Los Angeles lawyer Stanton L. Stein counsels his client Alan Alda on the issues raised by vertical integration.

Son of Sam Laws
Page 14

Personal Jurisdiction and the Internet
Page 21

Unauthorized Film Editing
Page 46

Vertically Challenged

Federal Copyright Preemption
Page 37

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Stanton L. Stein, a partner at Alschuler Grossman Stein & Kahan LLP, specializes in entertainment litigation. Stein and Marcia J. Harris, also a partner at the firm, represented Alan Alda, among others, in litigation challenging self-dealing by entertainment conglomerates. Stein and Harris discuss the issues raised by these suits in their article, “Vertically Challenged,” which begins on page 30.

Vertically Challenged
After settling with numerous profit participants for self-dealing, vertically integrated media conglomerates have responded with new contact language—which may initiate the next round of legal wrangling

By Stanton L. Stein and Marcia J. Harris

Preemptive Strike
Does the Central District’s interpretation of federal copyright preemption standards endanger state claims for misappropriation of ideas?

By Steven T. Lowe
Plus: Earn MCLE credit. MCLE Test No. 115, sponsored by CourtCall LLC, begins on page 40.

Clean Cut
The directors’ challenge to unauthorized editing of their films will clarify important questions of copyright law and “moral rights” in the digital age

By Mark S. Lee
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Mr. Coviello has been actively practicing in Orange County for over 22 years. He has personally tried over 50 jury trials and has been lead counsel in several hundred arbitrations and mediations in employment related matters. He is an Arbitrator on the Employment Panel of AAA and the most recent past Chair of the O.C. Bar’s Labor and Employment Law Section.

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The Legal Side and
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Los Angeles Lawyer / May 2003
Is A Malpractice Insurance Crisis Looming In Your Horizon? Are You Ready?

11 carriers have withdrawn from the California market. Will your carrier be next? The changes in the marketplace are troubling. It is an unknown future. Non-renewals are commonplace. Some carriers can’t secure sufficient reinsurance to operate their professional liability programs. A major carrier was recently declared insolvent. Other carriers have been downgraded by A.M. Best. Severe underwriting restrictions are now being imposed. Dramatic rate increases are certain.

It’s all very unsettling.


CHECKLIST

You owe it to yourself to find the answers to these critical questions!

☑ Will your carrier still be writing professional liability policies in California at your next renewal?
☑ Will your carrier impose a substantial rate increase at your next renewal due to unstable market conditions?
☑ Will your carrier continue to insure “your type” of practice at your next renewal?
☑ Will your carrier leave the marketplace because they can’t secure sufficient reinsurance for their professional liability program?
☑ Will your carrier offer you a tail of unlimited duration if they decide to leave the market?

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This is the 19th annual Entertainment Law Issue of Los Angeles Lawyer. But then you know that because you saw the red banner on the cover. You also know from our cover that we have a special guest to thank—Alan Alda.

For anyone new to the planet, Alda is an award-winning actor, writer, and director who was the plaintiff in a suit discussed in this month’s issue. You can read all about Alda’s case and others like it in the article titled “Vertically Challenged”—but not before you finish reading about how grateful we are to Alda for the ease with which he made his appearance on our cover. We asked, he agreed, a photographer took his picture with Alda’s attorney Larry Stein, and the magazine was printed without incident.

I’m sure you’re thinking, “Big deal. Getting celebrities to appear on the cover of Los Angeles Lawyer is easy.” You couldn’t be more wrong.

Normally we reserve our covers for the truly beautiful people of L.A.—its lawyers. But once a year we go slumming in Hollywood to find someone who is famous for something other than just being a lawyer who wrote an article. And why not? We’re tight with the entertainment community. Our Editorial Board meetings are a parade of Tiffany glitter and Bulgari glitz (and that’s just the men). The staff has Bob Evans on speed dial and Botox on tap. Last I heard, the most popular dish at Morton’s was whatever board chair Steven Hecht is having. And wasn’t that publisher Sam Lipsman doing a hip hop karaoke duet with Maggie Gyllenhaal at UponShop on E! News Live?

Still, year after year, it gets harder and harder to sign, seal, and deliver a cover star. We understand if we are turned down because an entertainer does not want to be the cover boy (or girl) for a legal case that the entertainer lost—but many of the entertainers who have turned us down are those who have won. Then there are the ones that settled out of court but signed a nondisclosure agreement that keeps them from publicizing their case (it’s the “Los Angeles Lawyer clause”).

Sometimes we get lucky and a star will agree to appear. That is when the trouble really starts. Several years ago, for example, a certain TV heartthrob was really interested in being on the cover, according to his publicity agent. But when the time came for the photo shoot, we had to reschedule because the publicity agent hadn’t talked to the personal manager. Then we found out that the TV heartthrob was really really interested in being on the cover, according to the personal manager. But the photo shoot had to be rescheduled once again because the personal manager hadn’t talked to the talent agent. Several layers of handlers, entourage, and posse later, we gave up. Then we found out that the TV hunk was really really really interested in being on the cover.

We have been known to try more traditional approaches to celebrity collaboration (no, not stalking—although don’t think it didn’t occur to us). Unfortunately, even direct human-to-celebrity contact has been thwarted by the Cover Curse. Like the time we had the celebrity in our hip pocket, only to learn that his lawyer was adamantly unwilling to allow her client’s star status to be exploited in connection with the lawyer’s article.

Then there was the year we actually took the picture of the celebrity, designed the cover, and sent it off to the printer—only to get a call from the legal department of a large movie studio asking us not to proceed with the celebrity’s photo on our cover because the case involving the celebrity was about to go before a jury.

But this year, we have Alan Alda. And we are delighted and thankful. And speaking of thanks, let me spread a little show biz love around to fellow Editorial Board members and articles editors Keith E. Cooper and Gary Raskin, associate editor Eric Howard, senior editor Lauren Milicov Jomie, and publisher Sam Lipsman. Hey, Sam, maybe next year we can get Maggie Gyllenhaal on the cover after she sues us for libel over that karaoke remark.
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There is no doubt that all of us want legal careers that are satisfying and successful and know that a rewarding career is built upon a command of the law and the ability to marshal facts and communicate clearly. However, beyond mastery of effective legal writing, negotiating, and advocacy, career success and satisfaction rest upon many simple practices that lawyers and nonlawyers are able to employ every day. We would do well to remember, in our daily practice of law, a few lessons that we may have learned from our grandmothers.

For example, my grandmother counseled me to pay attention to the big picture and to take things in stride. While careers may seem long, they are not. Your job is just one part of your life. Thus it is wise to develop a thick skin early in your career and to take nothing about work too personally. Some lawyers burden themselves by basing their identity only on their careers. Admittedly, a career in the law can be extremely demanding of a person’s time and mental and emotional energy. Moreover, becoming an attorney is the result of many years of hard work and often substantial personal sacrifice. As a result, attorneys may derive their entire self-worth from their jobs. Over-identification with their work invariably causes them to take that work far too personally.

Attorneys who belong to this category tend to overreact to victories and losses at work. However, you are more than a lawyer. How well you perform your job and how much money you earn as an attorney are not the only measures of your success. A well-adjusted and healthy family, meaningful friendships, and interesting and fulfilling activities outside the office also bring success and happiness. As a result, attorneys may derive their entire self-worth from their jobs. Over-identification with their work invariably causes them to take that work far too personally.

Do Not Bring It Home

As a corollary to keeping things in proper perspective and taking one’s job not personally but as just one part of one’s life, my grandmother taught me that there is more to learn from losses than wins. While it is certainly important to know what strategy and arguments are key to a particular victory, far more may be learned from failure. Losses should help to formulate the future. No one wants to make the same mistake twice, so losses often receive closer scrutiny than a more meticulous review than wins. In addition, beyond the obvious case-specific, strategic, and substantive lessons, losses teach humility and grace—qualities that are lacking in some lawyers. One should accept, rather than fear and loathe, failures and losses as excellent learning opportunities.

Grandmothers generally are sticklers for manners. One does not forget to say “please” and “thank you” in front of grandma. It is amazing, therefore, to see the overwhelming lack of civility displayed in our profession. Nearly everyone has encountered a lawyer (sometimes even the managing partner of a law firm) who can charm a jury, a judge, and a court clerk and yet is shockingly rude to office colleagues, support staff, and opposing counsel. Such behavior is both arrogant and ignorant. People, whether they are other lawyers assigned to the case or the ones who make the photocopies, will work harder if they are treated with respect and dignity. Attorneys who often compare their achievements to those of others may find it too easy to forget that we are all human beings. Moreover, from a strategic standpoint, kindness toward all, especially opposing counsel, takes little effort and is completely disarming. Civility and manners are contagious; they generate goodwill.

Avoid Gossip

My grandmother also taught me that loose lips sink ships. Many legal careers have been sunk by office gossip—especially the careers of those who gossip. It is more fun to engage in gossip about who is kissing whom in the office elevator than it is to draft responses to boilerplate interrogatories. However, gossiping should be avoided because it is mean-spirited and impolite. Gossips are viewed as untrustworthy, immature, and injudicious—traits that can sound a death knell for any promising young legal career. Keep speculations about your coworkers and bosses to yourself—and barring that, share the titillating news only with those with whom you do not work, for example a significant other or friend.

Not gossiping is one matter; not becoming the subject of office gossip is another. This goal, which any grandmother may be expected to endorse, can be achieved by keeping your private life separate from the office. Do not date your officemates. No matter how attractive a colleague may appear while doing document review at two o’clock in the morning, do not mix business with pleasure. Work is work, and free time is free time. If you have no choice but to view the office as a potential dating pool because even the concept of free time does not exist in your legal career, then you may want to consider ways of finding another job.

Practice Tips from My Grandmother

Career success will often depend not only on technical skills but also on manners

By Rebecca A. Delfino

Barristers Executive Committee.

Rebecca A. Delfino is a member of the Barristers Executive Committee.
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Grandmother’s advice about minding your teachers still applies in adulthood. Career mentors are wonderful. One can learn a great deal about how to survive and thrive as a lawyer from a senior attorney in the same practice area. In addition, a mentor can play a key role in helping a less seasoned lawyer gain valuable practice experience and advance in his or her career. Every lawyer should seek out a teacher. However, mentors must be chosen carefully, with an understanding of what can and cannot be gained from the relationship.

Two Types of Mentors

If your mentor is someone you report to or is directly above you in the chain of responsibility, you should keep the relationship formal and businesslike. Do your best work possible for the mentor-boss. Do not be lulled into thinking this person will always be your friend or is always on your side—no matter what the mentor-boss says to the contrary. Do not share any insecurities you may have regarding your job performance with a boss, and by all means do not make your mentor-boss your drinking buddy. Remember, your work will be a reflection on the mentor-boss, and he or she is always accountable to someone else—such as other partners or the client—for your performance. Consequently, you should learn all you can from the mentor-boss, but you should also keep the relationship at arm’s length.

A boss is not the only career teacher from whom one can learn. Another valuable mentor relationship should be cultivated with a mentor-buddy. This type of mentor is a lawyer with three to four years more experience as a lawyer than you. In contrast to the mentor-boss, the mentor-buddy should be someone who does not directly supervise your work but nonetheless has sufficient experience to provide you with moral support, guidance, exemplars of work product, and insight about life in the office and how to practice law. Because the mentor-buddy does not have to judge your job performance, you can develop a more informal relationship with this person; you will enjoy the freedom to share ideas, thoughts, and workplace concerns with the mentor-buddy. Informal mentors such as these are extremely helpful and are often a key factor in helping a person survive in a particular job.

For the most part, these rules are self-evident, especially to educated and sensible young professionals. Sometimes, however, in the rush to get a brief out the door, return a client’s call, or make it to court on time, we can forget—or worse yet, neglect—these basic life skills that our grandmothers taught by word and deed.
Uncovering the landlord’s hidden assets was as easy as reading the sports page.

Before attorneys took on the renters’ suit against the rumored “wealthy man about town,” they wanted to verify his assets. The search yielded little until they found stories of his string of polo ponies through the LexisNexis collection of 12,000 news sources.

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The Demise of California’s Son of Sam Law

California followed the lead of the U.S. Supreme Court in finding the law overinclusive.

In November 1963, 23-year-old Barry Keenan, the youngest member of the Los Angeles Stock Exchange, had run out of money. Addicted to Percodan, he devised a “business plan” to kidnap Frank Sinatra Jr. From Room 417 at a motel adjoining Harrah’s Casino in Lake Tahoe, Keenan and two others abducted the 19-year-old singer and held him hostage until his father, the legendary crooner, paid a $240,000 ransom. Keenan and his confederates were quickly arrested, tried, and convicted. During their trial, the kidnappers concocted the story that Sinatra Jr. had conspired in his own kidnapping as a publicity stunt. But the jury saw through the tale and Keenan spent four and one-half years in jail.

Keenan returned to obscurity, but for the next 30 years hoped he could some day set his story straight. Opportunity finally arrived in January 1998 when Peter Gilstrep, a reporter for New Times Los Angeles, interviewed Keenan about the kidnapping. The ensuing article, “Snatching Sinatra,” attracted the attention of Columbia Pictures, which bought the motion picture rights for $1.5 million to be divided among New Times, Gilstrep, Keenan, and the other kidnappers.

Alleging that he was again being victimized, in July 1998, Sinatra Jr. sued everyone involved in the Columbia deal under California’s Son of Sam law. His case eventually progressed to the California Supreme Court, which considered it against the background of a key 1991 U.S. Supreme Court precedent striking down the first Son of Sam law in the country, a law adopted in the thrones of one of the most notorious crime sprees in American history.

In the late 1970s, New York was terrorized by serial killer David Berkowitz, popularly known as the Son of Sam. By the time he was apprehended, publicity about his case had enhanced the value of the rights to his story. The New York Legislature sought to prevent Berkowitz and other notorious criminals from exploiting the tales of their sensational crimes for personal profit while their victims went uncompensated. The resulting statute was dubbed the Son of Sam law. By 2000, the federal government and more than 40 states, including California, had enacted similar statutes.1

California’s Son of Sam law—Civil Code Section 2225—provided that all proceeds, past and future, that are paid or owed to a convicted felon from the sale of expressive materials or the rights thereto were subject to an involuntary trust for designated beneficiaries if the materials “include or are based on the story” of the felony. A “story” meant “a depiction, portrayal, or reenactment of a felony” but “shall not be taken to mean a passing mention of the felony, as in a footnote or bibliography.” “Materials” were defined as “books, magazine or newspaper articles, movies, films, videotapes, sound recordings, interviews or appearances on television and radio stations, and live presentations of any kind.”

In August 1998, Sinatra Jr. obtained an injunction requiring Columbia Pictures to hold all present and future proceeds and profits due Keenan in trust for Sinatra Jr. during the pendency of the action. In November 1998, Keenan responded by filing a demurrer and motion to dissolve the preliminary injunction on the grounds that Section 2225 was facially invalid under the free speech clauses of the federal and state Constitutions. The trial court disagreed, and Keenan appealed its decision. In May 1999, the California Court of Appeal upheld the constitutionality of Section 2225.

Given the important free speech issues involved, as the case headed to the California Supreme Court the attorney general of California filed an amicus curiae brief on Sinatra Jr.’s side of the case. Keenan was supported by briefs from the ACLU Foundation of Southern California, the Association of American Publishers, Inc., the American Booksellers Foundation for Free Expression, Magazine Publishers of America, Inc. and PEN American Center.

On February 21, 2001, a unanimous California Supreme Court declared Section 2225 unconstitutional.2 It held that the law imposed content-based financial penalties on protected speech and consequently must satisfy strict constitutional scrutiny. The court acknowledged that the law sought to serve compelling interests in preventing criminals from exploiting their crimes for profit and in compensating crime victims from the profits of crime. But the law was fatally overinclusive, because it confiscated all income from all expressive materials that included significant discussions of their creators’ past crimes, whatever their general themes or subjects.4

The California Supreme Court adhered closely to U.S. Supreme Court precedent. In Simon & Schuster v. New York State Crime Victims Board,3 the U.S. Supreme Court confronted a matter of first impression: Could the state constitutionally confiscate the profits from books and movies written by convicted felons in order to compensate their victims? After New York’s Son of Sam law went into effect, Simon & Schuster made a deal to publish a book by former-gangster-turned-government-witness Henry Hill. The book would tell the story of Hill’s career in organized crime. After considerable investment of time and effort by Hill and his coauthor, the book, Wiseguy, was published in 1986. The colorful account of Hill’s criminal exploits and life inside the Mafia met with commercial and critical success and was later
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made into the movie *Goodfellas*.

