of recorded music, live performances and any other income.
>
> 360 deals have been made by traditional record companies, as in Robbie Williams' pioneering deal with EMI in 2007 They have also been made between artists and promoters, for example Madonna signed a 360 deal with Live Nation in 2007, as did Jay-Z in 2008.
>
> The business arrangement is an alternative to the traditional recording contract. During the first decade of the 21st century, revenues from recorded music fell dramatically and the profit margins traditionally associated with the record industry disappeared. The 360 deal reflects the fact that much of a musician's income now comes from sources other than recorded music, such as live performance and merchandise.

It is certainly understandable for a record company to seek such a deal today in light of the substantial declines the industry has seen in the sales of recorded music since 2000 coupled with the substantial investments made to try and launch an artist's career and the low rate of success in succeeding on such launches. A requirement today that a label, promoter or investor participate in multiple streams of artists revenue is, in and of itself shocking or not unexpected, But, such a deal being "non-negotiable" is.

"But, we're not in the growth era of recorded music sales, as we once were in those glory days" will argue the pre-360 deal advocates. It's a high investment cost, low rate of success, labor intensive business in which sales are declining every year. To which the anti-360 advocates will argue the advances, resources and ability to deliver success and results is also diminished in the downsized recorded music companies of today and in an age when the pie for all musicians may be smaller, it is unfair for the labels to now demand a greater share especially in activities where they may offer little expertise or resources. Whatever one's current position on the 360 concept is: several truths emerge. These deals are being discussed, proposed and required in an increasing number of situations, the deals vary quite dramatically and the scope of the commitment in such deals (being more than a traditional record deal) requires real consideration and, in most all cases, real negotiation.

The arguments in favor of such a deal include a client who needs or wants the money or needs the substantial investment and keen marketing being offered and coupled with entitlement to additional sources of revenue. Unlike the era when an artist's announcement of "someone wants to sign me to a record deal" was cause for celebration in a time when the channels of

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distribution required the distribution muscle of a major, and their resources to record, master, press, ship, promote a record, make the video, get it on MTV, subsidize the tour and get the single on the radio, while also paying the artist an elephant dollar advance. The record deal of today is less likely to do all of the above in an business and age of reduced expectations. The advance may be more modest, the artist can and usually must be the one to do much of such heavy lifting and the result to the record deal news can now be closer to “why do it and why lose control of the project?”

But there may be compelling reasons to want the record deal. First, in some deals it is and will be the big dollars (millions in some cases) and the decision may be made largely by tax lawyers, business planners and actuarial tables. There are other artists who absolutely need substantial resources of the label or party offering the 360 deal. To the extent the need for dollars or the deal take the artist and his/her lawyer to the next step, the next question may be: “if I want and need such a record deal, can the “360” part be bifurcated or can the deal be “270”, “180”, “90” or less and can the participation in these other rights be passive and not active?” (with a possible goal that the decisions and control over whether there will be a publishing or merchandising deal, and with whom and on what terms will be the artist’s).

Circumstances motivating or justifying the 360 deal are wildly diverse and this needs to be considered in framing up and negotiating such a deal. A company willing to pay millions in advances may have absolute justification to demand participation in all entertainment revenue sources for many years to recoup the advance and compensate them for the risks associated with the investment. However, a company investing $10,000 or $100,000 in a new artist’s 1st record and early career may have less justification in sharing in non-record income streams for years after the investment.

At present, we are at a time where the 360 deal, in all its variations, is more commonplace, will be seen by an increasing number of labels as a necessity and be viewed by some artists as the (increasingly elusive) opportunity to succeed in their music career with their new music business partner. For others it is seen as overreaching and a deal that gives away too much for too little to the label in terms of control and income participation.

In reality, this author’s subsequent review of the speaker’s label’s 360 deal (called a “multiple rights agreement”) is a record contract, music publishing agreement and management agreement rolled into a single agreement without claiming rights or control over merchandising, endorsements or touring (though clearly participating in the same via the management relationship and commission). What was actually refreshing about the speaker’s recording agreement was its split of net income as between artist and label (which could be substantially more lucrative to the artist than a traditional royalty structure). It was a “360 Deal” that, but for the revenue split vs. traditional artist record royalty) was more old school (more akin the 1970’s Mike Appel-Bruce Springsteen agreements and relationship than the “new school” Live Nation model discussed below). While the terms of this deal (really 3 deals) are more equitable than many other current so-called 360 degree deals, deals that involve long term commitments in

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respect of management functions, publishing and recording rights cannot, as a matter of course, should not, be considered non-negotiable.

So just what constitutes a 360 deal? The Live Nation deal with Madonna, U2, Shakira Jay-Z and other established artists is substantially different in structure, economics and operation than the WMG deal with Paramore, Universal's deal with the Pussycat Dolls or a small independent label's multiple rights agreement with its new artist. The offerors of 360 deals come in all shapes and sizes and the exact offer from one may be far more or less compelling than from another party. How fair, unfair, encompassing, good or bad they are depends to a substantial degree upon who the label is, who the artist is, how much is being invested and what level of success the artist has achieved or can achieve without the deal. . . .

There are many varieties and permutations to a series of contracts that one may refer to as 360 deals or, sometime referred to as all rights deals. Three of the more common models being offered and discussed are defined here and described as follows: 1) the old school model, 2) the record deal (or tour + deal if the offeror is Live Nation or a company like it) + participation model and 3) the record (tour) deal + active control and participation model.

The trio of deals for management, records and music publishing has been a common business model for decades and has effectively allowed the company the participate in streams of income other than sales of recorded music by virtue of acquisition of music publishing rights and by a management commission on additional revenue sources that would almost always include live performance, merchandising and endorsement income. It was this arrangement of agreements that Bruce Springsteen signed in March, 1972, in contracts signed on the hood of a car of a dimly lit parking lot. Under such agreements, Mike Appel and his company Laurel Canyon, as the Boss' new manager, label and publisher, shared in many revenue streams other than recorded music income until a settlement to subsequent litigation involving those contracts was reached in 1977). In other situations, before the coining of the phrase "360 deal", labels acquired music publishing rights by provisions within the recording agreement, or in other cases owned the name of the group with the right to hire and fire those who performed in it.

From a company's perspective, it may accomplish what a 360 deal sets out to do: allowing the company to participate in other revenue streams of the artist. From the artist's perspective, it is often viewed as a heavy commitment raising issues as to how an artist manager with fiduciary duties can advocate for his or her artist with the label and publisher they also own. In California, there may also be added exposure for the company if the artist seeks to invoke remedies under Section 1700 of the California Labor Code should the manager seeks to procure employment and is not licensed in California as an agent. The advantage to the record company and disadvantage to the artist in such arrangements is that in the event the publisher or label are not doing their jobs, fail to pay or breach the agreement, it is highly unlikely the manager will yell, threaten, sue or even call.

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The record deal with participation may have a similar economic impact on company and artist and, in fact, some such deals tie the definition the non-record income for which the label will participate on the same defined basis as the manager shares in such revenue streams. In such deals, the keys are: 1) what are the revenue sources? 2) what costs will come off the top in calculating the participation? and 3) how long does the participation continue for?. For the artist, the benefits of such an arrangement (as contrasted with the old school model) is that they could still retain an independent exclusive personal manager who could be their advocate and they could control their other business activities in terms, for example, of deciding what merchandising company to use or whether to sign a publishing deal or not and under what terms and conditions. . . .

The record deal + active control with participation model potentially hands over more, most or all rights the artist initially controls in their recorded music, songs, image and careers and via acquisition of music publishing, merchandising, endorsement and fan club rights and with it the artist's name and likeness rights and ongoing participation in touring income in a deal that's not just about income participation, it's also about the control of some or most of the key rights in an artist's career. . . .

From the artist's perspective, an initial review of a 360 deal should consider the following: the proposed deal's impact on: (1) income, (2) control of rights, (3) limitation on future opportunities and (4) impact on the normal checks and balances an artist may have to assure he/she is being accounted to properly.

Income: A bad 360 deal could result in an artist paying out more income from non-record activities than the label ever invested in the record side, could prevent the artist from going out on tour because of the label's participation, could have the artist paying a percentage of tour and merchandising income years after the record deal had ended.

Control: Creative control over the artist's name, likeness and music may be assigned and could be compromised under a 360 deal. If assignment of merchandising or publishing rights to the label's affiliated merchandise company or publishing is required, does the artist have the same approvals in respect of bad t-shirts and offensive commercials?

Future Opportunities: There are a limited number of rights an artist has to retain, assign and license in addition to his/her recorded music rights and a 360 deal may seek to glob onto some or all of them and thereby putting all the eggs into one basket. In recent decades one of the great future opportunities new recording artist have had and been able to take advantage of was a post-record deal publishing deal where the advances tended to be high, the splits tight and the reversions sooner. An assignment of publishing rights as part of a 360 deal, closes that door. Also, with different label and publisher, if the label lost its zest for the artist, there was always the opportunity and potential for the publisher to step up to the plate and keep the artist's career supported.

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Checks and Balances: It can be advantageous for an artist for have some diversification in the assignees and licensors of its rights. What if the company goes bankrupt, resorts to creative accounting or waits until a subpoena to render the royalty statements? Also, such diversification may also create a check on the record label by the music publisher in respect of mechanical royalties and also on the ever-increasing lump payment settlements or blanket license payment. If the same backroom accounts for record sales, music publishing income and merchandising income under a 360 deal, where is the check, balance, diversification and protection for the artist?

Keeping in mind: (1) we are in an age of declining recorded music sales with an increasing number of companies insisting on 360 or something more than a record deal, (2) you client may need and want to have the resources of a major company behind him/her in their career and (3) as once sung and said well: you can't always get what you want, here are additional issues and considerations that need to be reviewed and negotiated in a 360 deal offer:

What other rights, in addition to recorded music rights, are being included? Is it music publishing, live performance, merchandising, fan clubs, endorsement or more or less? Can one or more of these sources of income be excluded from the scope? In the past, artist representatives have been able to exclude from the 360 deal scope a substantial income source, such as music publishing, making the impact of the deal much less onerous on an artist.

Another essential primary question that must be raised and answered is whether the non-recorded music involvement of the label active or passive. Using music publishing as an example, if a label requires that music publishing be part of a "360 degree deal" with their artist, is the label (or its affiliated music publishing company) acquiring ownership or co-publishing ownership of the copyrights to the songs? Or, is the label asking for a % of music publishing income the artist receives to be paid to the label. Giving up control of one's merchandising or music publishing is a much greater commitment than agreeing to a passive participation of income an artist might receive from those activities.

Equally important is determining duration of the contract. When other rights and income streams are impacted, the delivery requirements and option provisions of the contract become ever more crucial as the "what happens when my label does not consider the masters to my new LP to be commercially satisfactory?" question takes on even more importance when touring, publishing and merchandising activities are also impacted. When and how does the exclusivity provisions of the recording agreement expire and do any of the non-recorded music revenue streams continue thereafter and if so, how and for how long?