When the New York State Crime Victims Board learned about * Wise Guy*, it invoked the Son of Sam law and ordered Simon & Schuster to pay all future sums due to Hill into a trust. The publisher promptly filed a federal suit, seeking a declaration that the New York law was facially invalid under the First Amendment. Both the district court and a divided federal court of appeals upheld the law.

But in 1991, the U.S. Supreme Court unanimously reversed. Eight justices (Justice Clarence Thomas did not participate), in an opinion written by Justice Sandra Day O’Connor, first noted that “a statute is presumptively inconsistent with the First Amendment if it imposes a financial burden on speakers because of the content of their speech.” The government’s ability to impose content-based burdens on speech raises the specter that the government may effectively drive certain ideas or viewpoints from the marketplace. “The First Amendment presumptively places this sort of discrimination beyond the power of the government.”

**The Supreme Court Ruling**

New York’s Son of Sam law was a presumptively invalid content-based burden on speech, said the Court, because “it singles out income derived from expressive activity for a burden the State places on no other income,” and “plainly imposes a financial disincentive only on speech of a particular content.”

Because the statute penalized speech on the basis of its content, the Court concluded, the law must survive “strict” constitutional scrutiny; in other words, “the State must show that its regulation is necessary to serve a compelling state interest and is narrowly drawn to achieve that end.”

The Court emphasized that the state had no compelling interest in shielding readers and victims from negative emotional responses to a criminal’s public retelling of his misdeeds. Indeed, the protection of offensive and disagreeable ideas is at the core of the First Amendment.

On the other hand, the Court conceded that states do have compelling interests in ensuring that victims of crime are compensated by those who harm them, preventing wrongdoers from dissipating their assets before victims can recover, ensuring that criminals do not profit from their crimes, and transferring the fruits of crime from the criminals to their victims.

New York also claimed a compelling interest in preventing criminals from retaining the profits of storytelling about their crimes before their victims were compensated. However, the Court noted that the state could not show why it had a greater interest in compensating crime victims from the profits of storytelling than from the criminal’s other assets.

“In short, the State has a compelling interest in compensating victims from the fruits of the crime, but little if any interest in limiting such compensation to the proceeds of the wrongdoer’s speech about the crime.”

Accordingly, the Court reasoned, it must examine whether New York’s statute was “narrowly tailored to advance the former, not the latter, objective” and concluded it was not.

In the Court’s view, two factors in particular illustrated the statute’s overbreadth. First, the statute applied to a work on any subject, provided that it expresses the author’s thoughts or recollections about the crime, however tangentially or incidentally. Second, the statute’s broad definition of “person convicted of a crime” enabled the Board to escrow the income of any authors who admitted in their works to having committed a crime, whether or not they were actually accused or convicted.

These two provisions combined to encompass a potentially very large number of works. Had the Son of Sam law been in effect at the time and place of publication, it would have escrowed payment for such works as *The Autobiography of Malcolm X*, which describes crimes committed by the civil rights leader before he became a public figure; *Civil Disobedience*, in which Thoreau acknowledges his refusal to pay taxes and recalls his experience while serving time in jail; and even the *Confessions of Saint Augustine*, in which the author laments “my past foulness and the carnal corruptions of my soul,” one instance of which involved the theft of pears from a neighboring orchard.

Amicus Association of American Publishers, Inc. submitted a bibliography listing hundreds of works by American prisoners and ex-prisoners, many of which contain descriptions of the crimes for which the authors were incarcerated, including works by Emma Goldman and Martin Luther King Jr. A list of prominent figures whose autobiographies would be subject to the statute could include Sir Walter Raleigh, who was convicted of treason after a dubiously conducted 1603 trial; Jesse Jackson, who was arrested in 1963 for trespass and resisting arrest after attempting to be served at a lunch counter in North Carolina; and Bertrand Russell, who was jailed for seven days at the age of 89 for participating in a sit-down protest against nuclear weapons.

In sum, the U.S. Supreme Court held that New York’s Son of Sam law “has singled out speech on a particular subject for a financial burden that it places on no other speech and no other income.” The state’s interest in compensating victims from the fruits of crime is a compelling one, but the Court concluded that the Son of Sam law was not narrowly tailored to advance that objective. As a result, the New York statute was inconsistent with the First Amendment.

**The California Statute**

In *Keenan*, Sinatra Jr. had the imposing burden of distinguishing Simon & Schuster. In an effort to save California’s Son of Sam law from the fate suffered by New York’s, Sinatra Jr. argued that the law was not a presumptively invalid content-based regulation of speech. But the California Supreme Court found that his “effort must fail.”

Civil Code Section 2225(b)(1), like the New York statute, placed a direct financial disincentive on speech or expression about a particular subject. The California statute explicitly targeted and confiscated a convicted felon’s proceeds from books, films, articles, recordings, broadcasts, interviews, or performances that merely included the story of the felon’s crime. While certain classes of speech—obscenity, fighting words, certain defamation—may be subject to viewpoint-neutral regulation because of their directly injurious nature, discussions of crime have never been included among those limited exceptions.

Sinatra Jr. also argued that laws imposing financial penalties on speech do not necessarily violate the First Amendment. He cited cases approving the principle that the government need not subsidize the exercise of free speech or other constitutional rights. But the California Supreme Court pointed out that Sinatra Jr. had failed to show how Section 2225(b)(1), by confiscating income from speech based on its content, departs from the presumptively unconstitutional type of statute at issue in *Simon & Schuster*. By denying compensation for an expressive work, a law may chill not only the free speech rights of the author or creator but also the reciprocal First Amendment right of the work’s audience to receive protected communications.

Though there is no compelling interest in targeting a criminal’s storytelling proceeds in particular for the purpose of compensating crime victims, the state does have a compelling interest in using the fruits of crime generally for that purpose. The court assumed, in this regard, that the fruits of crime include a criminal’s proceeds from exploiting the story of the crime. The question thus arose whether Section 2225(b)(1), within its sphere of operation, was narrowly tailored to ensure that the fruits of crime are used to compensate the victims of crime.
The California Supreme Court was convinced that Section 2225(b)(1), like the New York law, was overinclusive and therefore invalid. As did the New York statute, Section 2225(b)(1) penalized the content of speech to an extent far beyond that necessary to transfer the fruits of crime from criminals to their uncompensated victims. Even if the fruits of crime may include royalties from exploiting the story of one’s crimes, Section 2225(b)(1) did not confine itself to such income. Instead, it confiscated all of a convicted felon’s proceeds from speech or expression on any theme or subject which includes the story of the felony, except for a mere passing mention. By this “financial disincentive,” the court found that Section 2225(b)(1), like its New York counterpart, “discourages the creation and dissemination of a wide range of ideas and expressive works which have little or no relationship to the exploitation of one’s criminal misdeeds.”

Indeed, the court held that in at least one respect the involuntary trust provision of Section 2225(b)(1) operated more harshly against expressive materials that depict the creator’s past crimes than did the escrow account in the New York law at issue in Simon & Schuster. Under the New York statute, proceeds from a crime story contract were to be turned over to the New York Board for placement in escrow, but if, at the end of five years, no valid claims of the criminal’s victims or creditors were pending, remaining funds in the account were returned to the criminal. Under Section 2225(b)(1), by contrast, any entrusted amounts not subject to legitimate individual claims at the end of the five-year trust period were to be turned over to the state controller for allocation to the Restitution Fund, available for all crime victims.

Sinatra Jr. nonetheless argued that Section 2225(b)(1) applied only to expressive materials that include the “story” of a felony for which one was convicted, and exempted mere “passing mention of the felony, as in a footnote or bibliography.” These restrictions, Sinatra Jr. argued, negate Simon & Schuster’s concern that all profits from an expressive work would be confiscated even though the work mentioned a past offense only “tangentially or incidentally.”

But the California Supreme Court was not persuaded. In Simon & Schuster, the U. S. Supreme Court had illustrated the overbroad sweep of the New York statute by showing that it encompassed even minor, unpunished offenses or mere tangential or incidental mention of past crimes in a larger context. But the court said that it did not “read Simon & Schuster as suggesting that a statute which exhibited marginal narrowing in these particular regards would necessarily pass constitutional muster.”

Instead, the court’s concern was with “the essential values of the First Amendment.” The vice of the New York law was that in order to serve a relatively narrow interest—compensating crime victims from the fruits of crime—the statute targeted, segregated, and confiscated all income from a wide range of expressive works containing protected speech on subjects and subjects of legitimate interest, simply because material of a certain content—reference to one’s past crimes—was included.

One motivated in part by compensation might discuss his or her past crimes, including those that led to felony convictions, in many contexts not directly connected to exploitation of the crime. The court suggested that “one might mention past felonies as relevant to personal redemption; warn from experience of the consequences of crime; critically evaluate one’s encounter with the criminal justice system; document scandal and corruption in government and business; describe the conditions of prison life; or provide an inside look at the criminal underworld.”

The court ruled that mention of one’s past felonies in these contexts may have little or nothing to do with exploiting one’s crime for profit, and thus with the state’s interest in compensating crime victims from the fruits of crime. Yet Section 2225(b)(1) permanently confiscated all income, whenever received, from all expressive materials, whatever their subject, theme, or commercial appeal, that include a substantial description of such offenses, whatever their nature and however long in the past they were committed. Thus, even as limited to felony convictions, Section 2225(b)(1) was not narrowly tailored to achieve the compelling interests it purported to serve.

Sinatra Jr. also suggested the California statute applied only when an expressive work provides narrative detail about a felony for which the work’s author or creator was convicted, and did not discourage mere acknowledgment of a prior felony conviction in the context of another subject. As the California attorney general put it, a “story,” as defined by Section 2225(a)(7), must be a “vivid” depiction, portrayal, or reenactment.

But these arguments failed to convince the California Supreme Court that Section 2225(b)(1) focused with sufficient precision on the fruits of crime, while leaving other speech-related income undisturbed. Simon & Schuster illustrated the overbreadth of the New York statute by observing that it reached even incidental and tangential mention of past crimes, but nothing in Simon & Schuster suggested New York could have cured the law’s overinclusive effect simply by providing an exemption for tangential or incidental references. Moreover, Simon & Schuster neither stated nor implied that the federal Constitution might allow confiscation, on behalf of crime victims, of all proceeds from any expressive work that includes a descriptive account, or even a “vivid” account, of a past crime committed by the author.

Such “arbitrary demarcation lines,” according to the California court, do not comport with the basic rationale of Simon & Schuster. “A statute that confiscates all profits from works which make more than a passing, nondescriptive reference to the creator’s past crimes still sweeps within its ambit a wide range of protected speech, discourages the discussion of crime in nonexploitative contexts, and does so by means not narrowly focused on recouping profits from the fruits of crime.”

The court also pointed out that Keenan, joined by his amici curiae, urged that the “passing mention” exemption is so imprecise and unclear that it constituted an impermissibly vague basis for the censorship of protected speech. But, the court decided that it did not need to resolve the vagueness issue, because it was persuaded that, by any reasonable interpretation, the statute remained overinclusive.

Certainly the statutory definition of “story” includes any substantial account of the facts and circumstances of a past felony that led to conviction, and the “passing mention” exemption would not provide a safe harbor to materials containing a substantial account. But the court noted that there are multiple contexts in which expressive materials, with diverse subjects and themes unrelated to the exploitation of one’s crimes, might include substantial accounts of those episodes.

The court observed that Section 2225(b)(1) would have applied to numerous works by authors whose discussions of larger subjects make substantial, and often vividly descriptive, contextual reference to prior felonies of which they were convicted. A statute that operates in this fashion disturbs or discourages protected speech to a degree substantially beyond that necessary to serve the state’s compelling interest in compensating crime victims from the fruits of crime. Accordingly, the court concluded, consistent with Simon & Schuster, that Section 2225(b)(1) was facially invalid under the First Amendment to the U.S. Constitution.

Significantly, the court held that it reached a similar result under the liberty of speech clause of the California Constitution. The California provision provides similar, and sometimes greater, protection of speech than the First Amendment, and neither party
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had suggested any reason why it should provide lesser protection under the circumstances of this case.

The court concluded its opinion by stressing the narrow nature of its holding under both the federal and California Constitutions. It held that Section 2225(b)(1) was an over-inclusive infringement of protected speech because it targeted and confiscated all proceeds a convicted felon receives from expressive materials that include any substantial account of the felony, in whatever context. The court expressed no view on whether a statute targeting the income gained from expressive works that include accounts of the author’s crimes could be drafted narrowly and precisely enough to overcome this problem of constitutional overbreadth.

Moreover, nothing the court said precluded a crime victim, as a judgment creditor, from reaching a convicted felon’s assets, including those derived from expressive materials that describe the crime, by generally applicable remedies for the enforcement and satisfaction of judgments. Nor did the court intend, by its analysis in this case, to preclude further legislative steps, not directly related to the content of speech, to ensure that a convicted felon’s income and assets, including those derived from storytelling about the crimes, are and remain available to compensate persons injured or damaged by the felon’s crimes.

Because the court concluded that the challenged provisions were invalid infringements on speech, it did not address Keenan’s separate argument that, as applied to him, Section 2225, which was enacted 20 years after the kidnapping of Sinatra Jr., violated federal and state constitutional prohibitions of ex post facto legislation.

Reaction to Keenan was swift and predictable. Supporters of Son of Sam laws decried the decision, complaining that it gave criminals a blank check to profit from their crimes. The California Legislature threatened to rewrite the state’s Son of Sam law, but in the end merely extended the statute of limitation to 10 years for victims to claim restitution from any income earned by the wrongdoer, not merely proceeds derived from books and movies.

Supporters of the First Amendment, on the other hand, applauded the fact that following the unanimous lead of the U.S. Supreme Court in 1991, the unanimous California Supreme Court in Keenan resisted the invitation to put aside fundamental constitutional principles in the name of compensating victims or punishing criminals. By carefully dissecting the flaws in California’s Son of Sam law, the court underscored the preeminent value the law places on freedom of ex-
pression, even in the face of the popular notion that “crime shouldn’t pay.”

The value of the Keenan case rests in its appreciation of how society at large benefits from the widest array of voices addressing our criminal justice system. Keenan is no more about merely protecting convicted felons than decisions upholding the rights of protestors to burn the American flag or of Nazis to march in Skokie, Illinois, were only about those particular individuals. Cases guaranteeing First Amendment rights have little to do with the particular message or messenger involved and have everything to do with the principle of insuring that the public’s right to know is protected.

In the long run, given the decisions in Simon & Schuster and Keenan, anyone who values wide-open, robust debate and the resolution of important public policy issues through the open clash of ideas, instead of repression imposed by governmental restrictions, will celebrate the elimination of all Son laws, thereby contributing to an open marketplace of ideas where books and movies about crime and punishment will succeed or fail on their merits, free of direct or indirect censorship.

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1 See Kealy, A Proposal for a New Massachusetts Notoriety for Profit Law, 22 W. NEW ENG. L. REV. 1, 22 (2000); Comment, Son of Sam Laws, 20 WHITTIER L. REV. 949, 953, & n.48, 49 (1999).

2 The California law was first enacted in 1983 as Civil Code §2224.1. In 1986, the law was recodified as §2225, and it has since been amended on several occasions. Barry Keenan v. Superior Court, 27 Cal. 4th 413 (2002), cert. denied, U.S. LEXIS 5564 (Oct. 7, 2002).

3 Id. at 423.


5 Id. at 115-16.

6 Id. at 116.

7 Id. at 118.

8 Id. at 120-21.

9 Id. at 123.


13 Virginia Pharmacy Bd., 502 U.S. at 106 and n.12 (1991); see also Lyng, 485 U.S. at 372-73 (denial of federal funds to compensate farmers for their property taken).