If other rights or income streams being acquired and if so, are additional advances being paid and if they are being paid are they being paid in separate non-cross-collateralized accounts? If a label paid $1M recording music advance, a $500,000 publishing advance and $100,000 merchandise advance and the record was never released but the songwriting and touring activities resulted in $1M in publishing income and $1M in merchandise income, how does the income flow and can the label seek to recoup its recording advance from the other income?

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Royalties under 360 deals can be calculated in a very different ways. Some deals pay traditional (percentage of retail or wholesale) record royalties and (if publishing rights are being acquired) traditional publishing deal splits (e.g. 75/25 in the artist's favor in a typical co-publishing agreement). Other deal create an partnership-type agreement split of earnings (such as a 50%-50% split of net income). Amounts the artist would receive from these very different models would depend upon the exact language of the agreement, including what revenue sources were separated or cross-collateralized and the actual costs in calculating net income being split as opposed to deals with more traditional artist royalties for product sold.

If the 360 deal includes a participation in live performance income, the substantial to massive costs of touring requires a detailed calculation of a label's participation of such tour income. In many touring situations the artist loses money on the road and a label's participation in gross revenues in such a tour would be insult to injury for the artist. In some 360 deal scenarios, labels agree to accept a tour income participation that is calculated in the same or in a similar manner as that of the artist's manager and however calculated, the label's participation in touring should not be based upon tour gross without cost deductions unless the intent is that only the label should make money on the road.

Also a 360 deal that includes active participation in both recorded music and music publishing has added risks to the artist if publishing administrator is not granting licenses on an "arms-length basis" and the differing royalty provisions of a record deal and a music publishing deal may encourage license transactions that also might short-change the artist/songwriter. Again, a multiple rights deal that provides 10% or 25% of publishing income to be assigned to a label is a substantial obligation. However, a multiple rights deal that provides 50% of the copyrights and publishers' share of income and 100% of the administration be assigned to the label (or label's affiliated publishing company) relinquishes ownership and control of an artist's copyrights and hence is, a greater commitment with higher risk and greater potential downside for the artist.

These questions are but the tip of the iceberg in the potentially treacherous but increasingly common waters of the 360 deal. Is it the right or the necessary deal for your artist? Only a thousand questions and considerations can answer that question. Even if the answer is that it is necessary and may be right, those devils in the details need to be read, flushed out and negotiated to meet the specifics of the label, artist, recordings and career at issue.

While many labels hope their various versions of the 360 deal are the new deals for the new times, seen as a new partnership between artists and their music company and the standard deal for all new artists going forward, many questions and concerns for the artist remain. With an increasing number of artists who see a decreasing necessity to give away exclusive recording rights to such third parties, a large number of independent labels who will still work with artists without such a 360 deal and a substantial number of existing artists who didn't sign such a deal when they secured their record contract, will the handful of initially successful 360 deal artists embrace or revolt against their label's accountant seeking their 10% or 20% of the proceeds of the

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door and sale of a t-shirt far removed from the record deal when all the other acts on the bill retain 100%?. . . .

360 deals are big and complex deals presented in challenging times on an ever increasing basis and require review of the opportunities and options, the details and dangers, the promise and perils. For some artists, such a deal with be just what they needed: the chance to partner with a company in perilous times, an important and increasingly elusive chance to swing for the bleachers in the big (though getting smaller and burning for some time) stadium of music sales success last big game in town. For some other artists, it's the moment when, in a moment in the darkness on the edge of town, with a few strokes of the pen, all is given away to a party that soon will not respect their art and lost in perpetuity, throughout the universe in all media hereinafter devised. . . .

The work of entertainment lawyers working in the music business is getting more challenging, more complicated and more interesting and the 360 deal is but one example of this. May the discussion and consideration continue, may people still value and pay for music and may the negotiations begin.

[B] Music Publishing Branch

In the Music Publishing branch of the entertainment industry, the most complicated royalty stream is that of an American songwriter receiving income from exploitation of her musical compositions in foreign countries. Typically, an American songwriter will sign a publishing deal with an American publisher which then sub-contracts its overseas collection and administration to foreign publishing companies called sub-publishers. The major music publishers have their own network of wholly-owned foreign sub-publishers. These sub-publishers act as the songwriter's publishing representative in the foreign market—i.e., they collect mechanical, public performance, print, and synchronization royalties, and may secure foreign language covers.

One issue that requires careful consideration in a publishing agreement is the "Net Receipts" versus "At-Source" foreign royalty calculation. A Net Receipts calculation means the songwriter's royalties are computed on the basis of foreign earnings less the fee taken by the foreign sub-publisher, and such fee typically ranges from 5% to 25%. An At-Source calculation means the songwriter's royalties are computed on the basis of foreign earnings prior to the fee taken by the sub-publisher—a more favorable arrangement for the songwriter and one that requires leverage and clout to attain. See e.g. *Weatherly v. Universal Music Pub. Group,* 135 Cal. Appl. 4th 913 (Ct. App. 2004) (songwriter arguing that his royalty statements deceptively appeared to be an "at-source" calculation, but in fact the foreign sub-publisher was retaining 25% of the gross income overseas then dispersing the remaining royalties to the American publishing company). In addition to the Net Receipts vs. At-Source calculation, other deductions from foreign income have been disputed in the courts, such as foreign tax credits. See *Evans v. Famous Music Corp*. 754 N.Y.S 2d. 259 (N.Y. App. Div. 2003) (songwriters unsuccessfully

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claimed that publishing company should have calculated songwriters' portion of income after the company received their foreign tax benefits).

The collection and receipt of "Black Box Income" is another complicated revenue stream also stemming from foreign exploitation. Black Box Income is royalties collected by foreign performing/mechanical right societies that cannot be pin-pointed to a specific songwriter. It occurs, for instance, when a US songwriter sells their music internationally, but she is signed to a publishing company that does not have relationships with foreign sub-publishers, or if the song is registered with foreign performing/mechanical rights societies without all of the writing shares known. Thus, those royalties often become "lost" to the Black Box. The performing/mechanical rights societies collect and hold these "lost" royalties for a few years, and then eventually disburse the unclaimed money to various songwriters and publishing companies. Popular Brazilian songwriter who wrote "Girl from Ipanema", Antonio Jobim, sued his publishing company, Universal Music Publishing Group ("Universal"), claiming that he was entitled to a share of the Black Box Income received by Universal. Under his 1962 songwriting agreement, Jobim was entitled to 50% of "monies earned… in connection with said compositions." Universal argued that Black Box Income was not allocatable to Jobim's specific compositions—after all, it was unclaimed money owed to unknown songwriters. Ultimately, the court held that Jobim was entitled to a portion of the Black Box Income because it was "calculate[ed] based on the relative uses of each [song]. It therefore represents money earned 'in connection' with [Jobim's songs]." *Jobim v. Songs of Universal, Inc*. 732 F. Supp. 2d 407 (S.D.N.Y. 2010). Generally, allocation of Black Box Income to writers is specifically negotiated and if a publisher intends to give a writer a portion of Black Box Income, such intention will be unambiguously memorialized in the songwriter's publishing agreement.

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Chapter 7

FINANCING

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§ 7.01 Introduction

USAGE: On page 1309, SUBSTITUTE the existing paragraph with the following:

The financing mechanisms of the production of creative product varies with each branch of the entertainment industry. In many cases, the size and cost of the project dictates the ability to obtain financing and the type of financing best suited to the project. In the case of music, book publishing and interactive digital media, projects are generally self-financed by the record company or publisher, though the ease of digital creation and distribution via the Internet promises more independent productions. With live theater, the financing traditionally has been obtained from numerous small investors who invest in a single show. Increasingly, however, the cost of producing a Broadway show requires the involvement of a large corporation, such as Disney or Twentieth Century Fox. With motion pictures and television production, the quest for financing is more interesting and diverse. Traditionally, motion pictures were financed by the major studios and television series were financed by studios and production companies with a large portion paid by the networks through licensing fees. With the increased diversification and globalization of entertainment product, however, studios and production companies have looked for additional sources of funding.

§ 7.02 Film Financing

USAGE: On pages 1309-1333 (first incomplete paragraph), SUBSTITUTE existing headings and text with the following:

[A] Studio Financing

One method by which feature films are financed is for a producer to approach a studio to put up development and production financing. In some ways, this method of financing is the easiest, because it involves locating only one buyer. Transaction costs for the producer are lower. It may also be possible to sell the studio a picture based on a pitch or treatment so that the studio puts up the cost of developing the property. On the other hand, a project may languish in development; the studio will own the copyright to the film and to everything which is derived from that copyright (including sequels, television series, merchandising, etc.); and a producer who uses studio financing will have little leverage in terms of compensation, credit and involvement

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with derivative works. Review the Motion Picture Producer Agreement (Form 12) in the Document Supplement. The Agreement sets forth the basic terms of a studio financed film production. In reviewing the Agreement, please consider the following questions:

1. Under the sample agreement, is the studio committing to financing the cost of production on signing the agreement?

2. At what point does the producer transfer rights to the film studio?

3. When does the producer know that full production financing is available?

4. What are the dangers to the producer in this type of arrangement?

5. Compare paragraph 5(a), 5(g) and 6(a)(iv). What is the danger for the producer in these paragraphs?

6. How does the studio recoup over-budget costs insofar as a producer's contingent compensation is concerned, assuming, for these purposes, that such contingent compensation is a share of net profits?

7. At what point is producer's compensation pay or play?

8. What rights, if any, does this agreement give to a producer with respect to re-make or sequel motion pictures or television series based on the original picture or screenplay?

[B] Independent Financing

FINANCING INDEPENDENT FILMS "INSIDE THE SYSTEM"
by Michael Blaha, Esq.

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"Independent" film financing is just that, independent of the studios and devoid of the loss of creative and business control that inevitably comes from essentially turning a project completely over to another party. However, there are some transactions that a filmmaker might conceivably make to raise some or all of the financing for their film which, while requiring the surrender of varying levels of independence and authority, are nevertheless deemed worth the trade-off. This section will briefly look at two of the least independent approaches, "PFDs" and "negative pick-ups" and then discuss in more detail a more traditional independent model, bank

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financing from foreign "pre-sales" (selling distribution rights in a film before completion and, usually, before production has even begun).

Production-Financing-Distribution Agreement

With a "PFD" or "production-financing-distribution" agreement, a studio basically "buys out" the producer of the film, acquiring all rights in the film in all media throughout the world by purchasing the screenplay and any other necessary literary or intellectual property rights. In that event, the first time independent filmmaker might at best be engaged as a producer on the film but would be a "hired gun" of the studio with few, if any, final approvals or controls of how the film is made or distributed. In addition, although the filmmaker will receive the rights purchase payment and possibly a producing fee, he or she will not retain any ownership in the film or proceeds from its distribution, beyond possibly a small percentage of net profits, which in most cases would not generate any additional payments.