15 Barry Keenan v. Superior Court, 27 Cal. 4th at 435.

16 Keenan, 27 Cal. 4th at 433.

17 Id. at 434.

20 Id.

21 Id. at 435.

22 The examples given by the court (in addition to those previously cited by the U.S. Supreme Court) included such notable works as Eldridge Cleaver’s Soul on Ice (1968), which discusses his rapes of white women, for which he was incarcerated, as since-repeated acts of racial rage; memoirs published by Charles Colson (Born Again (1976)), G. Gordon Liddy (Will! (1980)), and John Dean (Blind Ambition: The White House Years (1976)) detailing their criminal roles in the Watergate coverup; and the memoirs of Patricia Hearst, the scion of a publishing dynasty, who was kidnapped by the Symbionese Liberation Army and later participated with her captors in an armed bank robbery for which she was imprisoned (Every Secret Thing (1981)).

23 CAL. CONST. art. I, §2, subd. (a).


25 See generally CODE CIV. PROCS. §§481.010 et seq., 680.010 et seq.

26 Because the court concluded that §2225(b)(1) was overbroad for its legitimate purpose, it did not address Keenan’s contention, derived from Justice Kennedy’s concurring opinion in Simon & Schuster, that a content-based regulation of speech is unconstitutional per se and cannot be justified by an interest of the state. Keenan, 27 Cal. 4th at 436.

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Determining Personal Jurisdiction in Internet-Related Litigation

Over the past decade, the Internet has become a mainstay of interstate and international commerce as well as the noncommercial exchange of information. The rapid expansion of Internet use by individuals and entities has spawned myriad legal issues in the United States and other countries, including a significant threshold concern for Internet users: Where can they be sued based upon their use of the Internet? In other words, what forum may exercise personal jurisdiction over defendant Internet users?

The parameters of personal jurisdiction based upon a party’s use of the Internet are evolving in federal and state courts in the United States as well as courts in other countries. Not surprisingly, federal and state courts in California—the home of Silicon Valley and the entertainment industry—have taken a leading role in developing the law in this area. The California Supreme Court, however, entered the fray for the first time in late 2002 with its decision in Pavlovich v. Superior Court, noting that “the so-called Internet revolution has spawned a host of new legal issues as courts have struggled to apply traditional legal frameworks to this new communication medium. Today, we join this struggle and consider the impact of the Internet on the determination of personal jurisdiction.” By doing so, the California Supreme Court became one of the few state high courts to render an opinion regarding this issue. The U.S. Supreme Court has yet to publish any decisions on personal jurisdiction and the Internet, but it may be looking for an occasion to express its opinion in this new and vital area of the law, particularly in light of the High Court of Australia’s recent decision in Dow Jones & Company Inc. v. Gutnick holding that a U.S. corporation was subject to jurisdiction in Australia based upon the corporation’s postings on the Internet. (See “A Ruling from Australia,” page 22). Indeed, the Pavlovich decision might provide the U.S. Supreme Court with just such an opportunity. In fact, Justice Sandra Day O’Connor imposed, and then quickly withdrew, an emergency temporary stay against the defendant in Pavlovich in January, and the plaintiff has indicated that it is considering an appeal to the U.S. Supreme Court.

Traditional principles provide a template for determining whether personal jurisdiction exists, and California state and federal courts have published opinions containing guidance on this issue in Internet-related litigation. All actions seeking to impose liability or obligation on an individual or entity must be brought in a forum that has the authority, or personal jurisdiction, to order the defendant into court. California’s personal jurisdiction requirements are codified in its long-arm statute, which provides that “[a] court of this state may exercise jurisdiction on any basis not inconsistent with the Constitution of this state or of the United States.” Accordingly, a constitutional due process analysis is necessary to determine whether a nonresident is properly subject to personal jurisdiction in California.

Personal jurisdiction over nonresident individuals and entities may be either “general” or “specific” so long as the forum court’s exercise of personal jurisdiction “does not violate ‘traditional notions of fair play and substantial justice.’” Courts may exercise general jurisdiction over nonresidents when their contacts with the forum state are so “substantial...continuous and systematic” that they should expect to be within the jurisdiction of its courts on any claim. Alternatively, under a lower threshold, courts may exercise specific jurisdiction over nonresidents when they have “purposefully availed [themselves] of forum benefits” and the claim “arises out of” their contacts with the forum state. The “purposeful

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availment” requirement for specific jurisdiction may be satisfied in intentional tort cases, under the so-called effects test, which is used to determine whether the defendant’s conduct is aimed at, or has a significant effect in, the forum state. 9

These fundamental principles apply to U.S. residents and foreigners, although the U.S. Supreme Court has cautioned that “[g]reat care and reserve should be exercised when extending our notions of personal jurisdiction into the international field.”10 Apparently, the High Court of Australia is not so reserved.

**Sliding Scale and Something More**

In the 1990s, during the Internet’s infancy, federal and state courts began addressing the threshold issue of the limits of their exercise of personal jurisdiction over domestic and foreign nonresidents who used the Internet for their personal and commercial activities. In 1997, a federal trial court in Pennsylvania rendered a landmark decision on the issue in *Zippo Manufacturing Company v. Zippo Dot Com, Inc.*11 The Zippo court observed that:

The Internet makes it possible to conduct business throughout the world entirely from a desktop. With this global revolution looming on the horizon, the development of the law concerning the permissible scope of personal jurisdiction based on Internet use is in its infancy stages. The cases are scant. Nevertheless, our review of the available cases and materials reveals that the likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet. This sliding scale is consistent with well developed personal jurisdiction principles. At one end of the spectrum are situations where a defendant clearly does business over the Internet. If the defendant enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet, personal jurisdiction is proper. At the opposite end are situations where a defendant has simply posted information on an Internet web site which is accessible to users in foreign jurisdictions. A passive Web site that does little more than make information available to those who are interested in it is not grounds for the exercise of personal jurisdiction. The middle ground is occupied by interactive Web sites where a user can exchange information with the host computer. In these cases, the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of information that occurs on the Web site.12

The vast majority of courts addressing the issue after *Zippo* expressly or impliedly adopted its “sliding scale” approach and its emphasis on the factual distinction between active and passive uses of the Internet. Federal and state courts in California have applied such an approach, although the Ninth Circuit in *Cybersell, Inc. v. Cybersell, Inc.*13 and *Panavision International, L.P. v. Toeppen*14 adopted its own “something more” requirement, which closely parallels the sliding scale in *Zippo*.

In *Panavision*, the holder of the registered trademarks Panavision and Panaflex, which are used in connection with motion picture camera equipment, accused Toeppen, an Illinois resident, of being a “cyber pirate” who was in the business of stealing valuable trademarks by establishing domain names on the Internet using the trademarks and then selling those domain names to the rightful trademark owners. Panavision brought an action in federal court in Los Angeles against Toeppen for dilution of trademark based upon Toeppen’s attempt to extract $13,000 from Panavision in exchange for the domain name Panavision.com, which Toeppen had previously registered for himself. The Ninth Circuit held that Toeppen was subject to specific personal jurisdiction in California even though “simply registering someone else’s trademark as a domain name and posting a web site on the Internet is not sufficient to subject a party domiciled in one state to jurisdiction in another.”15 It explained, however, that “something more” was required by the federal courts in California. In *Panavision*, that requirement was satisfied because the nonresident defendant’s scheme to extort money from Panavision knowingly injured it “in California where Panavision has its principal place of business and where the movie and television industry is centered.”16

Two recent federal district courts in California have applied the “something more” test in Internet-related cases. In 1999, in *Quokka Sports, Inc. v. Cup International Ltd.*,17 the California operator of a Web site namedAmericascup.com—which claimed to have the exclusive rights to operate “the official website” for the America’s Cup yachting event—brought an action in federal court in San Francisco for trademark infringement and unfair competition against a New Zealand company and its two individual shareholders arising out of the New Zealanders’ operation of several Web sites (includingAmericascup2000.org.nz) related to the 2000 America’s Cup competition. The trial court held that it had personal jurisdiction over the company and its shareholders. The court reasoned that the New Zealand defendants’ activities in operating their Web sites satisfied the “something more” test because they had “aimed a significant portion of their commercial effort at the United States” and they “apparently targeted the U.S. market because there is substantial interest in the America’s Cup in the U.S.”, particularly in California, which was home to 3 of the 11 teams vying for the yachting trophy that was held, at the time of the dispute, by a team from New Zealand.18

The *Quokka* court noted that the defen-

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**A Ruling from Australia**

In *Dow Jones & Company Inc. v. Gutnick,* a New Zealand resident brought an action for defamation in his local Australian court against a U.S. corporation, Dow Jones & Company, Inc. The lawsuit was based on an article that contained allegedly derogatory references to the plaintiff and appeared in an edition of Barron’s Online, which Dow Jones (headquartered in New York) posted on its WSJ.com Web site. Dow Jones challenged the Australian court’s personal jurisdiction over it, but the plaintiff countered that he had been defamed in Victoria, Australia (where he lived) and limited his claim to the damages caused to his reputation there.

Applying Australian law, which ordinarily finds that the tort of defamation is deemed to arise in the jurisdiction in which the damage to the plaintiff’s reputation occurs, the High Court of Australia held that personal jurisdiction over Dow Jones existed in Australia. It reasoned that “[i]n the case of material on the World Wide Web, it is not available in comprehensible form until downloaded on the computer of a person who has a web browser to pull the material from the web server. It is where that person downloads the material that the damage to reputation may be done.” Moreover, one justice noted his concern that if the argument by Dow Jones opposing jurisdiction in Australia were to be accepted by the Australian high court, the practical effect would be to impose “an American legal hegemony in relation to Internet publications” and, further, “to place commercial publishers in [Australia] at a disadvantage to commercial publishers in the United States.”

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dants, by using their Web sites to sell books on sailing and sightseeing cruises along the race course off the coast of New Zealand, were "essentially operating as a storefront, selling services and products, and entering into contracts with U.S. advertisers." The court held that this was the "type of interactive commercial activity, aimed at U.S. consumers, to be evidence of purposeful availment" by the defendants. The court also held that it had personal jurisdiction over both of the company's individual shareholders based upon their "apparent control over all of the corporate defendants' contacts with California and the United States." 19

In Callaway Golf Corporation v. Royal Canadian Golf Association,21 a golf club manufacturer headquartered in California brought an action in federal court in Southern California for trade libel and unfair competition against the nonprofit Royal Canadian Golf Association arising out of the association's posting of press releases concerning the manufacturer on the association's Web site. The trial court declined to exercise personal jurisdiction over the association. The court reasoned that the test for specific jurisdiction was not satisfied, particularly because the Canadian association had not purposefully availed itself of the California forum "[s]imply by maintaining a website accessible to California users and including information [such as press releases related to the manufacturer's products] on the site."22 Such activity was too passive for personal jurisdiction under the "something more" test followed by the federal courts in California. Moreover, general jurisdiction did not exist over the Canadian association because its contacts with California were not "continuous, systematic, or substantial," even though California's residents could access its Web site anytime.23

The California Court of Appeal explicitly referenced the sliding scale approach, and specifically did not find personal availment, in Jewish Defense Organization, Inc v. Superior Court.24 In that case, an individual plaintiff brought a defamation action in state court in Los Angeles against an organization headquartered in New York and its founder arising out of allegedly defamatory statements about the plaintiff posted on the organization's Web site. The plaintiff, Steven Rambam, the president of a private investigative agency located in Brooklyn, New York, employed a California private investigator to assist in an action against Mordechai Levy, the founder of the Jewish Defense Organization. The JDO registered several domain names, including RAMBAM-STEVE.COM, and posted numerous allegedly defamatory statements concerning Rambam, including that he was a "dangerous psychopath" and "an anti-Semite who has been known to entrap Jews with no prior criminal record into committing crimes."25 Levy and the JDO moved to quash service, but the trial court denied their motion. The court of appeal, however, found that the 'defendants' conduct in registering [the plaintiff's] name as a domain name and posting passive Web sites on the Internet is not sufficient to subject them to jurisdiction in California."26 Moreover, it held that the California courts could not exercise personal jurisdiction over these defendants based upon their "contracting, via computer, with Internet service providers, which may be California corporations which may maintain offices or databases in California" because such conduct was insufficient to constitute purposeful availment for specific jurisdiction purposes.27

The Pavlovich Decision

When the California Supreme Court weighed in last year in Pavlovich, it held, by a 4 to 3 majority, that California courts could not exercise personal jurisdiction over a Texas resident based upon postings that he had made on a Web site he operated while attending Purdue University in Indiana. Although
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the majority expressly “emphasize[d] the narrowness of [its] decision” given the particular facts of the case.28 It clarified and advanced California law regarding the constitutional requirements for personal jurisdiction in Internet-related litigation.

The defendant, Matthew Pavlovich, is a resident of Texas and president of a technology firm there. While he was attending college, Pavlovich founded and headed a video project called LiVid that, among other things, sought to enable the decryption of DVDs containing motion pictures. LiVid operated a passive Web site on which it posted the source code of a program it called DeCSS. This program allowed its users to circumvent the Content Scrambling System (CSS) used to encrypt and protect copyrighted motion pictures on DVDs. DVD Copy Control Association, Inc. (DVD CCA), a nonprofit trade association created by the DVD industry to control and administer licensing of the CSS technology, brought an action for misappropriation of trade secrets against Pavlovich and others in state court in San Jose, California. The DVD CCA was seeking injunctive relief.

Pavlovich asserted that California state courts could not exercise personal jurisdiction over him. The trial court and appellate court disagreed. The California Supreme Court granted review to determine “whether the trial court properly exercised personal jurisdiction over Pavlovich’s person based solely on the posting of the DeCSS source code on the LiVid Web site.”29 It held that personal jurisdiction did not exist over Pavlovich in California, but that DVD CCA could pursue its claims against him in other forums such as Indiana or Texas.30

The majority reviewed and clarified California law on personal jurisdiction, including the requirements for determining purposeful availment under the effects test. It determined that the knowledge that harm will likely be suffered in the forum state is, by itself, insufficient to satisfy the effects test for determining personal jurisdiction, and that California law required “additional evidence of express aiming or intentional targeting.”31 The dissent agreed that “one cannot be sued in another forum simply because his or her conduct has foreseeable effects there.”32

Applying that general principle to Pavlovich, the majority held that “the evidence in the record fails to show that [he] expressly aimed his tortious conduct at or intentionally targeted California.”33 The dissenting justices, however, opined that Pavlovich should have reasonably anticipated being brought into California’s courts because “the intended injurious effects of posting DeCSS were aimed directly at the computer hardware industry involved in producing CSS-encrypted DVD players—an industry Pavlovich knew was heavily concentrated in California” and “by publishing material he understood [to be] an infringement of the CSS trade secret, [Pavlovich] took an action calculated to harm the movie industry, which [he] knew was centered in California.”34

With respect to the Internet, the supreme court acknowledged that “[a]lthough we have never considered the scope of personal jurisdiction based solely on Internet use, other courts have considered this issue, and most have adopted a sliding scale analysis.”35 It quoted Zippo and effectively endorsed the sliding scale approach (as the court of appeal had done in the Jewish Defense Organization decision).

In addition, the majority observed that: Pavlovich’s alleged conduct in posting a passive Web site on the Internet is not, by itself, sufficient to subject him to jurisdiction in California. Creating a site, like placing a product into the stream of commerce, may be felt nationwide—or even worldwide—but,
without more, it is not an act purposefully directed toward the forum state. Otherwise, personal jurisdiction in Internet-related cases would almost always be found in any forum in the country. Such a result would vitiate long-held and inviolate principles of personal jurisdiction.36

The dissent agreed:

[The] mere operation of an Internet Web site cannot expose the operator to suit in any jurisdiction where the site’s contents might be read, or where resulting injury might occur. Communications by a universally accessible Internet Web site cannot be equated with “express aiming” at the entire world.37

The dissent diverged from the majority, however, by criticizing the characterization of Web sites as “passive” when they include “content intended and expected to harm particular individuals, entities, or interests in specific places.”38

Significantly, the California Supreme Court did not foreclose the possibility of exercising personal jurisdiction in California over a nonresident Internet user based upon a passive Web site. Rather, as the dissenting opinion explained:

[Defendants who aim conduct at particular jurisdictions, expecting and intending that injurious effects will be felt in those specific places, cannot shield themselves from suit there simply by using the Internet, or some other generalized medium of communication, as the means of inflicting harm. In such circumstances, the defendant is not exposed to universal and unpredictable jurisdiction. He faces suit only in a particular forum where he directed his injurious conduct, and where he must reasonably anticipate being called to account.39

In essence, the California Supreme Court split almost evenly on that factual distinction with respect to Pavlovich—the four-member majority (lead by Justice Brown) concluded that he had not crossed that line, whereas the three-member dissent (lead by Justice Baxter) found that he had done so based upon the extensive evidentiary record.