While the majority of studio films are made using some species of a PFD, by definition few if any independent films are financed this way, unless one invokes a broader meaning of "independent" to include studio films of certain sensibilities or genres, and not just those that are financed "outside the system." Ironically, some of the "independent" divisions of the major studios, such as Fox Searchlight or Universal's Focus Features, undoubtedly use some of the traditional independent methods, such as equity investments or pre-sales, to purchase the rights from the filmmaker. For example, Fox Searchlight may have a sufficient volume of "output" deals with foreign territories, whereby film projects that fit certain criteria (e.g., genre, cast, director) are automatically sold to those territories for preordained minimum amounts, so that Fox already knows it is guaranteed to recover some or all of the rights purchase price.

Negative Pick-Up

Another method of financing, which falls somewhere between PFDs and pre-sales with respect to the amount of control and ownership the independent producer must cede, is the "negative pick-up" arrangement. In a negative pickup transaction, a studio or other production and distribution company agrees to pay a set price for certain distribution rights upon delivery of the finished film to the distributor. The rights acquired could range from worldwide rights in all media, which would make it closer to a PFD agreement, to the more common all domestic rights, which would be more similar to a pre-sale agreement.

Because the studio is not advancing the cost of production in a negative pick-up deal, but only paying upon delivery, it will not have the same level of creative control over the production of the film as the PFD or pre-sales arrangements. However, the studio will still insist on a certain level of input and may retain approval over certain elements of the film, such as cast director, and script.

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Like with pre-sales, under a negative pick-up agreement the distributor does not pay anything until after the film is completed and delivered, so the producer will have to obtain a loan against the studio's promise to pay upon delivery, and the bank will require a "completion bond" (aka "completion guarantee" -- more on that in a minute) to assure that the film will be delivered so the bank will be repaid their loan. Accordingly, the discussion below regarding the process of obtaining bank loans against pre-sales also applies in most relevant respects to negative pick-up arrangements.

Pre-Sales And The Basic Elements Of A Film Package

Historically, one of the main methods of financing independent films has been through bank loans secured by "pre-sales" of the foreign distribution rights in the film being financed. Although the value of pre-selling rights has arguably waned in recent years due to a number of factors, including a reduction in the amount of money foreign territories have to spend and an uptick in native productions, pre-sales have been and continue to be a significant source of independent film financing.

Since pre-sales are usually made before the film has even begun preproduction, let alone actual photography, there is no finished or even partially finished film to show to potential foreign distributors. Instead, the buyers will base their purchasing decisions on such factors as their prior experience, if any, buying the producer's films, the genre, script, and cast of the film, and even the proposed "one-sheet" (poster) artwork for the film. One only has to walk through the halls of the American Film Market ("AFM"), held every November in Santa Monica, California, to see how prominently one-sheets figure into the pre-sales equation.

As a result, one of the first steps which must be taken by any filmmaker who is interested in raising money through pre-sales is to put together a "package" for the film. The package includes the screenplay, the director and stars, if any have been attached, and the one-sheet (poster) artwork. Ideally, the package would be assembled in consultation with the sales agent who will actually be the one trying to sell the film to the foreign buyers. At whatever stage a sales agent is retained, the selection of that sales representative is an important one, because the ability to raise pre-sale financing and/or gap financing (see below) is largely dependent on the ability of that agent to make sales and the reliability of their sales estimates in the eyes of the lender.

The sales agent would then take the film package to major film markets throughout the world, which include the European Film Market during the Berlin Film Festival (in February), the Hong Kong Filmart (March), Le Marché du Film during the Cannes Film Festival (May), and, perhaps the most important one, the American Film Market (November) and try and make pre-sales of the film on a country by country (or territory by territory) basis.

Bank Loans Based On Pre-Sale Commitments

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Once the sales agent has made a sufficient number of pre-sales of the film, the producer then goes to a bank that specializes in film financing (e.g., Comerica Bank, Imperial Bank or City National Bank) and tries to obtain a production loan secured by those pre-sale commitments and other collateral. The collateral, or security, which the producer grants to the bank to secure the loan, is central to a film production loan transaction. Typically, a bank will want a security interest in all of the film assets, including the script, the copyright, all of the physical elements of the film, contracts for the sale of the film, and accounts receivables (even those unrelated to the presold territories).

The security interest "attaches" to the property by virtue of the loan documents. "Perfection" of the security interest involves filing it with the correct governmental entity (e.g., clerk of the county in which the borrower resides). In the event the borrower defaults on the loan, the bank theoretically can foreclose on the security interest, take possession of the collateral, and sell it to try and recoup its losses (much like a bank forecloses on a house when the lender does not pay the mortgage). Even if the producer files for bankruptcy, a properly "perfected" (recorded to give notice to other possible claimants) security interest in the pledged property will prevent the assets from being sold without the sales proceeds being paid to the holder of the security interest.

There are of course many factors which go into the bank's decision whether to loan against the pre-sale commitments and other collateral and if so, in what amount and at what interest rate. For example, depending on the reputation of the "pre-buyer" and the experience the bank has had, if any, with loaning against that buyer's pre-sales commitments in the past, the bank may require the buyer to post a letter of credit to guarantee payment upon delivery of the film, or increase the amount the bank will "discount" the pre-sale contract (e.g., if the pre-sale is for $1 million, the bank might discount that amount 20% or more, resulting in a loan of no more than $800,000 ($1,000,000 x 80% = $800,000)).

The interest rate for the loan is almost always expressed as some number of percentage points linked to a benchmark rate like prime rate or LIBOR, the London InterBank Offered Rate. In addition, the bank will normally require an upfront "commitment" fee that may be 1-2% of the total loan amount.

The bank will expect the producer to sign a "commitment letter" which commits the bank to virtually nothing but usually commits the producer to paying all of the legal fees which the bank incurs in connection with negotiating and documenting the loan (in addition to the borrower's own legal fees). Usually the producer will be on the hook for these fees, even if the loan transaction is never completed, regardless of the reason. As a result the producer should try to avoid execution of such a commitment letter for as long as possible, and in any event try to cap the amount of legal fees which producer may be obligated to pay.

Another standard requirement which may catch the inexperience producer/ borrower unawares is that banks will often ask the *borrower's* attorney for a legal opinion that the loan documents are valid and enforceable and that the lender's security interest in the collateral is

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properly perfected. Since the documents are usually prepared by counsel for the bank, and it is the bank's lawyer, not yours, who is responsible for perfection of the security interest, such request should be opposed. If the borrower's attorney must render such an opinion, he or she should make sure to include references to the applicable ABA (American Bar Association) and equivalent state bar provisions which minimize the risk in issuing such an opinion.

The loan is of course paid back out of the proceeds from the distribution payments received by the producer upon delivery of the film, including the guarantees from the various pre-sold territories. However, the bank does not receive 100% of those receipts. There may be deductions due to foreign withholding taxes, or sales agent expenses and some or all of the sales agent's commission (depending on the sales agent's standing and agreement with the bank). Some portion of the distribution proceeds may also need to be set aside for residuals and third party participations.

The documents which make up the bank loan package include the Loan Agreement between the borrower producer and the lender bank (including the security agreement), the Completion Guarantee (and the related documents specified below), the Distributors' Notices of Acceptance (whereby the distributors agree to pay the agreed purchase price for the distribution rights in the pre-sold territories to the bank upon delivery of the picture), and an Interparty Agreement (an agreement between the producer, lender, sales agent, completion guarantor, and, to the extent applicable, investors and gap or bridge lenders to set forth the order of payment and the priority of the applicable security interests).

Gap Loans And Bridge Loans

As noted above, it has become harder to obtain production financing loans in the last couple of years, and when this negative trend is coupled with the increase aversion to risk most banks are experiencing, it has become less and less likely that an independent filmmaker will be able to raise the entire amount needed to make his or her film. That is where "gap" financing comes in.

Gap financing, which also has become more difficult to obtain in the recent past, is designed to fit the "gap" or shortfall between the amount the bank will loan and the actual budget for the film. The amount of gap financing a bank (and it will not necessarily be from the same bank who makes the main pre-sales loan) may be willing to make will be based on the sales agent's estimates of sales in territories that were not pre-sold.

For example, if $5 million is needed to produce a film and there are pre-sale guarantees of $5 million, a bank may be only willing to lend $4 million. In that case, there is a $1 million gap between the pre-sales loan amount and the production budget for the film. If the sales agent has estimated that distribution rights in the film could be sold in some or all of the territories which were not pre-sold for another $2 million, then a gap loan for the remaining $1 million of the budget may be secured against those estimates for the as-of-yet unsold territories.

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Since they are just that – estimates – as opposed to contractual commitments like the pre-sales, a gap loan is riskier than a pre-sales loan and is therefore more costly in terms of both the upfront fees and the interest rate. The lender might also seek contingent compensation, in addition to the interest payment, based on some percentage of film revenue. Like the pre-sales loan, the borrower will need to acquire a completion guarantee as a condition of the loan.

Last but not least are "bridge" loans, which are used to fund preproduction expenses before the completion bond is place. They are repaid from pre-sales or proceeds of the gap loan when it is funded once the completion bond is in place. Since these loans do not require a completion bond guaranteeing that the film will actually get made, they are the riskiest loans, and lenders – which may also be gap lenders – charge very high points (upfront fees as high as 10% of the loan amount) and a very high rate of interest.

Completion Guarantees

Since a pre-sale lender's loan is repaid from the payments due from the pre-sold distributor upon delivery of the film, the bank must have some assurance that the producer will be able to complete and deliver the movie on time and on budget. That is where completion guarantees, or completion bonds, come into play. The bank will require a completion bond (aka completion guarantee) from a third party insurance company (the "completion guarantor") such as Film Finances, Inc. or International Film Guarantors, who will guarantee, in return for a premium (typically 2-3% of the budget), that the producer will be able to finish the film and deliver it to the pre-buyers, triggering their payments under the pre-sales contracts to the bank to pay off the loan.

If the producer encounters difficulties in completing the film, a completion guarantor will either loan additional monies to the producer to address the problems, "take over" the production and complete the film itself, or, in the most extreme cases, "abandon" the production and repay the loan amount including interest, to the bank. If monies are advanced, then the completion guarantor recoups those advances against film revenues (such advances would normally be deemed a "nonrecourse loan," so that the sole source of repayment is those revenues; i.e., the producer itself would not be liable for repayment), subordinated to the bank's loans.

Because the completion guarantor's main priority is making sure the film is completed on time and within budget, it will require that the film budget include a line item for contingencies of at least 10% (or higher if the if the director or producer of the film are inexperienced filmmakers or unknown to the completion bond company). The completion guarantor also will require the producer, director, production manager, and key department heads to approve the budget and script and agree they can perform their services within the time and money constraints of the proposed budget.