Pavlovich avoided personal jurisdiction in California, but other Internet users potentially causing harm to California residents and interests should not take much comfort from this result. The California Supreme Court noted that its decision was narrow and indicated that, with a slightly different set of facts, it might have come to a different conclusion. Domestic and foreign nonresidents who use the Internet should be aware that
they may be haled into court in California by local individuals and entities under California’s long-arm statute and the expanding body of case law, including Pavlovich.

1 Pavlovich v. Superior Court, 29 Cal. 4th 262 (2002).
2 Id. at 266.
3 See, e.g., Metcalf v. Lawson, 802 A. 2d 1221 (N.H. 2002) (New Hampshire Supreme Court noting that “most courts hold that the constitutionality of a State’s exercise of jurisdiction is proportionate to the nature and quality of the commercial activity the defendant conducts over the Internet” and that the analytical framework commonly applied in such cases is the sliding scale approach in Zippo); Khan v. American Suzuki Motor Corp., 54 P.3d 829 (Kan. 2002) (Kansas Supreme Court observing that “[p]ersonal jurisdiction is not appropriate when Internet use involves a passive web site”).
5 CODE CIV. PROC. §410.10; Pavlovich, 29 Cal. 4th at 268.
7 Vons, 14 Cal. 4th at 445-46 (citing, e.g., Helicopteros Nacionales de Columbia v. Hall, 466 U.S. 408 (1984)).
8 Id. at 446-48 (citations omitted); Pavlovich, 29 Cal. 4th at 269 (following Vons).
9 Calder v. Jones, 465 U.S. 783 (1984) (establishing the effects test); Pavlovich, 29 Cal. 4th at 269-70 (explaining Calder and the application of the effects test in cases involving intentional torts, including business torts).
12 Id. at 1123-24 (citations omitted, emphasis added).
13 Cybersell, Inc. v. Cybersell, Inc., 130 F. 3d 414, 418 (9th Cir. 1997).
14 Panavision Int’l, L.P. v. Toeppen, 143 F. 3d 1316, 1322 (9th Cir. 1998).
15 Id. at 1322 (citation omitted).
16 Id. (footnote omitted).
18 Id. at 1111-12.
19 Id. at 1112.
20 Id. at 1114.
22 Id. at 1204.
23 Id. at 1208.
25 Id. at 1050.
26 Id. at 1060 (footnote and citation omitted).
27 Id. at 1062.
29 Id. at 268.
30 Id. at 279.
31 Id. at 273.
32 Id. at 293 (footnote omitted, emphasis in original).
33 Id. at 273.
34 Id. at 288.
35 Id. at 274.
36 Id. at 274-75 (citations and internal punctuation omitted).
37 Id. at 289 (citations omitted, emphasis in original).
38 Id. at 290 n.4.
39 Id. at 289-90 (citations and footnote omitted).

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VERTICALLY INTEGRATED media conglomerates have provided fertile ground for litigation in the entertainment industry due to self-dealing and at least the appearance of impropriety that inevitably arises when affiliated entities sit across from each other at the bargaining table. Vertical integration in the entertainment industry is a corporate strategy that involves the retention of control over all aspects of a motion picture, television program, or musical recording—from its creation through production and distribution. For example, with a television program, one vertically integrated conglomerate creates and produces the program, broadcasts the program on its affiliated network, and then licenses the syndication of the program to its own cable network and/or local television stations. To date, litigation alleging vertical integration claims primarily has focused on television programming rather than motion pictures or musical recordings.

Vertical integration accomplishes two goals for a conglomerate. First, the conglomerate achieves the complete control of an entertainment property, including the ancillary rights. Vertical integration allows the conglomerate to “brand” a property and keep it out of the hands of competitors. Second, vertical integration allows the conglomerate to dictate the financial terms of distribution and syndication because it controls both the licensor and the licensee of the rights in the property. In this way, the parent corporation of both the affiliated licensor and licensee can manipulate their negotiations to best serve the corporation’s interest.

Vertical integration often has led to decreased license fees. A corporate conglomerate that produces a program through one of its production entities can ensure that its affiliated cable and television networks and television stations pay below-market license fees for the right to distribute the program. The strategy pursued by a conglomerate is simple. A smaller license fee results in less gross revenues from the distribution of the program. Distribution proceeds are often shared with the program’s profit participants, such as actors, directors, writers, and producers, for whom participation in distribution profits is an integral component of their compensation.
With this vertical integration strategy, profits that would have flowed to the profit participants instead remain within the corporate conglomerate because the affiliated licensees, such as cable networks, do not share their revenue with third parties. In 1998, Alan Alda sued Twentieth Century Fox Film Corporation for this practice and sought in excess of $10 million in lost profit participation revenue.1

The corporate strategy of vertical integration has been made possible by the merger mania in the late 1990s that resulted from the repeal of the “Fin-Syn Rules.”2 With the demise of the rules in 1995, the networks were no longer limited in their ability to produce or own an equity stake in the programs they broadcast. In anticipation of the repeal of the rules, the Walt Disney Company and Capital Cities/ABC announced a $19 billion merger on July 31, 1995, and Westinghouse announced its acquisition of CBS for $5.4 billion on August 1, 1995.3 Subsequently, CBS merged with Viacom, creating a $91 billion conglomerate. These mergers and acquisitions were dwarfed by the merger of Time Warner with AOL, which was approved by the Federal Trade Commission on December 14, 2000, and, at $111 billion, is the largest merger in U.S. history.4

Today, all but one network, NBC, is owned by a media and motion picture studio conglomerate. ABC is owned by the Walt Disney Company, CBS and UPN are owned by Viacom (which also owns Paramount Pictures Corporation), the WB is owned by AOL/Time Warner, and the Fox network is owned by News Corp., which also owns Twentieth Century Fox Film Corporation. The potential for self-dealing is enormous.

While profit participants view these mergers as opportunities for self-dealing by the conglomerates, the conglomerates instead apply the term “synergy” to the mergers. Comments by Michael Eisner, chairman and chief executive officer of the Walt Disney Company, regarding the merger of Disney and ABC, are revealing and perhaps reflect an unfortunate choice of words: “The synergies are under every rock we turn over. I am totally optimistic that one and one will add up to four here.”5

Not everyone agrees that the synergy resulting from vertical integration is a good thing. Many critics, for example, have raised concerns about the dissemination of news as a result of the concentration of news organizations in a handful of media giants. In addition, questions have been raised about the commercial propriety of vertical integration. But the two issues that have attracted the most concern are 1) the networks’ attempts to acquire ownership interests in programs they broadcast, and 2) the potential for self-
dealing among affiliated entities of the media conglomerates.

Suing over Self-Dealing

Concerns and questions about the self-dealing of media conglomerates to the detriment of profit participants have spawned a virtual cottage industry of lawsuits against the studios and networks. Among the lawsuits involving television programs that were filed starting in 1997 are:

• Wind Dancer Production Group v. The Walt Disney Company, which was filed in March 1997 with regard to *Home Improvement.*
• Mozark Productions v. MTM Enterprises, which was filed in May 1997 and concerned *Evening Shade.*
• Frank Lupo, Albert Ruddy, and Leslie Grief against CBS, a lawsuit that was also filed in May 1997 and was about *Walker, Texas Ranger.*
• The Alda suit against Twentieth Century Fox Film Corporation, which was filed in February 1998 with regard to *M*A*S*H.*
• David Duchovny’s suit against Twentieth Century Fox Film Corporation, which was filed in August 1999 and involved the *X Files.*
• Steven Bochco’s action against Twentieth Century Fox Film Corporation, which was filed in September 1999 with regard to *NYPD Blue.*
• Barry Levinson and Tom Fontana against NBC Studios, Inc., which was filed in March 2000 and concerned *Homicide: Life on the Street.*
• Langley Productions, Inc. v. Fox Entertainment Group, which was filed in June 2000 and involved *Cops.*

All of the cases were settled before trial—and for some, the settlement emerged on the very eve of trial.

The gravamen of these lawsuits is that the vertically integrated conglomerates engaged in self-dealing by artificially decreasing license fees and thereby injuring the program’s profit participants. There is no incentive for a vertically integrated company to make any effort to shop its product among a variety of broadcast networks, cable networks, or other distribution channels in order to obtain the highest license fees for its programming. Rather, the incentive is for the affiliated entity owning the program to license it to another affiliated entity for a below-market price. That way, the affiliated licensee increases its profits (and the conglomerate’s bottom line) while the revenues from the license fees that must be shared with the profit participant are reduced.

Although vertically integrated companies may argue that justifiable business reasons exist for vertical transactions, the practical effect cannot be disputed: reduced revenues
available to profit participants and increased profits to the corporate parent’s bottom line.

While some of the contracts between the profit participants and the owners of the television programs contain language designed to protect against disadvantageous self-dealing, many of the contracts that preceded the repeal of the Fin-Syn Rules do not. Two of the earlier lawsuits involving vertical integration are illustrative.

In the lawsuit initiated by Wind Dancer Production Group, creators of the television series Home Improvement, against the Walt Disney Company, the contract at issue had no protective language. In fact, the contract provided only a right of consultation with regard to the distribution of the series. Thus, there was no contractual provision on which to hang a self-dealing claim.

In contrast, in the lawsuit filed by Alan Alda against Twentieth Century Fox Film Corporation, the self-dealing breach of contract claim was based on language contained in a 1991 Settlement Agreement regarding Alda’s audit of the M*A*S*H series profit participation statements. A farsighted transactional attorney for Alda had inserted the following language into the agreement:

If and to the extent Fox makes agreements in respect of exploitation of [M*A*S*H] with any affiliated entity which is a so-called “end user” such as, by way of example only, [Fox Broadcasting Company] or the Fox television stations, the income of such end user shall not be deemed gross receipts hereunder, but Fox shall establish fair, just and equitable market rates, arm’s-length prices in such dealings, which shall be created on a reasonable and empirically justifiable basis.

When the contracts between the profit participants and television program owners contained protective language, the lawsuits alleged claims for breach of contract and inducing breach of contract (on the part of the parent company) as well as breach of fiduciary duty, unfair competition, interference with contract, and interference with prospective economic advantage. Without the protective language, the lawsuits have relied on claims for breach of fiduciary duty, unfair competition, interference with prospective business advantage, and breach of the implied covenant of good faith and fair dealing. All of the lawsuits have sought an accounting.

BREACH OF FIDUCIARY DUTY

The claims for breach of fiduciary duty in the vertical integration cases have been hotly contested. Essentially, the conglomerates argued that the profit participants have attempted to transform breach of contract claims into tort claims. In addition, the conglomerates argued that no fiduciary duty exists between a program’s producer and its profit participant. In some instances, trial courts dismissed these claims on demurrer; in other instances the claims survived demurrer and motions for summary adjudication.

In defending against demurrers by the studios, the profit participants relied on a number of cases upholding a fiduciary duty to account to profit participants. For example, in Braden v. Lewis, the court held, “[W]here property is transferred to another and an interest is reserved in profits which may be realized from the sale or operation of the property, a fiduciary relationship is created and the transferee is bound to account to the party from whom the property was received for the amount of the profits.”

Profit participants also relied on Vai v. Bank of America, which held that “[t]he key factor in the existence of a fiduciary relationship lies in control by a person over the property of another.”

Indeed, two California cases specifically recognize a fiduciary duty owed to profit participants in the context of film distribution agreements. First, in Waverly Productions, Inc. v. RKO General, Inc., the plaintiff, a producer of two films, entered into a distribution agreement with the defendant in which the plaintiff retained profit participations in revenues from the distribution of the films. The court of appeal held that the plaintiff had not established a general fiduciary relationship between itself and the defendant, but the court noted that a limited fiduciary relationship existed with regard to the defendant’s obligation “to account for rentals received” to the plaintiff.

More recently, in Recorded Picture Co. (Productions) Ltd. v. Nelson Entertainment, Inc., the appellate court again reaffirmed the existence of the fiduciary duty recognized in Waverly. In Recorded Picture, the plaintiff, a film producer, entered into a distribution agreement with Hemdale, a distributor of motion pictures. Hemdale, in turn, entered into a separate subdistribution agreement with the defendant concerning home video rights. The court, relying on Waverly, noted that there was no fiduciary relationship between the plaintiff and the defendant because the defendant had no accounting or other obligations to the plaintiff. There was no privity of contract between the plaintiff and the defendant giving rise to an obligation to account for profits. Nevertheless, the court stated that “[a] fiduciary duty to the producer to provide an accounting of proceeds received did govern the relationship between [the plaintiff] and Hemdale” because there was contractual privity.

The court cited Waverly with approval and recognized that when a direct contractual relationship exists, “the distributor owed a fiduciary duty...to provide an accounting of proceeds received from subdistributors.”

A federal district court in New York also found a fiduciary relationship between contracting parties. In Rosary-Take One Production Company v. New Line Distribution, Inc., the court held that “it is possible, as a matter of law, for a fiduciary relationship to develop between contracting parties.”

Predictably, the conglomerates have rejected any notion that a fiduciary relationship exists with respect to profit participants. On demurrer, the conglomerates have attacked the breach of fiduciary claims by relying on Zambrun v. University of Southern California and Peterson Development Company v. Torrey Pines Bank for the proposition that courts have cautioned against finding “loose characterizations” of financial relationships as fiduciary in nature.

In addition, the conglomerates, such as Fox in the Duchovny, Bocheo, and Langley Production lawsuits, relied primarily on an unpublished federal district court order, Crest Enterprises, N.V. v. Columbia Pictures Industries Inc., for the proposition that a profit participant’s audit rights somehow defeat a conglomerate’s fiduciary duty to account for those profits. In the Duchovny and Langley actions, Fox’s demurrers were defeated.

This year, in Wolf v. Superior Court, the court denied a writ of mandate sought by the plaintiff, Gary K. Wolf, the author of the novel Who Censored Roger Rabbit?, which was turned into a movie by Walt Disney Pictures and Television. Wolf sought the writ of mandate to compel the trial court to vacate its order sustaining, without leave to amend, the demurrer to his complaint, which was turned down by the appellate court.

The court held that 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. The court stated that without an allegation of an agency relationship or a joint venture or a relationship “akin” to a joint enterprise, the right to a contingent entitlement would not support a claim for breach of fiduciary duty. Since the decision was based on a writ of mandate during the pleading stage, it is likely that the decision will be appealed by Wolf or challenged by other participants in other cases.

To date, none of the cases alleging self-dealing claims have proceeded to trial. Instead, the conglomerates have paid substantial money to profit participants to resolve the claims before trial. In each of the cases, the studios have insisted on confidentiality
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PROPHYLACTIC PROVISIONS

As a prophylactic measure, some of the studios now have amended their contractual provisions concerning profit participation. First, the words “net profits” and “gross receipts” have virtually disappeared from their contractual definitions of profit participation. Instead, the terms “defined proceeds,” “contingent proceeds,” “defined receipts,” and “contingent bonus” now populate the definitions.

Moreover, the provisions now mandate binding arbitration to resolve any disputes concerning the definitions, whether sounding in contract or tort. Thus, discovery may be limited or nonexistent, depending upon whether an arbitration provision incorporates Code of Civil Procedure Section 1283.05. More important, the profit participant has no right to a jury—a right that may be extremely valuable when a lone plaintiff takes on a behemoth media conglomerate.

In addition to arbitration provisions, many of the new back-end provisions contain presumptions in favor of the studio. For example, the profit participant must acknowledge that any dealing between the conglomerate’s affiliated entities is “conclusively presumed to be fair, reasonable, and unobjectionable” unless the participant can establish that the agreement or other arrangement is on financial terms which, taken as a whole, are materially less favorable economically” than a transaction between unaffiliated entities. For example, Disney’s Exhibit “CB” (contingent bonus) provides:

In addition, Lender acknowledges and agrees that any agreement or other arrangement by [Walt Disney Pictures] with an Affiliate or Related Party regarding the Exploitation Rights shall be conclusively presumed to be fair, reasonable and unobjectionable unless Lender shall establish that such agreement or other arrangement is on financial terms which, taken as a whole, are materially less favorable economically to [Walt Disney Pictures] than the terms of Similar Transactions generally entered into by [Walt Disney Pictures] with unaffiliated or unrelated third parties....