The definition of what constitutes "delivery" of the film (which is essentially what the completion bond company is guaranteeing) is usually consistent with the distribution agreements upon which the lender has based the production financing loan. If those agreements contain

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excessive or subjective approvals, those approvals will usually have to be deleted before the completion guarantor will bond the film. Similarly, if there are any "elements" that a distributor or distributors have required as a condition of payment upon delivery (e.g., a particular actor or director), then the completion guarantor will try to work with the distributors to arrange for a method to replace those elements if necessary, usually by way of the Distributors' Notice of Acceptance form that makes up part of the overall loan documentation.

A completion guarantee should not be confused with other types of production insurance, such as cast and crew insurance, negative insurance, general liability insurance, or errors and omissions insurance. Indeed, a completion guarantor will require the producer to maintain these standard types of coverage as a prerequisite to issuance of the completion guarantee. In addition, the completion guarantor will always exclude certain types of risks or claims from its coverage, including but not limited to chain of title (e.g., confirming the producer owns the necessary intellectual property rights, such as copyright, to make the film), a particular MPAA rating, the artistic quality of the film and the insolvency or creditworthiness of a distributor who is obliged to pay on delivery.

There are several agreements which make up the typical completion guarantee package. These agreements include (1) the Producer Agreement - the agreement between the producer and the completion guarantor setting forth their respective rights and obligations; (2) the Completion Guarantee (or Bond) itself – the agreement between the completion guarantor and the lender/bank whereby delivery of the picture is guaranteed on certain terms; (3) the Production Account Takeover Letter and Takeover Agreement – giving the completion guarantor the right to control the production bank account and under some circumstances, take over the entire production; and (4) the Lab Access letter – giving the completion guarantor access to and control over the physical film elements.

Few movies are fully taken over contractually, because it is bad publicity for the film and harms the reputations of the producer and the director of the film. Usually, a completion guarantor will first try a so-called "soft takeover," where it doesn't take over the production entirely but rather exercises increasingly more stringent controls over the production, including the production bank accounts and budgetary expenditures. Under a soft takeover, the producer will have to follow cost-cutting suggestions made by the completion bond company. However, the producer might be permitted the opportunity to raise additional production financing (which cannot dilute the bank's position) before having to implement those cost savings.

These are some of the ways an independent film producer might raise production financing "inside the system". As can be seen by this analysis, the main trade-off is the loss of creative and business control as well as loss of possible upside potential; however, if you are able to raise the funds "outside the system" (for example, by selling equity in your project) you will remain in control of the creative and business aspects of the production and have a much better chance of receiving a substantial share of the film's profits if it becomes a commercial success.

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"Fast Forward on Crowd Funding"

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Two million dollars in 10 hours is what the creators of the television series Veronica Mars raised via crowdfunding to develop a movie based on the show.[233] While this may be an exception to the norm, the success of Veronica Mars is one of many examples of how valuable crowdfunding can be for film financing. Crowdfunding is a form of raising money from the public, typically through small individual contributions to fund personal, philanthropic, or commercial endeavors.

Recent legislation has created an opportunity for equity-based crowdfunding to become a useful financing tool for producers of independent feature films, documentaries, and other creative endeavors. Legal limitations on the sale of securities have generally limited crowdfunding to donations, but Title III of the recent JOBS Act created an exemption to federal securities laws to permit crowdfunding equity investment, including for entertainment projects.[234] While the act mandated the SEC to issue the regulations within 270 days after passage, the commission has missed the deadline and is not expected to issue the final rules until later this year.

Once the SEC rules are implemented, small businesses and startups will be able to raise up to $1 million annually via crowdfunding through authorized broker-dealers or registered intermediary Web sites called funding portals. With the potential to provide investors with a financial return, equity-based crowdfunding is a new method of financing for independent film producers, and as such has already attracted interest. Since the JOBS Act passed in April 2012, approximately 6,800 domains have been registered with the word "crowdfunding" in the name.[235] Donation-based crowdfunding has already proven successful. Arts-oriented projects generated around $66 million through donation-based crowdfunding in 2011, and the industry overall grew from $1.5 billion in 2011 to $3 billion in 2012.[236]

However, obtaining equity crowdfunding will entail significant business and legal considerations for filmmakers, funding intermediaries, and investors. For example, what are the

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[233] Jen Yamato, Veronica Mars Movie Zooms past $2M Kickstarter Goal in 10 Hours; Aiming for Summer Shoot, Deadline Hollywood (Mar. 13, 2013), available at http://www.deadline.com/2013/03/veronica-mars-movie-kickstarter-campaign-rob-thomas-kristen-bell.

[234] Jumpstart Our Business Startups (JOBS) Act, Pub. L. No. 112-106, 126 Stat. 306 (2012).

[235] Press Release, NASAA Sees Sharp Spike in Crowdfunding Presence on the Internet (Dec. 5, 2012), available at http://www.nasaa.org/18951/nasaa-sees-sharp-spike-in-crowdfunding-presence-on-the-internet.

[236] Anita Hamilton, How to Crowdfund Your Creative Project, Time (Oct. 22, 2012), available at http://business.time.com/2012/10/22/how-to-crowdfund-your-creative-project/slide/introduction.

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practical applications and limitations of the proposed crowdfunding exemption for film financing? Will the transaction costs and procedures of equity-based crowdfunding outweigh the potential benefits? If equity-based crowdfunding entails higher transaction costs and investment caps, why not simply rely on donations? Before addressing these questions, a review of applicable film-financing issues and donation-based and equity-based crowdfunding is necessary.

Film Financing and Crowdfunding

The solicitation of funds from passive investors in exchange for a financial interest in an entertainment project raises federal and state securities compliance issues. The touchstone of a security "is the presence of an investment in a common venture premised on a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others."[237] Passive investors are not actively involved in the management of the undertaking and invest in exchange for an economic interest.

The distinction between active and passive investors is important because it dictates what financing options are available as well as what the associated transaction costs will be. For example, a film producer who raises money from active investors (who act, for example, as executive producers and have approval rights over major decisions or other defined, sufficient forms of participation) is likely able to avoid dealing with federal and state securities law disclosure requirements and investor eligibility limitations. In contrast, equity investment offerings to passive investors either must be registered with the SEC and the appropriate state agency, or the offerings must qualify for an exemption and comply with any applicable state securities requirements.

Crowdfunding typically deals with passive investment offerings. Donation-based crowdfunding does not involve the sale of securities to investors, and those who donate do not receive a financial interest in the project. Donation crowdfunding therefore allows for low transaction costs. While donation-based crowdfunding has proven to be a successful financing tool, it has drawbacks, the most prominent of which are the lack of financial return and regulatory oversight. Equity-based crowdfunding, on the other hand, involves a potential return on investment and a detailed legal framework intended to protect investors. Filmmakers interested in equity-based crowdfunding need to be familiar with this framework.

The Crowdfunding Exemption

The recent equity-based crowdfunding exemption was added as the new Section 4(6) of the 1933 Securities Act. The law will allow issuers to raise up to $1 million in a 12-month period from qualifying investors and through authorized intermediaries.[238] For offerings up to $100,000,

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[237]United Hous. Found., Inc. v. Forman, 421 U.S. 837, 835 (1975).

[238]Securities Act of 1933 §4(6) (codified at 15 U.S.C. §§77a et seq.); JOBS Act, §302(a) (to be codified at 15 U.S.C. §77d(6)(A)).

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the issuer must provide the intermediary (broker-dealer or funding portal) with its income tax returns for the prior year and certified financial statements. For offerings greater than $100,000 but less than $500,000, the issuer must provide financial statements reviewed by an independent public accountant in accordance with professional standards and procedures defined by the SEC. For offerings greater than $500,000, the issuer must provide audited financial statements.

Regardless of the funding amount, the issuer must provide 1) the issuer's name, legal status, address, and Web site address, 2) the names of its officers and directors and of any person holding more than 20 percent of the shares of the issuer, 3) a description of the issuer's business and anticipated business plan, 4) a description of the stated purpose and intended use of the proceeds, 5) the target offering amount, 6) the price to the public of the value of the securities, and 7) a description of the ownership and capital structure of the issuer. These requirements apply to all Section 4(6) offerings.

Additionally, issuers may not advertise the offering except for notices that direct investors to intermediaries. Issuers may not compensate promoters unless authorized by the SEC rules, and issuers must file annual reports with the SEC as well as provide financial statements and reports to investors. Issuers must also comply with any additional rules set by the SEC.

Issuers that are not eligible to crowdfund under the new law include non-U.S. companies, required public reporting companies, investment companies (as defined under the Investment Company Act of 1940), mutual funds, private equity funds, asset management vehicles, business development companies, and companies disqualified under proposed rules similar to Rule 262 of the Regulation A exemption (the "bad actor" disqualifications).[239]

Limits will apply to investors as well as issuers. Generally, investors with an annual income or net worth of less than $100,000 can invest up to the greater of $2,000 or 5 percent of their annual income or net worth. Investors with an annual income or net worth of $100,000 or more can invest up to 10 percent of their annual income or net worth that does not exceed $100,000. The investment cap applies to all Section 4(6) transactions in a 12-month period.

Under Section 4(6), crowdfunding transactions must be conducted through an intermediary (i.e., a registered broker or funding portal). Funding portals are specifically defined under the law to facilitate Section 4(6) transactions. Thus, most Section 4(6) offers are unlikely to involve registered brokers, as the potential liabilities and transaction costs may outweigh the potential commissions. Most offerings will likely go through funding portals, which are essentially third parties that list crowdfunding opportunities and provide matching services.

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[239]JOBS Act, §302(d)(2)(B)(ii). The "bad actor" disqualification requirements prohibit issuers and others (such as their officers and agents) from conducting exempt securities offerings if they have been convicted of, or are subject to judicial or administrative sanctions for, securities fraud or other violations of specified laws.

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Under the JOBS Act, Section 4(6) intermediaries—i.e., funding portals—are obligated to ensure that each investor receives, reviews, and acknowledges understanding of the disclosure materials and completes an investor questionnaire that affirms the investor's ability to bear the risk of the investment. In addition, the intermediary must perform a background and securities enforcement check on the issuer, make the issuer's disclosures available to the SEC and investors no later than 21 days before the first sale of securities, and ensure that no investor exceeds the maximum allowable investing limit. Funding portals must also take adequate steps to protect the privacy of investors, refrain from compensating parties for providing identifying information on potential investors, and refrain from having any financial interest in an issuer using the intermediary's services.

In addition to registering with the SEC, funding portals must also become members of a registered national securities association, the only one of which is the Financial Industry Regulatory Authority. Funding portals also may not offer investment advice or recommendations; solicit purchases, sales, or offers to buy the securities offered or displayed on their Web sites or portals; compensate employees, agents, or other persons for solicitation or sale of securities displayed or referenced on the Web sites or portals; or hold manage, possess, or otherwise handle investor funds or securities.[240]

Issuers may not access the funds until the target amount is reached. Securities purchased under Section 4(6) transactions may not be transferred within a 12-month period from purchase unless the transfer is to the issuer, an accredited investor, or a family member, or is part of an offering registered with the SEC. Additionally, securities sold pursuant to Section 4(6) are "covered securities" under Section 18(b)(4) of the Securities Act of 1933, and therefore are preempted from state securities regulations. On the other hand, states in which the issuer's principal place of business is located, and states in which more than 50 percent of the securities are sold may require a notice filing and fee.

Once the SEC passes the rules governing Section 4(6), there will be no shortage of funding portals ready to facilitate equity-based crowdfunding. However, it remains to be seen whether the regulatory framework will lead to widespread usage or simply create unreasonable transaction costs that will deter independent producers and small businesses.

Donation or Equity

Whether seeking donations or equity, filmmakers can consider crowdfunding as a financing option, particularly in situations in which traditional financing options are unavailable. For example, crowdfunding can pay for movies with very small budgets. For motion pictures with larger budgets, crowdfunding can be a source of development funds, bridge financing, pre- or

[240]SEC, Jumpstart Our Business Startups Act: Frequently Asked Questions about Crowdfunding Intermediaries (May 7, 2012), available at http://www.sec.gov/divisions/marketreg/tmjobsactcrowdfundingintermediariesfaq.htm.

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post-production funds, or prints-and-advertising funds. Donation-based crowdfunding has already become a popular way for independent filmmakers to raise funds. For example, producers of the Charlie Kaufman film Anomalisa raised over $400,000 in September 2012 via crowdfunding,[241] and more than 15 films selected for screening in the 2013 Sundance Film Festival were crowdfunded.[242]

Donation-based crowdfunding appeals to people who are motivated to donate based on the artistic or humanitarian nature of the project and have no expectation of financial return. These offerings do allow people to donate in return for nonmonetary consideration. For example, producers of the film The Canyons, starring Lindsay Lohan and James Deen, managed to raise $150,000 in one month through donation-based crowdfunding by offering rewards such as a script critique from the film's director, Paul Schrader, or a one-week workout session with the film's writer, Bret Easton Ellis.[243] Popular donation-based crowdfunding sites for filmmakers include Kickstarter and IndieGoGo.

The benefits of donation-based crowdfunding include the low transaction costs and minimal disclosure requirements. However, certain factors may make donation-based crowdfunding unappealing. For example, there is little to no legal oversight, which may deter those desiring greater assurances that the funds will be applied as represented. Also, a signed DVD or credit on the film may be of little interest to investors.

Equity-based crowdfunding, on the other hand, appeals to investors interested in contributing to commercial ventures in exchange for a share of the financial reward. The potential for financial gain caters to a different, presumably larger, market of investors. However, noticeable drawbacks of equity-based crowdfunding include public disclosure of business information that filmmakers typically would rather keep private. The project's officers and large shareholders will be subject to criminal background checks and liable for false disclosures. Moreover, the filmmakers may find it burdensome to deal with a large number of small investors.

Equity Crowdfunding for Filmmakers

Questions remain as to how practical equity-based crowdfunding under Section 4(6) will actually be, particularly as a new financing tool for filmmakers. Critics of the proposed law argue that it places overly burdensome obligations on intermediaries and that the compensation may not

[241] See Anita Hamilton, How to Crowdfund Your Creative Project, Time (Oct. 22, 2012), available at http://business.time.com/2012/10/22/how-to-crowdfund
-your-creative-project/slide/introduction.

[242] Anton Root, Crowdfunded Films Go to Sundance Festival, Crowdsourcing.org (Jan. 22, 2013), available at http://www.crowdsourcing.org/editorial/crowdfunded-films-go-to-sundance-festival/23345.

[243] See Stephen Rodrick, Here Is What Happens When You Cast Lindsay Lohan in Your Movie, N.Y. Times (Jan. 10, 2013), available at http://www.nytimes.com
/2013/01/13/magazine/here-is-what-happens-when-you-cast-lindsay-lohan-in-your-movie.html?pagewanted=all.

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be commensurate with the costs and potential liabilities.[244] While the SEC has yet to issue the final rules implementing Section 4(6), the JOBS Act sets forth a rather detailed framework for how the equity crowdfunding offerings will operate. Even still, filmmakers looking to raise capital through Section 4(6) will likely have many questions regarding how to properly conduct such an offering.

For example, can a filmmaker raise funds through donation-based and equity-based crowdfunding? The two methods are not mutually exclusive. Section 4(6) does not prohibit issuers from pursuing a donation-based crowdfunding and equity-based crowdfunding offering for the same project. Film projects, music albums, and video games may be ideal for concurrent donation and equity-based crowdfunding. In addition to broadening the potential investor base, a dual campaign may cross-promote the project and provide grass-roots marketing. It may also be possible for a filmmaker to use equity crowdfunding in conjunction with other securities exemptions. The Section 4(6) exemption limits the aggregate amount sold "to all investors" by the issuer to $1 million within a 12-month period. Accordingly, sales pursuant to other exemptions arguably do not count against the $1 million cap.

What are the differences between a Section 4(6) offering and an offering pursuant to Rule 504, which also has a $1 million cap, 12-month period, and no limit on the number of investors? The two exemptions are similar in many ways, and in fact, Rule 504 arguably entails fewer disclosure requirements. However, unlike Section 4(6) offerings, Rule 504 offerings may only be offered to investors with which the issuer has a pre-existing relationship.[245] In addition, while both offerings have no limit on the number of investors, Rule 504 offerings do not preempt state securities laws, and most of the comparable state law exemptions place limits on the number of investors, particularly nonaccredited investors.

Filmmakers should also be aware that activities permitted under certain exemptions may be expressly prohibited under Section 4(6). For example, while the crowdfunding exemption does not place a cap on the number of nonaccredited investors, other federal exemptions do. Regulation D, Rules 505 and 506 limit the number of nonaccredited investors for a single offering to 35.[246] Another potential conflict exists under Regulation D, Rule 504—which allows for general solicitation[247]—because issuers under Section 4(6) are specifically prohibited from advertising the offering except to direct investors or intermediaries. Simultaneous use of other exceptions may therefore be risky unless the offering can be divided into separate transactions without running afoul of the integration doctrine. Under this doctrine, issuers may not circumvent registration requirements by claiming separate exemptions for one or more parts of a transaction that in reality belong to a single financing plan.

[244]See Stuart R. Cohn, The New Crowdfunding Registration Exemption: Good Idea, Bad Execution, 64 Fla. L. Rev. 1433, 1438 (Sept. 2012).
[245]17 C.F.R. §230.504.
[246]17 C.F.R. §§230.505, 230.506.
[247]17 C.F.R. §230.504.

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The SEC uses a five-factor test to determine when to treat separate offerings as part of a single transaction. The five-factor test for integration examines whether the offerings 1) are part of a single financing plan, 2) involve the same type of security, 3) are made around the same time, 4) provide the same form of consideration, and 5) are for the same general purpose.[248] Given the breadth of the five factors, application of the integration doctrine can be unpredictable,[249] and not all five must be met for offerings to be integrated. In fact, the SEC has indicated that any one or more of the factors may be determinative.[250] Therefore, issuers with multiple but related offerings must ensure there is a clear and legitimate rationale against integration.

The Integration Doctrine

Filmmakers seeking to use Regulation D exemptions to finance a film's production budget in excess of the $1 million cap will likely be limited by the integration doctrine. Theoretically, filmmakers may be able to separate the offering into different transactions by conducting one offering to raise funds for the development stage of a film and another for the production stage. In order to avoid integration, the two offerings will need to be sufficiently distinguished.

A producer may seek development funds to acquire rights to a literary property and commission a screenplay to sell to a studio, talent agency, or production company, and pay investors with the proceeds of the sale. However, these circumstances are not common with independent films, as the development and production activities are often tied together operatively and financially.

May a producer issue a Section 4(6) offering for development and production funds for a film and subsequently may a distributor issue a Section 4(6) offering for print and advertising funds for the same film?

For example, a distributor may decide to conduct equity-based crowdfunding to support the prints-and-advertising costs for a slate of films it acquires. If the maker of a film that is licensed to the distributor has also raised funds via equity crowdfunding, the two offerings can be argued to be different transactions, even though they are associated with the same film. While the issuers may be different, the securities laws exempt transactions. Therefore, the integration doctrine must be applied, and conducting two Section 4(6) offerings in this context would likely be permissible.

Issuers must also be aware of the disclosure obligations and advertising limitations. First, an issuer is defined as "any person who is a director or partner of the issuer, and the principal

[248] 17 C.F.R. §230.502(a).

[249] See C. Steven Bradford, The New Federal Crowdfunding Exemption: Promise Unfulfilled, 40 Sec. Reg. L. J. 3 (Fall 2012); See also Rutherford B. Campbell Jr., The Overwhelming Case for Elimination of the Integration Doctrine under the Securities Act of 1933, 89 Ky. L. J. 289 (2001).

[250] See Exemption for Local Offerings from Registration, Securities Act Release No. 4434, 1 Fed. Sec. L. Rep. (CCH) ¶¶2270-77 (Dec. 6, 1961).

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executive officer or officers, principal financial officer, and controller or principal accounting officer of the issuer (and any person occupying a similar status or performing a similar function) that offers or sells a security in a transaction exempted by the provisions of Section 4(6), and any person who offers or sells the security in such offering."[251] Therefore, issuers can theoretically be liable for any material misstatements or omissions in connection with an offering by its key officers, directors, and employees. Defenses available to issuers include proof that the investor had actual knowledge of the misstated or omitted information or should have been aware of the information had the investor taken reasonable care and inquiry.

How will filmmakers be permitted to promote the offerings to potential investors? The JOBS Act prohibits issuers from advertising the offering except for directing investors to the intermediaries—that is, registered broker-dealers or funding portals. However, funding portals are prohibited from soliciting purchasers, but broker-dealers are not. The JOBS Act also prohibits the use of a promoter unless the terms of the promoter's compensation are disclosed in the issuer's disclosure materials. Given the regulatory framework, what is likely to evolve are funding portals with specific areas of focus, such as independent films, or music, video games, or restaurants. Portals will not necessarily promote specific offerings but rather types of offerings to targeted investors.

Another area of concern for filmmakers is the potential to lose the exemption after receiving money in excess of the aggregate amount for Section 4(6) transactions. The rules place the burden on the intermediary to ensure that this does not occur. The JOBS Act, however, specifically allows issuers to raise the defense that they did not know that an investor exceeded the cap, and that in the exercise of reasonable care, they could not have known. Therefore, as long as the intermediary complies with the SEC guidelines, the exemption should presumably apply regardless of whether funds are received from ineligible investors. Concerns such as these may be clarified by the final SEC rules.