Even if the participant can meet this test, the participant’s damages are limited only to what the participant would have received but for the unfair affiliated transaction—that is, no punitive damages or other remedies.38

According to agents and transactional entertainment lawyers, the studios are unwilling to negotiate many, if any, modifications to
the arbitration provisions or any new provisions benefiting participants, regardless of the stature of their clients. Thus, as these provisions proliferate in contracts between participants and the conglomerates, the number of vertical integration cases may decline. Indeed, challenging the enforceability of these provisions may constitute the next wave of entertainment litigation.

In a recent case, Pardee Construction Company v. Superior Court, the court held that a provision that required a judicial reference instead of a jury trial and prohibited punitive damages was unconscionable and contrary to statutory law and public policy. In its holding, the court cautioned: "Our analysis is narrowly tailored to this record, in particular to the parties' agreements. We do not decide any issue as a matter of law. Instead, on this record we simply conclude the parties' agreements were adhesive contracts fatally infected with procedural and substantive unconscionability."

Whether such a conclusion would be applied to the new back-end provisions imposed by media conglomerates is unclear. Certainly, agreements to arbitrate are looked on with favor in California. Many entertainment contracts contain arbitration provisions, and it is unlikely that courts will hold that a contract with high-level talent is unconscionable based on the perception that high-level talent has sufficient bargaining power. With respect to provisions that deny the right to punitive damages and shift the burden of proof, the outcome also is not certain.

There is no definitive authority on whether contractual provisions that prospectively waive punitive damages or shift the burden of proof are enforceable. Although Pardee Construction Company found a similar provision to be unconscionable, the opinion should be read with caution because the court expressly limited its holding to the facts of that case, and the plaintiffs were homeowners with far less power to bargain the terms of a contract.

Thus, the enforceability of these new provisions remains in doubt, but one thing is certain: The media conglomerates will continue to self-deal. As Warren Buffett once said: "Negotiating with one's self seldom produces a barroom brawl." Therefore, the disputes with profit participants will continue. Stay tuned.

2 The Network Financial Interest and Syndication Rules, 47 C.F.R. §73.658(j) (1970). The Fin-Syn Rules were adopted in an effort to limit the power of the ABC, NBC, and CBS networks by prohibiting them from syndicating programs they had produced and from obtaining financial interests in programs produced by...
outside producers that were broadcast by the networks. The Fin-Syn Rules were modified and amended in 1993 and repealed in 1995. 60 Fed. Reg. 48,907 (1995).


3 LOS ANGELES TIMES, Aug. 6, 1995.


5 CT. Case No. BC166980 (May 1997).


16 The original M*A*S*H agreement for Alda’s acting services was entered into in 1971. Id.


22 Id. at 87. See also Schaefer v. Eagle Automatic Can Co., 135 Cal. 472, 485 (1902) (The plaintiff assigned patents to a corporation “but reserved an interest in certain profits which might be realized by the corporation” on those patents: “[T]he relation thus created was fiduciary and, as to plaintiff’s share or part of the profits realized, the corporation was a trustee.”); Stevens v. Marco, 147 Cal. App. 2d 357, 372-73 (1956) (“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 to the inventor, there arises a confidential or fiduciary relationship between the parties.”). Stevens v. Marco, 147 Cal. App. 2d 357, 372-73 (1956) (“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 to the inventor, there arises a confidential or fiduciary relationship between the parties.”).


24 Id. at 338. In Vai, the property settlement agreement between a husband and wife was rescinded by the court because the husband, who made fraudulent misrepresentations concerning the value of the community property, was a fiduciary to his wife on account of his knowledge and control over the property, which included cash.


26 Id. at 733.


28 Id. at 371 n.10.

29 Id.


31 Id. at *1 (citing Michelson v. Hamada, 29 Cal. App. 4th 1566, 1567 (1994)).


33 Id. at 277.


37 Id. at 277.

38 Subject to certain limitations, CODE CIV. PROC. §1283.05 provides for depositions and discovery to be obtained in an arbitration as if the subject matter of the arbitration were before a superior court in a civil action.

39 Profit participation definitions have never permitted an award of attorney’s fees to the prevailing party in any dispute relating to profit participation.


41 Id. at 1086.

42 Id.


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COPYRIGHT LAW protects a “bundle of rights” given to those engaged in creative expression. Owners of a copyrighted work can prevent the reproduction, distribution, performance, publication, and display of their work without their consent. For a work to be protected by copyright, the only requirements are that the work 1) is one of authorship as contemplated by 17 USC Section 102(a), 2) has a minimal amount of originality, and 3) is “fixed” in a tangible medium of expression.1

The Copyright Act controls the field of copyright claims; thus, there are no state law claims for copyright infringement. There are, however, numerous state law claims that may relate to a work of authorship. These claims raise significant preemption issues. Copyright preemption forces the immediate dismissal of defective state law claims, whether they are brought in state or federal court.

Prior to 1976, federal copyright law coexisted with state copyright law. The technicalities of federal copyright law—for example, rigorous notice and registration requirements—would often drive expressive works into the public domain but for state copyright law. Congress recognized the need for uniform national copyright laws, and in 1976 it accomplished this by adopting the 1976 Copyright Act and creating a single federal system.4 The 1976 act expressly preempts all state copyright law, including common law causes of action. The scope of this preemption, however, is limited because it does not require the dismissal of all claims that involve the subject matter of copyright.5 Instead, only state law claims that assert rights equivalent to those rights protected by Section 106 of the 1976 act, (including reproduction, distribution, performance, publication, and display) are preempted; other state law claims—even if the subject matter of the claim is an artistic work eligible for copyright protection—survive.6

State and federal courts have addressed the issue of copyright preemption in various ways. For example, California state courts and federal courts have held that interference claims are preempted, while fraud claims are never preempted. Central District courts have further found unfair competition, conversion, and unjust enrichment causes of action preempted. Breach of contract claims usually are not preempted in state and federal court.

Steven T. Lowe is a principal in the Los Angeles firm Lowe Law, P.C., which specializes in entertainment and business litigation. Lowe represented the defendant in Kabehie v. Zoland. He thanks Abhay Khosla for his assistance in writing this article.
courts, although two different theories have led to that result. However, the implied contract cause of action, a particularly important claim for artists, creates significant distinction between state courts—where implied contract claims will usually survive—and the Central District, which has begun a questionable trend towards preemption.

**TWO-PART PREEMPTION TEST**

State and federal courts have developed a two-part test to determine whether a state law claim is preempted by the 1976 act. The first part queries whether the plaintiff’s claim concerns copyrightable subject matter.

If the answer to that is yes, the second part then asks whether the right asserted in the state law claim is equivalent to any of the exclusive rights given to the owner of a copyright as enumerated in Section 106 of the 1976 act.

Determining what is copyrightable subject matter—the first part of the test—requires an analysis of applicable copyright law. The 1976 act protects “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,” including literature, musical compositions and sound recordings, drama, pantomime and choreography, pictures, graphics, sculpture, film, architecture, and computer programs. When the subject matter of the state law claim falls outside these parameters, copyright preemption will not apply.

Ideas are not protected by copyright—as opposed to the expression of the idea—but ideas may be protected under certain state law causes of action. For example, in a 1986 California case, a claim for breach of implied contract based upon the defendant’s utilization of the idea for a television “movie of the week” survived a preemption defense. However, a series of recent cases in the U.S. District Court for the Central District of California appear to signal a trend in favor of preemption of claims based on implied contract if the ideas are embodied in a copyrightable work; that is, preemption will be found if the ultimate product is copyrightable, even though the ideas embodied in the copyrighted work are not.

The second part of the test for preemption of state law claims requires an analysis to determine whether the claim contains an “extra element.” If the subject of the state law claim comes within the scope of copyright protection, then the rights asserted via the state law claim must be examined to evaluate whether they are equivalent to the exclusive rights given to the owner of a copyright, as defined in Section 106 of the 1976 act. This requires essentially an element-by-element comparison.

If the state law claim has an extra element—for example, the wrongful act upon which the claim is based consists of something other than the reproduction, distribution, performance, publication, or display of a copyrightable work—then the claim is not preempted. A technical extra element, however, is insufficient. To survive copyright preemption, a state law claim must not only have an extra element; that extra element must transform the state law claim so that it is qualitatively different from a copyright infringement claim. This extra element test was adopted recently in California by the California Court of Appeal in Kabehie v. Zoland and has been the test for the Ninth Circuit for some time.

The difficulty that has plagued the courts is, however, whether the extra element test is applicable but whether an extra element is contained within a particular state cause of action. Indeed, courts have reached significantly varied results in their application of the test. Contract claims especially have resulted in divergent and inconsistent decisions. Some causes of action, however, are never preempted.

Claims for breach of contract usually survive preemption defenses. Copyright owners frequently license their artistic works to third parties in exchange for the payment of royalties. Preamemption is not a defense to a claim for breach of contract based upon the failure to pay royalties required by a written agreement. Two very different theories, however, lead to this result.

The majority of federal and state courts that have addressed preemption defenses to breach of contract claims have required a fact-specific analysis that inquires whether the promise underlying the contract is essentially nothing more than a promise not to violate federal copyright law. If so, the breach of the promise is copyright infringement, and the breach of contract claim is preempted. For example, in Kabehie, the court of appeal affirmed the dismissal of 10 out of 14 state law claims based upon copyright preemption. The plaintiff had alleged that music copyrights were assigned to him by contract and that the contract was breached by the defendant’s continued exploitation of the music. The Kabehie court adopted the majority view and held that five of the plaintiff’s breach of contract causes of action were preempted because they were in essence disguised claims for copyright infringement.

Under the majority view, the breach of contract cause of action should be examined for an extra element, such as a covenant “independent” of copyright rights. In Kabehie, for example, two causes of action for breach of contract survived preemption attacks because the plaintiff alleged the existence of an independent covenant and its breach: the defendant failed to deliver master recordings.

The minority viewpoint states that breach of contract causes of action are never preempted. The rationale is that every contract inherently has a promise to perform that contract. Thus, under the minority view, the contractual promise is always an extra element.

The Central District has adopted the majority view. In Kabehie, the California Court of Appeal did so as well, explicitly rejecting the minority viewpoint.

**BREACH OF IMPLIED CONTRACT**

California has long recognized that an implied contract may be created when one party submits his or her creative ideas to another party. Disclosure of a valuable idea is considered a conferred benefit that is sufficient to constitute consideration for an implied contract.

This is an important right for artists, because copyright law does not protect ideas. Especially in California, where people commonly pitch their concepts for films and television programs to others in the entertainment industry, protection against misappropriation of ideas is necessary—and it appears to be available under California common law.

In recent cases from the Central District, however, courts have held that implied contract claims based upon idea submissions that are embodied in written form are preempted. This is troubling because ideas are frequently submitted in the form of a writing, and without a writing there is an absence of important evidence. The most common example in the entertainment industry occurs when an idea is communicated in the form of a “treatment.”

Since ideas are not protected by copyright law, although they are protected by California common law, it would seem that the first part of the two-part preemption test is not met. Several Central District courts, however, have held that while the ideas embodied in written form may not be protected by copyright law, they nonetheless fall under the subject matter of copyright law for preemption purposes.

The Ninth Circuit has not resolved whether ideas communicated in writing are within the subject matter of copyright law and thus satisfy part one of the two-part preemption test. The Central District decisions that have resolved that issue in the affirmative have relied upon United States ex rel. Berge v. Board of Trustees of University of Alabama, a
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<table>
<thead>
<tr>
<th>CALIFORNIA</th>
<th>FLORIDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Court of Appeal</td>
<td>Fifth Judicial Circuit (Ocala)</td>
</tr>
<tr>
<td>Sixth Appellate District</td>
<td>Twelfth Judicial Circuit</td>
</tr>
<tr>
<td>Alpine County Superior Court</td>
<td>Thirteenth Judicial Circuit (Tampa)</td>
</tr>
<tr>
<td>Amador County Consolidated Courts</td>
<td>Fifteenth Judicial Circuit (W. Palm Beach)</td>
</tr>
<tr>
<td>Bakersfield Municipal Court</td>
<td>Nineteenth Judicial Circuit</td>
</tr>
<tr>
<td>Butte County Consolidated Courts</td>
<td>GEORGIA</td>
</tr>
<tr>
<td>Calaveras Superior Court</td>
<td>Atlanta Superior Court</td>
</tr>
<tr>
<td>Colusa Superior Court</td>
<td>INDIANA</td>
</tr>
<tr>
<td>Del Norte Superior Court</td>
<td>Marion County Superior Court (Indianapolis)</td>
</tr>
<tr>
<td>El Dorado County Superior Court</td>
<td>LOUISIANA</td>
</tr>
<tr>
<td>Cameron Park</td>
<td>Fourth Judicial Dist. (Monroe)</td>
</tr>
<tr>
<td>South Lake Tahoe</td>
<td>Twenty-Sixth Judicial Dist. (Benton, Minden)</td>
</tr>
<tr>
<td>Placerville</td>
<td>MARYLAND</td>
</tr>
<tr>
<td>Fresno Superior Court</td>
<td>Second Circuit Court (Centreville)</td>
</tr>
<tr>
<td>Glenn County Superior Court</td>
<td>Talbot County Circuit Court</td>
</tr>
<tr>
<td>Humboldt Superior Court</td>
<td>MICHIGAN</td>
</tr>
<tr>
<td>Imperial County Superior Court</td>
<td>36th District Court (Detroit)*</td>
</tr>
<tr>
<td>Kern County Superior Court</td>
<td>Washtenaw County Trial Court</td>
</tr>
<tr>
<td>Kings County Superior Court</td>
<td>18th Judicial Circuit</td>
</tr>
<tr>
<td>Lassen County Superior Court</td>
<td>NEW JERSEY</td>
</tr>
<tr>
<td>Los Angeles Superior Court</td>
<td>Bergen</td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>Burlington</td>
</tr>
<tr>
<td>Burbank</td>
<td>Cumberland</td>
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<tr>
<td>Central</td>
<td>Essex</td>
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<td>Central Civil West</td>
<td>Gloucester</td>
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<tr>
<td>Chatsworth</td>
<td>Hudson</td>
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<tr>
<td>Citrus/W.Covina</td>
<td>Hunterdon</td>
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<tr>
<td>Compton</td>
<td>Mercer</td>
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<td>Culver City</td>
<td>Middlesex</td>
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<tr>
<td>Glendale</td>
<td>Monmouth</td>
</tr>
<tr>
<td>Long Beach</td>
<td>Morris/Sussex</td>
</tr>
<tr>
<td>Norwalk</td>
<td>Passaic</td>
</tr>
<tr>
<td>Palmdale</td>
<td>Somerset</td>
</tr>
<tr>
<td>Pasadena</td>
<td>Warren</td>
</tr>
<tr>
<td>Pomona</td>
<td>NEW MEXICO</td>
</tr>
<tr>
<td>Redondo Beach</td>
<td>Dona Ana County (Las Cruces)</td>
</tr>
<tr>
<td>Rio Hondo (El Monte)</td>
<td>TEXAS</td>
</tr>
<tr>
<td>San Fernando</td>
<td>22nd District Court (San Marcos)</td>
</tr>
<tr>
<td>Santa Anita</td>
<td>33rd District Court (Burnet)</td>
</tr>
<tr>
<td>Santa Monica</td>
<td>75th District Court (Liberty)</td>
</tr>
<tr>
<td>Torrance</td>
<td>105th District Court (Corpus Christi)</td>
</tr>
<tr>
<td>Van Nuys</td>
<td>133rd District Court (Houston)</td>
</tr>
<tr>
<td>West Los Angeles</td>
<td>219th District Court (McKinney)</td>
</tr>
<tr>
<td>Madera Superior Court</td>
<td>238th District Court (Midland)</td>
</tr>
<tr>
<td>Bass Lake</td>
<td>286th District Court (Levelland)</td>
</tr>
<tr>
<td>Marin County Superior Court</td>
<td>325th District Court (Ft. Worth)</td>
</tr>
<tr>
<td>Mendocino County Coordinated Courts</td>
<td>360th District Court (Ft. Worth)</td>
</tr>
<tr>
<td>Merced Superior Court</td>
<td>400th District Court</td>
</tr>
<tr>
<td>Napa Superior Court</td>
<td>County Courts</td>
</tr>
<tr>
<td>North Kern Municipal Court</td>
<td>Midland</td>
</tr>
<tr>
<td>Orange County Superior Court</td>
<td>San Angelo</td>
</tr>
<tr>
<td>Placer Superior Court</td>
<td>Tom Green</td>
</tr>
<tr>
<td>Plumas Superior Court</td>
<td>UTAH</td>
</tr>
<tr>
<td>Riverside Superior Court</td>
<td>4th District Court (Provo)</td>
</tr>
<tr>
<td>Blyth</td>
<td>WASHINGTON</td>
</tr>
<tr>
<td>Hemet</td>
<td>Spokane County Superior Court</td>
</tr>
<tr>
<td>Indio</td>
<td>WEST VIRGINIA</td>
</tr>
<tr>
<td>Lake Elsinore</td>
<td>Fourth Judicial Circuit</td>
</tr>
<tr>
<td>Palm Springs</td>
<td>UNITED STATES DISTRICT COURT</td>
</tr>
<tr>
<td>Riverside</td>
<td>Eastern District of California</td>
</tr>
<tr>
<td>Southeast</td>
<td>Fresno</td>
</tr>
<tr>
<td>Sacramento Superior Court</td>
<td>Northern District of California</td>
</tr>
<tr>
<td>San Benito</td>
<td>San Jose</td>
</tr>
<tr>
<td>San Bernardino Superior Court</td>
<td>Santa Clara</td>
</tr>
<tr>
<td>Barstow</td>
<td>Southern District of California</td>
</tr>
<tr>
<td>Big Bear</td>
<td>San Diego</td>
</tr>
<tr>
<td>Central</td>
<td>UNITED STATES BANKRUPTCY COURT</td>
</tr>
<tr>
<td>Joshua Tree</td>
<td>CALIFORNIA</td>
</tr>
<tr>
<td>Needles</td>
<td>Central District of California</td>
</tr>
<tr>
<td>Rancho Cucamonga</td>
<td>Los Angeles</td>
</tr>
<tr>
<td>Victorville</td>
<td>Riverside</td>
</tr>
<tr>
<td>San Diego Superior Court</td>
<td>Santa Ana</td>
</tr>
<tr>
<td>Central</td>
<td>Eastern District of California</td>
</tr>
<tr>
<td>East County</td>
<td>Fresno</td>
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<tr>
<td>North County</td>
<td>Modesto</td>
</tr>
<tr>
<td>South County</td>
<td>Sacramento</td>
</tr>
<tr>
<td>San Francisco Superior Court</td>
<td>Northern District of California</td>
</tr>
<tr>
<td>San Joaquin County Superior Court</td>
<td>Oakland</td>
</tr>
<tr>
<td>San Luis Obispo County Superior Court</td>
<td>San Francisco</td>
</tr>
<tr>
<td>Grover Beach</td>
<td>San Jose</td>
</tr>
<tr>
<td>Paso Robles</td>
<td>HAWAII</td>
</tr>
<tr>
<td>San Mateo County Superior Court</td>
<td>Northern District of Hawaii</td>
</tr>
<tr>
<td>Santa Barbara Superior Court</td>
<td>Illinois</td>
</tr>
<tr>
<td>Central</td>
<td>Chicago</td>
</tr>
<tr>
<td>Lompoc</td>
<td>NEW YORK</td>
</tr>
<tr>
<td>Santa Maria</td>
<td>Southern District of New York</td>
</tr>
<tr>
<td>Santa Cruz Superior Court</td>
<td>District of Oregon</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>OREGON</td>
</tr>
<tr>
<td>Watsonville</td>
<td>Portland</td>
</tr>
<tr>
<td>Shasta County Superior Court</td>
<td>286th District Court (Levelland)</td>
</tr>
<tr>
<td>Sierra County Superior Court</td>
<td>325th District Court (Ft. Worth)</td>
</tr>
<tr>
<td>Solano Superior Court</td>
<td>360th District Court (Ft. Worth)</td>
</tr>
<tr>
<td>Sonoma Superior Court</td>
<td>400th District Court</td>
</tr>
<tr>
<td>Stanislaus County Superior Court</td>
<td>County Courts</td>
</tr>
<tr>
<td>Tehama Superior Court</td>
<td>Midland</td>
</tr>
<tr>
<td>Trinity County Superior Court</td>
<td>San Angelo</td>
</tr>
<tr>
<td>Tulare County Superior Court</td>
<td>Tom Green</td>
</tr>
<tr>
<td>Tulalumne Superior Court</td>
<td>NEW MEXICO</td>
</tr>
</tbody>
</table>