Depending on how the final SEC rules are structured, equity-based crowdfunding may be either an exciting and valuable new financing tool for filmmakers and other entrepreneurs or an overly burdensome and costly undertaking. Some commentators have opined that the mandatory disclosure and regulatory requirements make equity crowdfunding too complicated and expensive. The SEC may, however, structure equity crowdfunding rules to protect investors while providing a valuable new fundraising source for issuers. Given the constant demand for additional sources of financing by filmmakers and the growing success of donation-based crowdfunding, the Title III exception will very likely be used to make movies. Given the massive anticipation and preparation from those who are eager to participate in equity-based crowdfunding ventures, the rules and procedures will likely evolve over time to facilitate a burgeoning new form of capital finance.

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[251]Securities Act of 1933 §4(A)(c)(3), JOBS Act, Pub. L. No. 112-106, §302(a), 126 Stat. 306 (2012) (to be codified at 15 U.S.C. §77d(A)(c)(3)).).

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CARLONE v. THE LION & THE BULL FILMS, INC.
861 F. Supp. 2d 312 (S.D.N.Y. 2012)

J. PAUL OETKEN, United States District Judge.

Plaintiff Deborah Carlone filed a complaint against The Lion & The Bull Films, Inc. ("L&B Films") and Vladimir Flener for breach of contract and against Ariel Luna for fraudulent inducement. Ms. Carlone also seeks to pierce the corporate veil and hold Mr. Luna personally liable for L&B Films' alleged breach of contract. Presently before the Court is Ms. Carlone's motion for summary judgment against the individual defendants, Ariel Luna and Vladimir Flener, filed on January 20, 2012, and her motion for default judgment against L&B Films, filed on January 23, 2012.

For the reasons set forth below, the motion for default judgment is granted, and the motion for summary judgment is granted in part and denied in part.

I. Background

A. Facts

Defendant Ariel Luna is a principal officer, director, and 50-percent shareholder of Defendant L&B Films. (Defendant's 56.1 Statement ("Def. 56.1 Stmt.") ¶ 1.) L&B Films was incorporated in New York on or about September 29, 2009, allegedly for the purpose of making a motion picture entitled "179th Street" (the "Film"). (Deposition of Ariel Luna, dated Sept. 26, 2011 ("Luna Dep.") 17:6-9; Def. 56.1 Stmt. ¶ 1.)

Before they began shooting the Film, Mr. Luna, together with his two partners, Mr. Nelson Pereyra and Defendant Mr. Vladimir Flener, set out to procure funding for their project. In May 2009, Mr. Luna was introduced to Mr. Furqaan Clover, who promised to help secure a stand-by letter of credit for the Film project. (Luna Dep. 80:16-81:22.) On or about November 9, 2009, L&B Films entered into a written agreement with Mr. Clover's company, Indie Film Exchange Holdings, Inc. ("Indie Film"), dated October 5, 2009 (the "Financing Agreement") purportedly to procure financing for the Film. (Financing Agreement, Ex. B to Carlone Decl.; Luna Dep. 31:18-32:8). The Financing Agreement provided that L&B Films would receive $15 million from Indie Film, but required L&B Films to make an initial investment of $115,000. *Id.*

Plaintiff Deborah S. Carlone is a citizen and a resident of the State of Florida. Ms. Carlone and Mr. Luna's mother, Emma Luna, had been good friends for many years prior to the incidents described in this lawsuit. (Pl. 56.1 Stmt. ¶ 9; Carlone Decl. ¶ 3; Luna Dep. 26:19-20.) Ms. Carlone and Mr. Luna had also known each other for many years, and Mr. Luna considered Ms. Carlone to be a good family friend. *Id.* In 2008, Ms. Carlone was in an accident which left her wheelchair bound for some period of time. (Carlone Decl. ¶ 4.) On or about September 25, 2008, Plaintiff

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received a settlement check for $123,680 as a result of a personal injury lawsuit stemming from the accident. (*Id.*) Thereafter, Mr. Luna's mother accompanied Ms. Carlone when she went to pick up the settlement check and when she went to deposit the check in her bank account.

On or about November 8, 2009, after his mother's visit to New York, Mr. Luna called Ms. Carlone and asked her for a short term "bridge loan" of $115,000 to fund production of the Film until additional financing arrived. (Pl. 56.1 Smt. ¶ 14; Carlone Decl. ¶¶ 2, 7, 18; Luna Dep. 26:17-27:4.) Mr. Luna also promised Plaintiff that, in return for an initial loan of $115,000 (the "Loan Amount"), Plaintiff would receive the Loan Amount plus an additional $185,000, a sum of $300,000 (the "Repayment Amount"), within 30 days. (Pl. 56.1 Smt. ¶ 15; Carlone Decl. ¶ 7; Luna Dep. 110:18-25.) Mr. Luna did not disclose to Ms. Carlone the existence of the Financing Agreement with Indie Film. (Carlone Decl. ¶ 17.)

Soon after, Mr. Luna emailed Ms. Carlone a written agreement memorializing the terms discussed in their phone conversation (the "Agreement"). (Agreement, Ex. A to Carlone Decl.; Carlone Decl. 9; Pl. Smt. ¶ 18.) The Agreement provided that Ms. Carlone was to provide L&B Films $115,000 within 24 hours and that L&B Films would repay Ms. Carlone a total sum of $300,000 within 30 days of receipt of the original loan. (Agreement ¶¶ 1, 3.) The Agreement also guaranteed Ms. Carlone one percent of the net United States box office receipts of the Film. (Agreement ¶ 4.) Mr. Flener agreed to secure and collateralize the Loan Amount with his 401(k) account. (Agreement ¶ 2.)

Mr. Luna told Ms. Carlone that speed was very important, and there was no time to have her lawyer review the Agreement before she signed it. Ms. Carlone states that it was partly because of Mr. Luna's urgency to receive the money that he offered such attractive terms. (Carlone Decl. ¶ 9; Pl. 56.1 Smt. ¶ 19.) On November 11, 2009, Ms. Carlone signed the Agreement without making any changes to it; Mr. Luna and Nelson Pereyra signed the Agreement for L&B Films, and Mr. Flener signed the Agreement as guarantor of the original Loan Amount. (Agreement, Ex. A, Carlone Decl.)

On November 12, 2009, pursuant to the Agreement, Ms. Carlone wired $115,000 into the bank account of L&B Films. (Carlone Decl. ¶ 12.) On the same day, Mr. Luna caused these funds to be transferred to an attorney, Mr. Richard A. Portale, Esq., who in turn transferred the money to Mr. Wolfgang Zulauf pursuant to the terms of the Financing Agreement with Indie Film. (Def. 56.1 Stmt. ¶ 6; TD Bank Statements, Ex. A; Luna Dep. 121:5-11).

Mr. Luna asserts that immediately after the money was transferred to Indie Film, Mr. Clover stopped taking his phone calls. (Luna Dep. 12-17.) Mr. Luna maintains that with the exception of Mr. Portale, the parties involved in the Financing Agreement disappeared, along with the $115,000 that Ms. Carlone had provided to L&B Films. Mr. Luna alleges that he was the victim of a scam perpetrated against him by Mr. Clover, Mr. Portale, and Indie Film. (See Third Party Complaint, Dkt. No. 17.) Ms. Carlone has not received the $300,000, as provided by the Agreement, nor has her original $115,000 loan been refunded. (Carlone Decl. ¶ 16.)

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II. Discussion

A motion for summary judgment may not be granted unless all of the submissions taken together show "that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." *Fed. R. Civ. P. 56(a)*; *see El Sayed v. Hilton Hotels Corp., 627 F.3d 931, 933 (2d Cir. 2010)*. "The moving party bears the burden of establishing the absence of any genuine issue of material fact." *Zalaski v. City of Bridgeport Police Dep't, 613 F.3d 336, 340 (2d Cir. 2010)*. "In deciding a motion for summary judgment, a court must construe the facts in the light most favorable to the non-moving party and must resolve all ambiguities and draw all reasonable inferences against the movant." *Brod v. Omya, Inc., 653 F.3d 156, 164 (2d Cir. 2011)* (internal citations omitted).

A. Breach of Contract

Plaintiff alleges that Defendants L&B Films and Mr. Flener breached the Agreement. It is undisputed that New York law governs the Agreement. (*See* the Agreement ¶ 6.) To make out a breach of contract claim under New York law, a plaintiff must show (1) the existence of a contract between the plaintiff and the defendant; (2) performance of the plaintiff's obligations under the contract; (3) breach of the contract by the defendant; and (4) damages to the plaintiff caused by the defendant's breach. *Diesel Props S.r.l. v. Greystone Bus. Credit II LLC, 631 F.3d 42, 52 (2d Cir. 2011)* (citing *Eternity Global Master Fund Ltd. v. Morgan Guar. Trust Co. of N.Y., 375 F.3d 168, 177 (2d Cir. 2004)*, and *Harsco Corp. v. Segui, 91 F.3d 337, 348 (2d Cir. 1996))*.

* * * * *

2. Ariel Luna's Liability for L&B Films' Breach

As noted, Mr. Luna is a principal officer, director, and 50-percent shareholder of L&B Films. Plaintiff argues that the corporate veil should be pierced to hold Mr. Luna personally liable for the breach of contract by L&B Films.

New York law establishes two requirements for piercing the corporate veil and thus holding an individual liable for corporate action: "1) the owner exercised complete domination over the corporation with respect to the transaction at issue, and 2) such domination was used to commit a fraud or wrong that injured the party seeking to pierce the veil." *MAG Portfolio Consultant, GMBH v. Merlin Biomed Group LLC, 268 F.3d 58, 63 (2d Cir. 2001)*; *see also Carte Blanche (Singapore) Pte., Ltd. v. Diners Club Intern., Inc., 2 F.3d 24, 26 (2d Cir. 1993)* ("Liability therefore may be predicated either upon a showing of fraud or upon complete control by the dominating corporation that leads to a wrong against third parties."). Factors that courts consider when determining whether it is appropriate to pierce the corporate veil include:

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> (1) the absence of the formalities and paraphernalia that are part and parcel of the corporate existence, i.e., issuance of stock, election of directors, keeping of corporate records and the like, (2) inadequate capitalization, (3) whether funds are put in and taken out of the corporation for personal rather than corporate purposes, (4) overlap in ownership, officers, directors, and personnel, (5) common office space, address and telephone numbers of corporate entities, (6) the amount of business discretion displayed by the allegedly dominated corporation, (7) whether the related corporations deal with the dominated corporation at arms length, (8) whether the corporations are treated as independent profit centers, (9) the payment or guarantee of debts of the dominated corporation by other corporations in the group, and (10) whether the corporation in question had property that was used by other of the corporations as if it were its own.

William Passalacqua Builders, Inc. v. Resnick Developers South, Inc., 933 F.2d 131, 139 (2d Cir. 1991) (citations omitted).

Here, Plaintiff has demonstrated beyond genuine dispute that Mr. Luna completely controlled and dominated the corporation. L&B Films, which was formed only 44 days prior to entering into the Agreement with Plaintiff, was exceedingly undercapitalized, having only $50.00 in its corporate account before the transfer of the Loan Amount from Plaintiff into the account. Apart from the money it received from Plaintiff, the corporation has had no other assets. Nor does L&B Films have corporate headquarters. The corporation conducts business out of Mr. Luna's residence. (Luna Dep. 20:11-25.) Mr. Luna and his partner, Mr. Nelson Pereyra, are the sole officers of L&B Films, and the meetings between them are informal. There are no formal board meetings at which minutes are kept. (Luna Dep. 15: 9-13.) Apart from the deal with Ms. Carlone, the corporation has conducted no other business during its existence. (Luna Dep. 18:4-8.) There is no evidence of any exercise of discretion by L&B Films that was independent of Mr. Luna's exercise of discretion. Moreover, there is no genuine dispute that Mr. Luna used his control of L&B Films to effect the entering into the Agreement with Plaintiff, which took place as a result of Mr. Luna's personal relationship with Plaintiff.

Accordingly, there is no genuine issue of material fact as to the appropriateness of piercing the corporate veil to hold Mr. Luna personally liable for the breach of contract by L&B Films.

3. Vladimir Flener's Liability As Guarantor

Mr. Flener signed the Agreement with Plaintiff, which provided that the Loan Amount (*i.e*., $115,000) "shall be secured and collateralized by the 401K account owned by Vladimir Flener[,] an employee of Universal Music Group." (Agreement ¶ 2.) During the conference with the Court on February 29, 2012, Mr. Flener explained that he believed in the film project, so he used his 401(k) account, his only resource, to guarantee the loan. (*See* Tr. at 16.)

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The evidence in the record demonstrates that Plaintiff performed her obligation under the Agreement by providing the $115,000 to L&B Films. Yet, despite L&B Film's failure to repay her, it is undisputed that Mr. Flener has not fulfilled his contractual obligation to Plaintiff as guarantor of repayment of the Loan Amount.

Accordingly, there is no genuine dispute as to Mr. Flener's liability to Plaintiff for the Loan Amount of $115,000.

* * * * *

5. Nelson Peryra As a Necessary Party

Mr. Luna and Mr. Flener further argue that Mr. Nelson Pereyra, Mr. Luna's business partner, is an indispensable party to the action and that in his absence the complaint should be dismissed pursuant to *Fed. R. Civ. P. 19*. Courts employ a two-step test to determine whether dismissal under *Rule 19* is appropriate. *Davidson Well Drilling v. Bristol-Myers Squibb Co., No. 09 Civ. 1431, 2009 U.S. Dist. LEXIS 60980, 2009 WL 2135396, at *3 (S.D.N.Y. July 16, 2009)* (citing *Viacom Intern, Inc. v. Kearney, 212 F.3d 721, 724 (2d Cir. 2000))*. First the court determines whether a party is necessary under *Rule 19(a)*; only if the answer is affirmative does the court turn to the second step of the test under *Rule 19(b)* to determine whether the party is indispensable requiring dismissal of the action. *Id.*

A non-party to a contract is ordinarily not a necessary party to a lawsuit asserting a breach of contract claim. *Conntech v. Univ. of Conn., 102 F.3d 677, 682 (2d Cir. 1996)*; *Huntington Hospital v. New England Insurance, No. 04 Civ. 4195, 2005 U.S. Dist. LEXIS 3115, 2005 WL 486703, at *3 (S.D.N.Y. Mar. 1, 2005)*. Here, although Mr. Pereyra and Mr. Luna both signed the Agreement for L&B Films, Mr. Pereya is not personally a party to the contract, which was entered into solely among Ms. Carlone, L&B Films, and Mr. Flener. As such, Mr. Pereyra is not a necessary party whose joinder to the action is indispensable to afford complete relief to the parties. Furthermore, Ms. Carlone never met or spoke with Mr. Flener, but interacted solely with Mr. Luna. There is no requirement that Plaintiff advance a claim to pierce the corporate veil as it applies to all "officers" of the corporation merely because she does so for one officer. *See, e.g., Greenleaf v. Safeway Trails, Inc., 140 F.2d 889, 890 (2d Cir. 1944)*; *R.D. Weis Co., Inc. v. The Children's Place Retail Stores, Inc., No. 08 Civ. 4245, 2008 U.S. Dist. LEXIS 94542, 2008 WL 4950962, at *5 (S.D.N.Y. Nov. 19, 2008)* ("[W]ell established precedent holds that one of several joint obligors is not an indispensable party to an action against the others.") (internal citations and quotation marks omitted).

The Court concludes, based on the undisputed facts, that Mr. Pereyra is not an indispensable party for purposes of *Rule 19*.

B. Fraudulent Inducement

Plaintiff also argues that she is entitled to summary judgment against Mr. Luna on the fraudulent inducement claim and is entitled to punitive damages as a result. To maintain a cause

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of action for fraudulent inducement under New York law, it must be established "that the defendant knowingly or recklessly misrepresented a material fact, intending to induce the plaintiff's reliance, and that the plaintiff relied on the misrepresentation and suffered damages as a result." *Merrill Lynch & Co. Inc. v. Allegheny Energy, Inc., 500 F.3d 171, 181 (2d Cir. 2007)*. To maintain a fraud claim that stems from a breach of contract, the allegations of fraud must be sufficiently distinct from the breach of contract claim. *Bridgestone/Firestone, Inc. v. Recovery Credit Services, Inc., 98 F.3d 13, 20 (2d Cir. 1996)*. To make out a case for punitive damages for fraud, a plaintiff must demonstrate that a defendant acted with "wanton and reckless disregard of plaintiff's rights." *PSG Poker, LLC v. DeRosa-Grund, 2008 U.S. Dist. LEXIS 59214, 2008 WL 2755832, at *4-5 (S.D.N.Y. July 14, 2008)*. Punitive damages may be awarded "where a defendant entered into an agreement with a clear and blatant intent to defraud." *Ventus Networks, LLC v. Answerthink, Inc., No. 05 Civ. 10316, 2007 U.S. Dist. LEXIS 13254, 2007 WL 582736, at *3 (S.D.N.Y. Feb. 22, 2007)* (citations omitted).

Ms. Carlone argues that Mr. Luna did not have the ability to meet his obligations to her under the Agreement, and that despite knowing that the obligations could not be met, he purposefully made false representations to Ms. Carlone in order to induce her to enter into the Agreement. Plaintiff asserts that even if L&B Films had obtained funding under the Financing Agreement with Indie Films, there was no provision in the Financing Agreement that would have allowed L&B Films to use the funds to pay Ms. Carlone. (Pl. 56.1 Smt ¶ 20; Carlone Decl.; Luna Dep. 38:23-39:11.) Plaintiff also argues that under the terms of the Financing Agreement, L&B Films would not have received the capital necessary to provide Ms. Carlone the Repayment Amount within the 30 days provided in the Agreement.

Mr. Luna adamantly denies that he acted intentionally to induce Ms. Carlone to part with her money and insists that he intended to repay her. (*See, e.g*., Tr. at 28.) Mr. Luna asserts that at the time L&B Films and Ms. Carlone entered the Agreement, he believed that L&B Films would be able to pay Ms. Carlone the $300,000 Repayment Amount within the 30 days pursuant to the Agreement, once L&B Films received the first disbursement from the Financing Agreement. (*Id*. at 8.) He maintains that it always was–and still remains–his intention to find a way to repay Ms. Carlone.

Drawing all inferences in favor of the non-moving party, the Court concludes that there are genuine issues of material fact precluding summary judgment on the fraudulent inducement claim. Plaintiff has not established beyond genuine dispute that Mr. Luna intentionally misrepresented his ability to repay Ms. Carlone at the time they signed the contract. It is possible that Mr. Luna believed sincerely (although perhaps naively) that he would be able to pay her the Repayment amount in 30 days, given his hoped-for financing. Deciding the issue of intent would likely require credibility determinations that are not appropriately resolved on summary judgment.

Furthermore, it is not established by undisputed fact that Plaintiff's fraudulent inducement claim is sufficiently distinct from the breach of contract claim to warrant separate relief.

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Significantly, as Plaintiff admits, she has not suffered any harm as a result of Mr. Luna's alleged fraudulent inducement that is not duplicative of the damages suffered from the breach of the Agreement, nor has she established beyond dispute that she is entitled to punitive damages on the fraudulent inducement claim as a matter of law.

Consequently, Plaintiff's motion for summary judgment against Mr. Luna as to the fraudulent inducement claim is denied.

III. Conclusion

For the foregoing reasons, Plaintiff's motion for default judgment against L&B Films for breach of contract is GRANTED, and the Court awards damages in the amount of $300,000 plus prejudgment interest at the rate of 9 percent from the date of breach to the date of judgment.

Plaintiff's motion for summary judgment against Defendant Ariel Luna for breach of contract is GRANTED; the Court holds Defendant Luna jointly and severally liable for L&B Films' breach of contract and awards damages in the amount of $300,000 plus prejudgment interest at the rate of 9 percent from the date of breach to the date of judgment.

Plaintiff's motion for summary judgment against Defendant Vladimir Flener for breach of contract is GRANTED; the Court holds Defendant Flener jointly and severally liable for the damages assessed against L&B Films and Defendant Luna in the amount of $115,000 plus prejudgment interest at the rate of 9 percent from the date of breach to the date of judgment.

Plaintiff's motion for summary judgment against Defendant Luna on the fraudulent inducement claim is DENIED.

NOTE

Production tax incentives offered by many states and foreign countries have become an increasingly important component of film financing at both the studio and independent level. These incentives consist of various forms of compensation paid to the production company upon completion of the film's production, including rebates, refundable and non-refundable tax credits, which can be transferable or nontransferable Rebates are direct payments to the production company, usually equal to a specified percentage of the qualified expenditure in the state or country. Refundable tax credits are like rebates, insofar as the production can claim and collect them without having any tax liability in the jurisdiction offering such a credit. By selling them before production starts to third parties at a discount (20% average), or by offering such rebates or credits to equity investors, producers can use either rebates or refundable tax credits to finance part of the film's production.

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Non-refundable tax credits can only be claimed against tax liability; however, if they are transferable, they also can be discounted to third parties or used to obtain investors who do have tax liability in the state or country and can use the credit to offset that liability. However, nontransferable, non-refundable tax credits are essentially valueless unless the production company has taxable income where the credit is being offered.

The qualifying factors vary from state to state and country to country, but include such elements as minimum budget, maximum benefit, minimum spend in the locale offering the incentive, and in the foreign jurisdictions, the requirements that the film be in a native language or feature local subject matter, or have a minimum numbers of native production personnel.

For a list of state-by-state film production incentive programs, with hyperlinks to each program's website, see www.ncsl.org. For an interactive global map which will identify, by clicking on the applicable region, those countries offering production incentives, including a detailed summary thereof, see www.entertainmentpartners.com/incentives.