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Fourth Circuit decision, in holding that ideas submitted in writing are within the subject matter of copyright.48

Section 102 of the Copyright Act defines the subject matter of copyright and excludes ideas from the purview of its protection. Copyright law protects the expression of ideas, not the ideas themselves. Based on the reference to ideas in Section 102, the Berge court concluded that ideas expressed in a writing are within the subject matter of copyright, even though not within its protection. Thus the Berge court held that federal preemption may apply to ideas embodied in written form.49

As a practical matter in the entertainment industry, the disclosure of an idea can be valuable consideration, even if the idea itself cannot be independently protected by copyright. A breach of an implied contract is about a breach of an agreement between parties, not the wrongful plagiarism of ideas.

In applying the second part of the pre-emption test, most courts have found an extra element in implied contract cases involving written submission of an idea. Indeed, most courts have held that claims for breach of implied in fact contract actions are not pre-empted.40 The rationale for these holdings is obvious: implied in fact contracts necessarily contain a promise to pay, which constitutes an extra element, not unlike the promise to pay royalties.41 Kahkek v. Zoland, in dicta, appears to affirm this conclusion,42 as does Firoozye v. Earthlink Network, a case from the U.S. District Court of the Northern District of California.43

Beginning in 1997, however, with Worth v. Universal Pictures, Inc., the Central District took a different path that may have the effect of depriving creative persons of this important state law cause of action.44 Worth concerned a typical Hollywood scenario: the plaintiff submitted a screenplay to a film studio, and the screenplay was rejected. The plaintiff claimed that a later-produced film incorporated ideas from his screenplay. The court in Worth held that implied contracts were a species of quasi contract and, based on a passage in Nimmer on Copyright, held that because quasi contracts are always pre-empted, so too was the plaintiff’s cause of action for implied contract.45 Worth has been followed in two recent Central District cases: Endemol Entertainment B.V. v. Twentieth Television, Inc.46 and Selby v. New Line Cinema Corporation.47

These decisions, however, misunderstand the crucial distinction between quasi contracts and contracts implied in fact, a difficult distinction which Nimmer, in fact, discusses in a later passage:

Unfortunately, many courts in dealing with idea cases fail to distinguish between a contract implied in law and a contract implied in fact. An action in quasi contract is not a true contract since “quasi contracts, unlike true contracts, are not based upon the apparent intention of the parties to contract the performances in question, nor are they promises. They are obligations created by law for reasons of justice”… An implied in fact contract on the other hand is a consensual agreement presenting the same elements as are found in an express contract except that in an implied in fact contract the promise is not expressed in words but is rather implied from the promisor’s conduct.48

Selby involved the same Hollywood scenario as Worth—a claim that a film studio misappropriated a screenplay. The Selby court held that the alleged extra element was only a promise not to use the material, and therefore the allegedly extra element was simply a copyright infringement claim.49 However, Selby relied in part on a Michigan district court decision, later overturned by a Sixth Circuit decision that explicitly recognized the error in Worth’s misidentification of implied contract as quasi contract and held instead that the promise to pay in fact constitutes the extra element.50

These Central District decisions would appear to be erroneous: A contract implied in fact clearly requires the extra element of the implied promise to pay for use (and provide appropriate credit, if applicable), which is a promise implied from conduct.51 An implied promise to use only if the defendant pays the plaintiff and/or credits the plaintiff confers the extra element,52 not unlike cases concerning the failure to pay royalties—and those cases are never preempted.

Artists and others with ideas, after all, do not usually wish to prevent the use of their ideas. Quite the contrary, they desire the realization and expression of their ideas in the marketplace. They simply want to be compensated and credited for the use of their ideas pursuant to an implied understanding commensurate with what is customary in the entertainment industry.

A breach of a promise in the context of implied contract would appear to be virtually identical to breach of written contract cases in which the defendant has failed to pay contractual royalties.53 Granting a license in return for royalties and credit replaces the right of the grantor to sue the licensee for copyright infringement.54 An implied contract is exactly such a license, only one whose terms are implied by conduct. Parties are not seeking copyright remedies, such as injunctions, but contract remedies, such as the

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1. Prior to 1976, federal copyright law coexisted with state copyright law.
   True. False.

2. Copyright preemption is only an issue in state court.
   True. False.

3. Copyright preemption is only an issue in federal court.
   True. False.

4. A state law cause of action that concerns copyrightable subject matter is always pre-empted.
   True. False.

5. Claims for breach of contract generally survive copyright preemption defenses.
   True. False.

6. A claim for the breach of a promise to pay royalties is:
   A. Always preempted because there is no extra element.
   B. Never preempted because there is always an extra element.
   C. Reviewed according to a fact-specific analysis.
   D. No court has ruled on the preemption of this claim.
7. The California Court of Appeal has ruled that a breach of contract cause of action is:
   A. Always preempted because there is no extra element.
   B. Never preempted because there is always an extra element.
   C. Reviewed according to a fact-specific analysis.
   D. The California Court of Appeal has not ruled on the copyright preemption of claims for breach of contract.

8. Ideas are protected by Section 102(b) of the Copyright Act of 1976.
   True
   False.

9. Implied contract claims may be preempted in the U.S. District Court for the Central District of California.
   True.
   False.

10. The Ninth Circuit has ruled that a breach of implied contract cause of action is
    A. Always preempted because there is no extra element.
    B. Never preempted because there is always an extra element.
    C. Reviewed according to a fact-specific analysis.
    D. The Ninth Circuit has not ruled on copyright preemption of claims for breach of implied contract.

11. Claims for fraud are never preempted by copyright law.
    True.
    False.

12. When the interference alleged in an interference claim only involves the reproduction or distribution of a copyrighted work, the interference claim will be preempted.
    True.
    False.

13. Interference claims are always preempted by copyright law.
    True.
    False.

14. Unjust enrichment claims regarding the copying of copyrighted material usually are preempted.
    True.
    False.

15. An unfair competition cause of action under the Lanham Act is susceptible to a copyright preemption defense.
    True.
    False.

16. Declaratory relief causes of action are never preempted by copyright law.
    True.
    False.

17. An artist sues a moving company that has stolen one of his paintings for conversion and fraud.
    A. Both the fraud and conversion claims will be preempted.
    B. The fraud claim will be preempted, but not the conversion claim.
    C. The fraud claim will not be preempted, but the conversion claim will be.
    D. Both the fraud and conversion claims will not be preempted.

18. An artist sues a moving company that is selling photocopies of the artist’s paintings for conversion and fraud.
    A. Both the fraud and conversion claims will be preempted.
    B. The fraud claim will be preempted, but not the conversion claim.
    C. The fraud claim will not be preempted, but the conversion claim will be.
    D. Both the fraud and conversion claims will not be preempted.

19. A recent case involving the issue of copyright preemption, Kabehie v. Zoland, was decided by:
    A. The California Court of Appeal.
    B. The U.S. District Court for the Central District of California.
    C. The Ninth Circuit.
    D. The Fourth Circuit.

20. United States ex rel. Berge v. Board of Trustees of University of Alabama, a preemption decision relied on by the Central District, was decided by:
    A. The California Court of Appeal.
    B. The Ninth Circuit.
    C. The Fourth Circuit.

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12. ☐ True ☐ False
13. ☐ True ☐ False
14. ☐ True ☐ False
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16. ☐ True ☐ False
17. ☐ A ☐ B ☐ C ☐ D
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19. ☐ A ☐ B ☐ C ☐ D
20. ☐ A ☐ B ☐ C
While the Central District decisions claim to limit their holdings to the facts, one author has concluded that virtually every reported decision in California dealing with the protection of ideas on an implied contract theory would be preempted if the cases were decided today.
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misal of improper state law claims, whether they are brought in state or federal court. Thus, preemption trends have serious consequences in intellectual property litigation. The disconcerting line of cases in the Central District finding preemption of implied contract claims may have a drastic effect on the entertainment industry. Whether an implied contract cause of action still exists for any practice remains uncertain under the current climate of copyright preemption. Indeed, preemption in implied contract cases may leave plaintiffs without a remedy for misappropriation. Until further guidance is given by the Ninth Circuit, copyright preemption poses a continuing and serious challenge to these claims.

2 1-1 NIMMER ON COPYRIGHT §1.10[B][1][1][a] (2002).
4 H.R. REP. No. 94-1476, 94th Cong., 2d Sess., at 129.
5 17 U.S.C. §301.
9 1-1 NIMMER ON COPYRIGHT §1.01[B][1] (2002).

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10 When an idea crosses the line into protected idea expression has generated a significant amount of case law. See, e.g., Devereaux v. Domino's B.B.A. Inc., 147 F.3d 1053 (7th Cir. 1998); Selby v. New Line Cinema Corp., 96 F. Supp. 2d 1053 (C.D. Cal. 2000).
implied contract claim for ideas that were embodied in a treatment given to defendants).  
38 Desny, 46 Cal. 2d at 729; 1 WITkin, SUMMARY OF CALIFORNIA LAW, Contracts §12.


40 Wrench LLC v. Taco Bell Corp., 256 F. 3d at 458.

41 Id.

42 Selby, 96 F. Supp. 2d at 1061-62.

43 Id. at 1059 n.4 (citing Wrench LLC v. Taco Bell Corp., 51 F. Supp. 2d 840 (W.D. Mich. 1999), subsequently reversed by Wrench LLC v. Taco Bell Corp., 256 F. 3d 446 (6th Cir. 2001)).

44 Wrench LLC, 256 F. 3d at 458.

45 Id. at 459.

46 Graham v. James, 144 F. 3d 229, 235-37 (2d Cir. 1998); Effects Assocs., Inc. v. Cohen, 908 F. 2d 555, 559 (9th Cir. 1990); U.S. Naval Inst. v. Charter Communications, 936 F. 2d 692, 695 (2d Cir. 1991).

47 Id. 4-16 NIMMER ON COPYRIGHT §16.03 (2002) (quoting RESTATEMENT OF CONTRACTS §5, cmt. a)).

48 Weitzenkorn v. Lesser, 40 Cal. 2d 778, 794 (1953) (quoting Office, 474 F. Supp. 672, 684 n.12 (S.D. N.Y. 1979) (“Because the element of deception inherent in ‘palm- ing off’ is not an element of copyright infringement claim, the ‘passing off cause of action is not preempted by federal law.”).)

49 See Motown Record Corp., 657 F. Supp. at 1050.  
50 Del Madera Props. v. Rhodes & Gardner, Inc., 820 F. 2d 973, 977 (9th Cir. 1987).

51 Id.


53 United States ex rel. Berge v. Board of Trs. of Univ. of Ala., 104 F. 3d 1453, 1463 (4th Cir. 1997).


55 Kabehie, 102 Cal. App. 4th at 530.

56 Chersler/Perlmutter Prods., Inc., 177 F. Supp. 2d at 1050.

57 Del Madera Props. v. Rhodes & Gardner, Inc., 820 F. 2d 973, 977 (9th Cir. 1987); Fisher v. Dees, 794 F. 2d 432 (9th Cir. 1986); Motown Record Corp., 657 F. Supp. at 1240.

58 Fisher, 794 F. 2d at 440.


60 Id.
A RECENTLY FILED federal court case—Huntsman v. Soderbergh—may soon decide who controls our video screens. According to the pleadings, the owner of seven Clean Flicks video stores filed suit against 16 famous movie directors in August 2002, seeking court permission to continue selling versions of motion pictures that the directors directed but from which the profanity, nudity, and violence had been removed. The directors filed a counterclaim that added the major motion picture studios and about a dozen other companies to the suit. Claims and counterclaims continued flying, and months later the case is still only in its early stages.

The suit has attracted media attention because of the celebrity participants and the subject matter. The attention may be justified, as rulings in the case could have both dramatic and unexpected consequences for the participants. Understanding the implications of this lawsuit requires a review of its background, its legal issues and arguments, and its possible effects on the parties and the movie-viewing public.