[D] Public Offering/Insurance Backed Financing

USAGE: On page 1333, SUBSTITUTE the current heading with the following:

[C] Public Offering/Insurance Backed Financing

[E] Federal Assistance

USAGE: On page 1344, DELETE this section.

[F] Internet Development

USAGE: On page 1346, SUBSTITUTE the current heading with the following:

[D] Internet Development

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USAGE: On page 1350, ADD the following new section:

§ 7.03 Theater Financing

Financing Theatre

(Excerpted from "The Theatre Producer Academy Guide to Producing Plays and Musicals"
by Gordon P. Firemark, Esq., © 2012)

Probably the most crucial, frustrating and exhausting part of the production process for a play or musical is securing the funds to make the production possible. Whether the producing company is a non profit theatre seeking donors, subscribers, and underwriters, or a commercial (for-profit) venture seeking equity investment, the goal is the same: gather sufficient funds to finance the "going in" production cost to mount the production, and a portion of "operating expenses" to keep the doors open while building an audience.

"Going In " production costs (sometimes called the "Production Budget") are those expense items that are budgeted to occur prior to the show's opening. These costs include, but are not limited to, the advance paid to the author(s), directors' choreographers' and designers' fees, materials, labor & construction of sets and costumes,, equipment purchases and/or rentals, rent for the theatre, rehearsal space, storage for sets, costumes and equipment, salaries for the cast and crew during the rehearsal period, marketing, promotional and advertising costs, ticket printing, and so on.

"Operating Expenses" refers to the ongoing expenses associated with presenting the show each week. Expenses include, without limitation, theatre rent after opening, royalties payable to the authors, director, choreographer, and designers, maintenance expenses, payroll expenses for the cast, crew and staff, marketing, advertising, etc.

In this article, we will first discuss approaches taken by NonProfit theatre companies and then the approach most commonly taken by commercial producers.

Non Profit Theatre

In the nonprofit theatre, the theatre company producing a show may rely on any or all of the traditional approaches nonprofit organizations use to raise financing.

First and foremost for most theatre companies are **donor contributions**. Under section 501(c) of the Internal Revenue Code, qualified nonprofit organizations have tax-exempt status. With this status comes the ability to offer donors a tax-deduction for their charitable contributions to support the organization's purposes.

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Section 501(c) covers many different types of tax-exempt not-for-profit businesses. Most common among theatre companies is 501(c)(3) which covers charitable, educational and other public-benefit oriented groups.

In situations involving very large contributions, the organization may recognize donors with a "donor wall", plaques on seat-backs, or by naming the donors in an 'honor roll of donors' or similar page in printed programs. In some cases, entire theatre facilities have been named (or re-named) to reflect the contributions of major benefactors.

In addition to private donors, many large corporations make **grants** in support of the arts. Typically, funds raised from donors and grants are not earmarked for single productions, but instead go to the organization's general operating fund. Such an organization must then allocate portions of such fund toward individual productions, while other portions are reserved for overhead and other general expenses.

A second approach taken by many nonprofit organizations is the collection of fees from their members and patrons. Many small theatre groups are organized around a "company" of performers and creative personnel, each of whom pay **membership dues** to the organization, with such funds allocated both to individual productions and to overhead and general expenses.

Other theatre companies rely on a **subscription** model in which patrons of the theatre purchase an entire season's subscription to the company's offerings in advance. Essentially, these are pre-sales of tickets, and are usually not tax-deductible transactions for subscribers. Since tickets are pre-sold, a greater percentage of these funds are ordinarily earmarked for production expenses. In cases where "season subscribers" do so on an "a la carte" basis, selecting which shows they will attend, this becomes even more important.

Another approach is a **sponsorship** model. The company may offer businesses an advertising opportunity to sponsor all or part of a production. In exchange for a fee, the sponsor receives recognition in the advertising and marketing of the show, programs, etc.

In some cases, producers have even offered **"in context" product-placement** style advertising within the show. Some people have raised concerns about compromised artistic integrity when engaging in such commercialism, but advocates of this approach argue that, as long as a character is reading a newspaper in a scene, why shouldn't it be the local tabloid, if the publisher is willing to pay for the exposure?

In addition to larger-scale sponsorship opportunities, nearly every theatre that uses printed programs offers **print ads** for sale. Where the proceeds from such sales exceeds the cost of printing, the surplus is, of course, applied to the organization's production budgets.

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In-Kind contributions are also an important source of funding. While not technically a form of fundraising, the donation of costumes, scenic or prop elements, or even meals for the cast and crew during rehearsals has the effect of reducing the amount of cash required. Thus soliciting such donations should not be ignored.

Most theatre companies use combinations of these models to assemble a patchwork of funding sources in order to pull together sufficient resources for their productions.

Enhancement Money in nonprofit productions.

A final twist on the funding of non-profit theatre comes in the form of "enhancement" funds contributed by a commercial producer eager to see a new work developed, but unwilling to risk millions on untested material. In such a scenario, the commercial producer contributes a portion of the funding required for the nonprofit's production, in exchange for some rights to the show's future life.

Example

Suppose Commercial Producer, is very excited about Playwright's new show, but recognizes that it needs some tweaking before it's ready for Broadway. Meanwhile, New NonProfit Theatre (NNPT) is eager to present a workshop of Playwright's opus, because doing so will further NNPT's mission to present new, original works.

Commercial Producer might approach NNPT, offering to fund the difference between what NNPT would normally budget for its workshop, and the cost of mounting a larger-scale, fully-staged production. In exchange, Commercial Producer would have a right of first refusal to transfer the NNPT production of Playwright's new work to an Off-Broadway or Broadway theatre.

Using this approach, everybody benefits. Playwright gets a higher-level production of his show, NNPT gets more bang for its buck, and Commercial Producer is able to gauge the show's commercial appeal with relatively little capital investment.

Commercial Theatre

The commercial producer's task in accumulating the funds for a production is often a challenging one. Historically, individual producers financed their productions themselves, using their own personal or corporate resources. However, as the costs of producing theatre began increasing in the early and mid-20th century, producers began looking to private equity for funding.

Finding the Money

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Among the most common approaches producers take to finding the money needed to finance their productions is the so-called 'backer's audition.' A backer's audition is a party or event to which prospective investors are invited, and told about the project. Once the wine is flowing, moods elevated, and inhibitions lowered, the producer will present a portion or portions of the show in an attempt to demonstrate the commercial appeal, before inviting the guests to invest in the project.

For producers without a large database of likely investors to invite to such events, it may be necessary to explore using finders, co-producers and joint venturers to fill out the guest list.

A 'Finder' is someone who has connections to, people and businesses likely to be interested in investing in your project, and who is willing to introduce them to you, in exchange for a fee. These "financing consultants" as they are sometimes called, typically bargain for a small percentage of the funds raised from financiers to whom they've introduced you. Typically, if a finder is responsible for a significant portion of the budget's funding, he or she will also receive credit as a co-producer or executive producer.

Co-Producers perform a similar function. They typically have their own pool of prospective financiers, and by joining with them, you instantly expand your circle of prospective investors. But, instead of a percentage of the funds raised, the Co-Producer is basically a partner in the project, and will share proportionally in the Producer's fees and profits.

A Joint Venture is essentially a co-production arrangement between multiple producing companies, each of which brings a chunk of the financing, sharing proportionately (usually) in the profits of the show, if successful.

Front Money

Typically, before the producer has everything in place to begin raising financing, he or she will incur expenses such as option payments, legal fees, promotional materials, and if holding a backer's audition, renting a venue, working with performers, catering, and so on. Some producers have the individual or corporate resources to fund these expenses themselves, but others will not, an so may turn to a front money contributor. Sometimes front money comes from another producer or co-producer, or in others, from a private investor. Usually, the front money deal treats the front money as a non-recourse loan to the production, which will be converted to an investment, once the offering of investment shares is made. In exchange for this early contribution of funds, and the high risk producer to spend those funds before the formal offering is complete, the front money contributor will typically receive a share of the Producers' profits, in addition to the ordinary investors' share of proceeds from the show.

Structure of a typical Theatrical Investment deal

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Most theatrical investment deals are structured as Limited Partnerships (though Limited Liability Companies are an increasingly popular alternative) . Generally, the profits from the production are divided equally between the Producer(s), and the Investors, with the investors sharing on a pro-rata basis in proportion to their respective investments in the production. Usually, however, the investors are entitled to a return of their invested capital first from 100% of operating profits, before the 50/50 split kicks in.

EXAMPLE - Typical commercial financing structure

Suppose Investor purchases $1 Million of $5 Million in Limited Partnership interests in Producer's new musical 'Why Not?', with the other $4 million raised from other investors.

Producer launches a successful production, which quickly begins to generate revenues in excess of its weekly operating expenses.

Let's assume that in a given week, 'Why Not?' earns $1 Million in excess of its operating costs. Of this surplus, the investors receive 100%, so Investor will receive $200,000 and the other investors will split the remaining $800,000.

At this rate, after 4 more weeks of similar revenues, the investors will have 'recouped' the full amount of their initial investments. (I.e., Investor will have received $1 Million and the other investors will have received their $4 million). From this point forward, Producer and the pool of investors will share equally in the profits from the show.

So, let's suppose that, in the week following recoupment, the show again earns $1,000,000 above its operating costs. This week, Producer will receive $500,000, and the other investors will share in the other $500,000, with Investor's share adding up to $100,000.

Securities Law Requirements

Almost all modern theatrical financing operates against the backdrop of the U.S. Securities laws. Because the investors in a theatrical production are "passive", having no meaningful degree of control over the day-to-day operations of the business, theatrical investment opportunities are securities subject to regulation by both the Federal and State governments.

Most theatrical investments are offered under the Limited Offering exemptions of SEC Regulation D. To secure financing, then, the producers prepare a disclosure document alternately called an 'offering circular', or a 'private placement memorandum,' ('PPM'). The scope of the offering circular/PPM is very broad, and is intended to disclose all material information about the offering, including its size, how the proceeds will be used, and how investors will benefit from the opportunity. These documents will contain lengthy notices regarding the nature of the

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offering, the fact that it is unregistered, the applicable states' required blue-sky notices, and of all significant risk factors associated with the investment.

The offering documents are NOT to be thought of as sales tools. In point of fact, the offering circular or PPM serves the purpose of complying with the SEC's 'Anti-Fraud' regulations in addition to the exemptions from registration. They are, in essence, the producer's 'stay out of jail' documents, and must not contain any false or misleading information.

Conclusion

The structuring and documentation of the financing for a theatrical production, are likely to represent the most time-consuming and expensive part of producing a play or musical. If done incorrectly, the producer stands in great peril of investor lawsuits, criminal prosecution and bankruptcy. For this reason, it is important that the producer, however experienced, consult with knowledgeable counsel before seeking investors for any production.