There have been struggles over control of the content of motion pictures for decades. Sometimes these disputes have pitted film-makers against their studio bosses, and sometimes the filmmakers and the studios have rallied against what from their perspective was arbitrary outside control. In fact, motion pictures have been controversial since Thomas Edison commercially introduced the kinetoscope in 1894. Movies displayed an unprecedented vividness, intensity, and apparent reality to audiences, and concerns quickly developed over how movie audiences could be influenced by what they saw on screen. Ethnic groups, animal activists, foreign interests, occupational associations, religious groups, and others all lobbied for better or more guarded depictions of their members or values in motion pictures.

State and local governments responded to these concerns with licensing laws and censorship boards. The U.S. Supreme Court confirmed the legality of a censorship system in 1915 but reversed that ruling in the 1940s.

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acknowledging the expressive nature of motion pictures. By that time, however, the motion picture industry was regulating itself. In 1924, in response to a series of scandals, the studios founded what eventually was called the Motion Picture Association of America (MPAA) and hired attorney and former Postmaster General Will H. Hays to write a code that would govern motion pictures and allay public concerns. What came to be known as the Hays Code was announced in 1930. The overriding principle of the Hays Code was that “no picture shall be produced that will lower the moral standards of those who see it,” and it contained specific regulations to effectuate that principle.

The Hays Code had a dramatic effect on American motion pictures. It doubtless frustrated the creative community, but Hollywood learned to create great motion pictures within its guidelines. Four of the top 5, 7 of the top 10, and 59 of the top 100 films on the American Film Institute’s list of the 100 greatest films were produced during the 34-year reign of the Hays Code, as opposed to 33 in the 34 years since its abandonment.

The Hays Code was abandoned, however, in 1968, after a struggle between motion picture studios and directors. Motion picture attendance plummeted in the 1950s, and studios and directors began looking for ways to increase their box office receipts. Filmmakers in general, and especially directors, were influenced by the frankness of many European films that were riding the crest of the French New Wave. The filmmakers pressured the studios for more freedom to address adult issues, including sexual themes. The MPAA began making concessions, and the Hays Code was soon effectively broken.

The MPAA quickly replaced the Hays Code with a rating system. The system, which is still in effect, allows producers to depict virtually anything in a motion picture that does not constitute obscenity, and that is very much indeed. A wide array of motion pictures are now produced, from highbrow to lowbrow, uplifting to depressing, violent to circumspect, and innocent to explicit, with the predominant concern generally being that the film appeal to some group large enough to make its release profitable.

**Rebroadcasting Movies on TV**

On the other hand, the regulation of content on television—including movies rebroadcast on television—has followed a different path. Television programming has been the subject of FCC regulation since its commercial inception. Although FCC regulations theoretically proscribe censorship, requirements that television and radio operate for the public good have resulted in restrictions on morally offensive broadcast programming. The Supreme Court has at least partially approved these restrictions.

The relatively restrictive nature of television programming created problems for the motion picture industry, which could not afford to ignore the important television market. Network Standards and Practices Department guidelines made it impossible for many motion pictures made after the era of the Hays Code to be broadcast on television in their original form. Motion picture copyright owners edited films for broadcast television, deleting footage and substituting language to bring the films into compliance. Similar edits were made to versions aired on commercial air flights. These changes were unpopular with directors and other filmmakers, but there was little they could do about it, because studios, which generally are the copyright owner of films, have the legal right to edit them.

New technologies created additional ancillary markets for motion pictures and television broadcasts and gave consumers greater control over how they experienced them. Video cassette recorders allowed consumers to use fast forward to speed through parts of a program and skip commercials. DVD players and digital video recorders like TiVo permit even more skips, pauses, and accelerations than are available in analog video recorders. These new media have given people significant control over how they experience motion pictures, and motion picture studios happily profit from the increased revenues derived from selling their old products in these new ways.

Seemingly in keeping with technological advances, public dissatisfaction with the content of films has also increased. Saturation marketing, heavy media coverage of motion pictures, and the successive distribution of motion pictures through various ancillary outlets have caused unprecedented levels of sustained attention to motion pictures. The virtual ubiquity of film in American society makes it obvious that motion pictures are a powerful social force, whether the studios that create them want them to be or not. Motion picture studios have long been accused of stubbornly resisting the moral values of much of the nation and aggressively promoting entertainment that uses graphic violence; racial, ethnic, and gender stereotypes; smoking; drug use; sexual irresponsibility; marital infidelity; and many other titillations to sell movies, even though the public prefers less graphic fare.

Offended consumers can, of course, simply refuse to see the motion pictures that offend them, but it is often not easy to avoid certain content while looking for entertain-
what they perceived as amateurish, crude cuts to their work by video store operators. American movie directors have long chafed at the lack in the United States of significant moral rights, which, from their perspective, allows studios to bowdlerize their work for television and airline use. Most foreign countries recognize moral rights, which include the author’s right to limit the alterations to a work without the author’s permission even if the copyright in the work is owned by others. However, Congress has provided minimal support for such rights in the United States.21

Channeling the indignation of many of its high-profile members, in 2002 the Directors Guild of America developed plans to file a suit to stop unauthorized editing. A Clean Flicks franchisee learned of these efforts and filed a preemptive suit in federal court in Colorado, seeking declaratory relief that the company’s edited films violated no rights. Parties are still appearing in the Clean Flicks litigation, and no discovery or briefing has taken place at the time of this writing, but certain legal theories have emerged from the pleadings that have been filed so far.

THE SUIT DEVELOPS

Virtually all the claims rely on trademark, unfair competition, and copyright law. The directors and studios allege unfair competition and trademark dilution based on the sale of altered versions of motion pictures that continue to display the directors’ names or studios’ marks. The studios also generally allege copyright infringement, without specifying which rights are violated.22

The case has engendered strong feelings about which side is doing the right thing, but the legal issues are more complicated than one might expect. For example, relevant case law is limited and ambiguous. Gilliam v. American Broadcasting Company23 held that broadcast of “mutilated” versions of episodes of Monty Python’s Flying Circus constituted unfair competition by misleading the public into believing that the edited versions of the programs were, in fact, Monty Python’s work. However, the Gilliam plaintiffs owned common law copyrights in the underlying scripts, the changes deleted up to 27 percent of the original episodes (often rendering them virtually unintelligible), and there was no way the public could have known that the broadcast Monty Python programs had been significantly altered. A concurring judge opined that providing notice of the alteration would have eliminated the unfair competition claim.24 Subsequent case law has limited Gilliam to situations in which the edited version “departed so substantially from the original work that the ‘edited version’ simply made no sense.”25 and one court characterized as 

“minor” (and thus not actionable under Gilliam) the changes that were made to several reproductions of Playboy magazine illustrations that covered a woman’s exposed breast.26

General trademark law involving the sale of altered goods is similarly limited. A party typically cannot sell altered trademarked goods as if they were the genuine, original product, but a party can sell those goods if the labeling adequately describes the modifications and if the alterations are not so severe as to create a “new product.”27

It is anyone’s guess whether the Clean Flicks court will find any of the edited films “unintelligible” under the Gilliam standard or constituting a “new product” under trademark law. But every consumer who buys the altered versions or enabling software should know that the altered versions have, in fact, been altered by a third party rather than a filmmaker or studio. Packaging and advertising materials accompanying the altered versions should make that abundantly clear, if for no other reason than because that is their biggest appeal. Consumers who purchase altered versions do so precisely because they are dissatisfied with the studio versions and want a different version edited by someone outside the studio system. Therefore, any risk of confusion due to inadequate labeling appears low.

Another possible claim is trademark dilution. Such claims do not require proof of likely confusion, but they present other problems. Dilution requires ownership of a famous mark28 and, thus, the directors will have to prove that their names function and have achieved fame as marks. The directors might be able to make that showing, but some case law has been unsympathetic to the argument. For example, in Chamberlain v. Columbia Pictures Corporation, the Ninth Circuit held that there was no secondary meaning in the name Mark Twain when it appeared on a literary work because it “merely identified the author of those works.”29 More recently, in Lord Simon Caerns v. Franklin Mint Company, a federal district court in California held that there were no trademark rights in the name Diana, Princess of Wales, because the term merely described the princess.30 Further, some courts have held that only “inherently distinctive” marks qualify for dilution protection.31 Names are generally viewed as descriptive marks that by definition cannot be inherently distinctive.32

Dilution claims generally involve a third party who uses a mark to identify unrelated goods or services the third party produces. The third-party editors use marks on altered motion pictures that actually originated with the studios. No reported decision has applied trademark dilution law in such a factual scenario.

Additionally, the harm required in a dilution claim makes the result in the Clean Flicks case uncertain. The Supreme Court recently clarified that actual dilution, as opposed to a likelihood of dilution, must be shown to establish a federal trademark dilution claim.33 Whether the studios will be able to produce such evidence is difficult to predict.

Unfair competition claims against the software providers present other difficulties. The software providers claim they neither sell motion pictures nor use any director’s or studio’s mark to sell their software products. Confusing or diluting use of a mark in commerce is a necessary predicate to an unfair competition claim, and it would appear difficult to establish trademark dilution or unfair
competition against entities that neither use the marks nor sell the trademarked goods.24

COPYRIGHT CLAIMS

The motion picture studios’ copyright claims are in some respects more straightforward, significantly because they are the actual copyright holders in the altered films, but there are still complications. For example, the studios might assert violation of their exclusive reproduction right under federal copyright law. Unless retailers manually edit individual copies that are then legitimately purchased by consumers (and some alteration schemes include this method), infringing copying will be found to have occurred, and retailers would be exposed to liability. However, the retailers will inevitably defend their conduct by employing the fair use defense, which is available under copyright law.25

The fair use defense involves four factors. Judicial application of these factors is notoriously unpredictable, but the studios may successfully challenge some with relative ease. Under the first factor, “purpose and character of use,” commercial uses tend to weigh against fair use unless they are “transformative” (e.g., if they are used in a new work to give a significantly different purpose, character, meaning, or message).36 The retailers’ use is certainly commercial. The “transformative” nature of an edited film with only slight deletions is debatable. No new purpose, meaning, or message is intended in the edited films, which seek to remain as close to the original as possible, but, arguably, removal of graphic language, sex, and violence gives these films a different character. Accordingly, this factor should favor the studios, but there is room for debate.

The second factor, the nature of the copyrighted motion pictures, would likely weigh against fair use, since the more creative a work is, the less likely unauthorized copying will be permitted. Motion pictures obviously are very creative works. However, some courts have given this factor less weight in certain cases.37

The third factor involves “the amount or substantiality of the portion used.” This would certainly appear to work against a fair use defense, since retail editors quantitatively use almost all of each motion picture, and thus qualitatively are likely to be viewed as copying the heart of virtually all the films they alter.

The final factor, the effect of the retailers’ use on the potential market for the motion pictures, is actually the least clear-cut. The retailers claim the studios lose no sales of their original versions, since purchasers obtain an original version before they may acquire an edited one. They doubtless will also produce evidence that they sold or rented edited films to people who never would have rented or purchased the motion pictures in their original versions. This factor may favor the retailers until motion picture producers rent or sell edited versions themselves.

The retailers of edited videos are only one of the challenges facing the studios, however. The application of copyright reproduction claims against the providers of editing software is a more daunting legal task. The software providers do not provide copies of motion pictures to consumers, and the providers may or may not make interim copies of the DVDs to create their masking software. If they do not, there is no copying and no liability under this theory. Even if they do make interim copies, liability is not assured. Software providers could argue that any interim copying is a fair use under copyright law because it is necessary to a subsequent noninfringing use. This argument is backed by some supporting case law.38 However, the software providers might have to circumvent the copy protection systems within the DVDs to make those interim copies and, if they do, they may violate provisions of the Digital Millennium Copyright Act. This act is controversial in that it arguably prohibits a practice that traditionally has been considered fair use: the creation of copies of works for a consumer’s own use.39 Thus, how the Clean Flicks court will interpret it is unpredictable.

Besides infringement of the copyright law’s reproductive rights, the studios also could assert that the edited video retailers and software providers are infringing based on the creation of unauthorized derivative works. The studios will obviously have to establish that the edited versions qualify as derivative works, but that standard is not hard to meet. A work is derivative if it is a “distinguishable variation” with changes that are more than “merely trivial.”40 The edited video retailers add no obvious copyrightable elements to the films but instead delete scenes or mute words in the original version, with the extent of the alteration varying from picture to picture. Although one court held that one edit added enough to create a derivative work,41 it is unclear whether muting a few words or deleting portions of a few scenes will be sufficient in many of the edited films.

A theory that an edited film is a derivative work might be more difficult against the software providers, whose products allegedly make no change to the original work at all but instead merely allow the end user to alter how he or she experiences an unaltered copy of the work. Proving that transitory changes in the user experience are sufficient to create derivative works is the key to a studio claim.
under this theory, but precedents are few and far between. In fact, arguably analogous case law involving video games indicates that they may not be. *Louis Galoob Toys v. Nintendo of America* held that the manufacturer of a “game genie” video game device that allowed players to alter how they experienced a video game so they could win more easily did not violate the underlying video game owner’s copyright, because the user experience made possible by the game genie did not constitute a derivative work. The Galoob court further held that, even if the game genie were derivative, Galoob’s use was a fair use under copyright law, arguing that “Sony [v. Universal] recognizes that a party who distributes a copyrighted work cannot dictate how that work is to be enjoyed.”

One final argument that the studios may employ is that the distribution of altered videos constitutes unauthorized public performances of their motion pictures. This would seem to be a difficult argument, and the studios appear to avoid it. A public performance claim might be especially difficult against the software providers, since their software product is intended to be used by a single purchaser of a single copy in his or her home.

**POSSIBLE RESULTS**

Regardless of the outcome of *Huntsman v. Soderbergh*, consequences—anticipated and otherwise—will flow to all concerned. Most obviously, a victory for the edited video retailers and/or software providers would allow them to continue selling, and the public to continue viewing, edited films. This result would effectively destroy the control that directors have over their films after completion and weaken the hold of studios on their copyrighted works.

A victory for the software providers could determine who controls the content of television and video screens at home—the people who create motion pictures or the viewers who purchase and view them. The software providers use technology to give individuals greater control over how they experience the movies they watch without altering the original content. One can imagine software that would allow users to dramatically alter the motion picture viewing experience by, for example, personalizing stories by changing names or superimposing images of family members on characters depicted in the motion picture or interacting with the motion picture in other ways. An entirely new industry could arise to service these consumer desires that legally would owe nothing to the directors or motion picture studios. Whether that would be good or bad for motion pictures or the public is an important question.
that the Clean Flicks litigation may not be well equipped to consider, let alone answer. A victory for the directors could establish their right to control the content of their motion pictures after they complete them and could also generally strengthen moral rights in the United States. This could have consequences that the directors do not anticipate or intend. Motion pictures are, after all, a collaborative art form, with artistic contributions from the screenwriters, costume designers, actors, and numerous others. All arguably could have some claim of authorship in the motion picture, and all could have moral rights that they could assert.

Further, success for the directors might negatively affect the studios in particular and copyright owners generally. Directors (and perhaps others) would have judicially established rights that continue after they have completed a film. Such rights could be exercised against the studios as well as the public and might give directors and others more power over how studios edit their films. Such issues would at least have to be factored into contract negotiations and might make obtaining permission to alter films for television, airline, or other use more expensive.

Success by the motion picture studios would vindicate their copyrights and give them effective control over any new motion picture art form. However, it could exacerbate their ongoing public relations problems. Administering legal thashings to small companies that are only trying to produce the family-friendly entertainment that the studios already provide to broadcast television might be perceived as hypocritical and would likely make the studios a target for political attack.

Given the policy implications, is there a political solution? A compulsory licensing system has been suggested but would be cumbersome and require creation of new bureaucracies by content owners. It would also require a blanket mandatory license that would dramatically undercut the rights of copyright owners and seems disproportionate to the problem it is intended to solve.

Is there a business solution? Licensing agreements would solve the problem, but neither the directors nor studios appear likely to provide them. The studios could make more money and blunt public criticism by simply marketing the television versions of the motion pictures. They could, for example, license their television cuts for use on a specialized cable or satellite channel or sell VHS versions of the television cuts through specialized marketing channels without significantly affecting the market for their original versions. They could provide their television cuts on DVDs, either alone or with the theatrical version and/or a director’s cut of the film. Such alternative cuts would not detract from the market for the original motion picture, since it would be packaged with it as a value-added feature. This method would satisfy most of those frustrated by the unavailability of that product in edited form. Indeed, combining a television cut with a director’s cut would create an additional creative outlet for directors who lack final cut authority.

Whether the studios will take advantage of this opportunity is uncertain. In the meantime, control of entertainment content faces an unpredictable fate with effects that will be coming soon to your local video stores.


21 See 17 U.S.C. §106A.


24 Id. at 26.


29 Chamberlain v. Columbia Pictures Corp., 186 F. 2d 923, 925 (9th Cir. 1951).


32 See J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§13:2, 3, 6 et seq.


34 See 15 U.S.C. §1125(a), (c).


38 See Sony v. Connectix, 203 F. 3d 596 (9th Cir. 2000) (interim copying of video game software that was necessary to obtain protectable elements of fair use under copyright law); Sega v. Accolade, 977 F. 2d 1520 (9th Cir. 1992) (same).


40 Alfred Bell & Co. v. Catalina Fine Arts, 191 F. 2d 99 (2d Cir. 1951).


42 Louis Galoob Toys v. Nintendo of Am., 964 F. 2d 965 (9th Cir. 1992).

43 Id. at 970.

44 See Columbia Pictures Indus., Inc. v. Professional Real Estate Investors, Inc., 866 F. 2d 278 (9th Cir. 1989) (hotel’s rental of video discs not a public performance because hotel not a public place); see also Columbia Pictures Indus., Inc. v. Redd Horne, 749 F. 2d 154 (5th Cir. 1984) (The plaintiffs conceded that in-home use of video cassettes is not a public performance, but the court held that a video cassette shop that rented tapes and provided private screening rooms that permitted no more than four related people violated the “public performance” rights of the motion picture studios.).
Finding Entertainment Law Online, from Scholarship to Scandals

Type “entertainment” into the Google search engine, and 32,800,000 results appear, led by E! Online. Type “entertainment law” into the Google search engine, and 63,500 results are listed, with the Hastings Communications and Entertainment Law Journal (COMM/ENT) listed first. From the lowbrow to the highbrow, these searches offer an excellent summary of the range of online sources that entertainment attorneys use to stay informed. More specific questions can be addressed by refining one’s search techniques.

To begin researching an entertainment law question, a good approach is to locate and peruse law review articles, because they provide an overview of the area of law and cite to leading cases and laws. The Hastings COMM/ENT site lists articles ranging from communications, entertainment, and intellectual property to Internet, telecommunications, biotechnology, multimedia, broadcasting, and constitutional law. While the journal does not offer its articles online with full text, its free searchable index of articles (from 1978 to 1994) offers citations and abstracts.

If an attorney is seeking background information about entertainment in general, especially its people, the best places to start may be consumer entertainment sites. It can sometimes be difficult to distinguish E! Online’s news from its gossip, but this site offers full-text searching of its extensive Hollywood coverage. It also boasts a useful hyperlink feature. Users reading an article can click on a celebrity’s name to retrieve a biography or a career chronology, a credit list, links to related E! Online stories, and links to multimedia clips and fan clubs.

Reading entertainment trade publications in print is a morning ritual for most entertainment attorneys. The online versions, however, are useful for their archives of past stories and their currency. The Hollywood Reporter and Variety update their sites continually, and they may also post stories that are longer than those found in the print versions. The Hollywood Reporter’s subscriber site includes current news, archives (going back to early 1991), the Blu-Book Production Directory, a news scroll, box office charts, production listings, and script sales. The first 10 full-text displays of news stories, archived items, and production listings are free, with displays that exceed this limit costing 10 to 25 cents piecemeal. Full access sells for $14.95 monthly.

Access to Variety’s site is free to print subscribers. The cost of an online-only subscription is $259 per year, or $24.95 per month, or $3.95 per day. A free 60-day trial subscription is also available. Variety.com has resources similar to those of the Hollywood Reporter, but its archive goes back much further—to 1914. Variety.com subscribers can register for various free e-newsletters, with topics ranging from film news to box office numbers. Also found at Variety.com are credits, classified ads, obituaries, and photos. On the legal pages, users may browse for free for jobs related to entertainment law. At both sites, nonsubscribers can read the headlines and abstracts of articles for free.

Other Journals

Attorneys with clients in the television or radio industry may also subscribe to Television Week (formerly Electronic Media) and/or Broadcasting & Cable. Both cover broadcast and cable television, but Broadcasting & Cable also covers the radio industry, while Television Week also covers the interactive media industry. Like the Hollywood Reporter and Variety, both host sites (www.tvweek.com and www.broadcastingcable.com, respectively). Every Monday, top stories from Television Week’s weekly print edition are added to TVWeek.com. The site is also updated every day with breaking news. Subscribers to the print version can search the Web archives back to 1999. Subscriptions run $119 per year. Nonsubscribers can read the full-text stories of the last five days.

Broadcasting & Cable’s site offers nonsubscribers abstracts of the print publication’s news and feature stories. Full online access is free only to subscribers of either the print edition (at $179 per year) or the online version (at $14.95 per month). A free trial is available. The site also offers a free daily e-mail newsletter of top headlines.

Law librarians at entertainment law firms are often asked to obtain contact and background information about companies or people in the entertainment industry. The firms may be conducting background research on a potential client or an opposing party, or they may simply need an address to serve a complaint. For contact information and biographical data, entertainment librarians favor two subscription sites: Baseline.Hollywood.com and the Internet Movie Database (IMDB, www.imdb.com), which offers a professional subscription that gives subscribers access to 24,000 contact and agent listings and box office statistics for 18 countries (including weekly and daily tallies for the United States). Subscriptions for individuals range from $12.95 per month to $99.95 per year. Businesses considering subscriptions need to contact the site. Nonsubscribers can access some information for free, assuming they are able to wade through the continual pop-up advertising. Free information at IMDB includes searchable archives back to 1997, celebrity news, box office information, reviews, a picture gallery, and a film glossary. Nonsubscribers can view more detailed information (but not as much as sub-
scribes) if they register, which costs nothing. Baseline’s databases contain 1.5 million records, including 7,000 biographies: credits of 900,000 actors, producers, directors, and crews; and contact information for companies, executives, and talent. Baseline also includes archives of Kagan movie data, the Hollywood Reporter, and Variety. Updates about films and television programs in development and production, as well as current entertainment news, can be viewed in a daily e-mail message. Other information and statistics, including the Star Salary Report, are also available. The cost of Baseline is $99 per year for companies and $69 for individuals and nonprofits, plus a per-document fee that can range from $1.25 for current Weekly Variety stories to $79 for the Star Salary Report.

What Two Attorneys Use

When I asked Susan Kaiser (http://www.skmedialaw.com/), an attorney who has represented network-owned radio and television stations and negotiates and drafts agreements and contracts, which resources she uses in her entertainment law practice, she responded: “Probably the resource I use most is Google—to search opposing counsel, talent names, potential clients, and law firms.” Searching Google makes sense when an attorney is trolling for any and all information, because Google, which indexes more of the Web than any other engine, casts a wide net. It is not surprising that her first line of research is a general search engine instead of an entertainment-related site.

Similarly, the vice president of legal and business affairs and general counsel at a major cable television network informed me that a nonentertainment site is his first line of research: findlaw.com and its search engine, lawcrawler.findlaw.com. Digging into Findlaw, one can discover that it has a rather large entertainment law and news component at its Entertainment and Sports page (found at www.findlaw.com/0topics/12entertainment /index.html). Attorneys can also subscribe to free weekly entertainment and sports law newsletters, which are delivered via e-mail by signing up at http://newsletters.findlaw.com /sample/elegal.html and http://newsletters .findlaw.com/sample/sports.html.

Transactional entertainment lawyers spend a lot of time drafting agreements and forms. Finding a good source of sample forms can speed the process. For general business forms, the ‘Lectric Law Library (found at http://lectlaw.com/form.html), a site with forms that can be accessed for free and according to a fee structure, is favored by the network vice president. For entertainment-specific forms and agreements, the sites of the major Hollywood creative guilds should be consulted. The Directors Guild, the Screen Actors Guild, and the Writers Guild offer their agreements and signatory agency lists online. The DGA and WGA also make their minimum pay scale available. The WGA and SAG offer searchable databases to determine whether a production was produced under a contract from the respective guild (although the results do not include the name of the guild signatory that produced the work). The DGA also offers a variety of forms, such as deal memos, signatory compliance forms, and residual reporting forms. Additionally, the site offers a searchable database of guild members.

Intellectual property law, especially in copyrights and trademarks, is a large component of entertainment law. For a basic trademark search, Kaiser searches the U.S. Patent and Trademark Office site (www.uspto.gov). Although she would not file a trademark application after searching only this site, a starting search at the trademark office gives her a sense of whether it is a good idea to conduct a full search at a pay site such as Thompson & Thompson (www.ttlaw.com/allssearches .shtml). Those delving into copyright issues, such as registrations and ownership documents, have a Web-based alternative to the dreaded dial-up LOCIS search system. The Web-based system, found at www.loc .gov/copyright/search, comprises three databases: 1) a catch-all of books, film, maps, music, etc., 2) serials, and 3) documents (for assignor or assignee searches). The databases go back to 1978, but it may take recent registrations several months to appear. The book and serials databases are searchable by author, title, and claimant, among other categories. For further inquiries, users can send e-mail or chat with the library’s virtual librarian at www.loc.gov/rr/askalib.

Attorneys in the music industry can bookmark the following sites to link to countless music publishing, U.S. copyright and licensing, and songwriting and music rights resources: the National Music Publisher’s Association’s links page (www.nmpa.org /links.html), Kohn on Music Licensing (http://kohnmusic.com), and Worldwide Internet Music Resources at the Indiana University School of Music (at www.music.indiana.edu/music_resources).

The sites of performing rights organizations such as ASCAP and BMI have databases of licensed song titles that can be searched for free. The ASCAP site (www.ascap.com) can be searched by title, performers, or writers, and it will display the contact data of the appropriate publishers. BMI’s site offers a similar online tool (www.bmi.com) that may be found on the page’s top left side (use the drop-down menu
University sites and trade association sites are useful sources for uncovering laws and regulations. For example, Kaiser recommends the FCC Web site for links to basic broadcast regulations (www.fcc.gov/oet/info/rules). A search of the agency's site (rather than the entire Code of Federal Regulations) is a more targeted and efficient manner of searching for regulations. Most of the legal documents on the site of the National Association of Broadcasters are for members only, but the NAB does provide access to its filings in recent FCC dockets. The NAB also has an extensive links page for broadcast and telecommunications industry Web sites. This page is available to non-members (at www.nab.org/irc/virtual/broadcast_industry_sites.asp).

Litigators who need to keep abreast of rulings, motions, new filings, and appellate decisions affecting the entertainment industry can subscribe to the Entertainment Law Digest site (www.entlawdigest.com) for $495 annually (discount trial subscriptions are available at http://www.entlawdigest.com/subscribe.cfm). This site is based in Los Angeles.

Entertainment attorneys who regularly make phone calls to people outside the United States should bookmark timeanddate.com/worldclock. The cable network vice president calls offices worldwide, and he touts this site because it saves him the embarrassment of calling in the middle of the night. Mere embarrassment is not the worst that can happen; people have been fired for calling a celebrity in the middle of the night.

Finally, for some entertainment rather than news of the entertainment industry, users can visit Findlaw’s FBI celebrity files (http://news.findlaw.com/), Mugshots.org for postings of celebrity mug shots (http://mugshots.org), and the famous Smoking Gun site (www.thesmokinggun.com), which "brings you exclusive documents—cool, confidential, quirky—that can't be found elsewhere on the Web." For example, read the contract riders of various performers: Kansas demands prune juice; Janet Jackson must have an arrangement of tulips, roses, gardenias, and lilies.

Finally, entertainment lawyers who are seeking employment should visit two entertainment gossip sites reporting on employment opportunities. The first site is a blog (a personal web journal) known as Dishings.com, and it focuses on the television business. Ifcome.com is more diverse, covering job openings and job changes in business and legal affairs in television, entertainment, motion picture, Internet, new media and dot-com companies.
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**Court of Appeal Walk-through**

ON MONDAY, MAY 12, the Los Angeles County Bar Association will sponsor a program designed for general practitioners and new attorneys who either infrequently appear or have not yet had the opportunity to appear before the California Court of Appeal. Introductory remarks will be made by Administrative Presiding Justice Charles Vogel, Robin Meadow, and Joseph Lane. Their remarks will cover the unique nature of appellate practice. David Ettinger will present an overview of appellate rules of court. Gina Calvelli will present practical tips from the perspective of an appellate judicial attorney. Additionally, one panel will present a mock writs conference with Justices Margaret Grignon, Patti Kitching, Paul Boland, and Pablo Drobny. This panel will illustrate, with hypotheticals, the process by which the court of appeal decides which writs to hear. A second panel will present a mock appellate argument. The judicial representatives will consist of Justices Margaret Grignon, Patti Kitching, and Paul Boland. The program will be moderated by Richard H. Nakamura Jr. Space is limited. Please register early to ensure admission to this important program. The program will take place at the California Court of Appeal, 300 South Spring Street, Downtown, in the third floor courtroom. On-site registration will begin at 4 P.M. in the employee break room, with the program continuing until 8. The registration code number is 6991E12.

- **$25**—CLE+Plus members
- **$35**—all others
- **$45**—all at-the-door registrants

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**Persuasive Legal Writing**

ON THURSDAY, MAY 22, the Los Angeles County Bar Association will present a program by Daniel U. Smith on how to write in a style that captures the court’s attention. The program (rescheduled from May 14) will show what lawyers can learn from the style of America’s greatest lawyers and writers, including Thomas Jefferson, Abraham Lincoln, Ernest Hemingway, and E. B. White. Those who attend will learn over 60 tips on how to write clear, compelling prose; lead the court to a result; and write shorter briefs more easily. The course also shows how to structure a persuasive argument and reviews key steps for drafting and editing. This event will be held at the LACBA/LEXIS Publishing Conference Center, 281 South Figueroa Street, Downtown. Parking at the Figueroa Courtyard Garage will be available for $7 with LACBA validation. On-site registration (with meal and reception) will begin at 5:30 P.M., with the program continuing from 6 to 9:15. The registration code number is 7094E14.

- **$90**—CLE+Plus members
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The Los Angeles County Bar Association is a State Bar of California MCLE approved provider. To register for the programs listed on this page, please call the Member Service Department at (213) 896-6560 or visit the Association Web site at http://forums.lacba.org/calendar.cfm. For a full listing of this month’s Association programs, please consult the May County Bar Update.
Internet Radio and the Future of Music

The streaming of digital music is creating a host of new challenges for attorneys

In recent years, the music industry has faced a series of challenges posed by the development of digital audio technology. The latest challenge, which has emerged from the growing popularity of the Internet as a means to experience music, is the process of streaming music over the Internet—commonly known as Webcasting or Internet radio. In order to appreciate the potential impact of Internet radio, it is helpful to understand that this medium has the ability to venture far beyond the at-home personal computer. With advances in wireless technologies (such as wireless fidelity or Wi-Fi, which offer wireless broadband) and mobile entertainment options (which offer Internet content on mobile devices), Internet radio will become widely available on mobile phones, PDAs, special digital audio receivers, and other portable devices. Consequently, Internet radio is positioned to play a significant role in the future of music and is already creating new challenges for lawyers.

Internet radio will affect the music industry in a variety of ways. To begin with, Internet radio has the ability to fundamentally change the way music is promoted and exposed to consumers. Traditional wisdom holds that conventional broadcast radio airplay translates into music sales. In order to obtain airplay, however, record labels participate in a pay-for-play system in which they pay so-called independent promoters to influence radio airplay, thereby skirting federal antipayola laws. Record labels annually pay such promoters approximately $150 million, which is typically recouped from artists’ royalty earnings.

Assuming a pay-for-play system is not adopted by Internet radio, several positive changes can result. The most obvious is that all record labels will have access to Internet radio, not only those with large promotional budgets. In addition, programmers will regain the power to decide whether to play a particular song based on merit, not financial influence. A merit-based system has the added benefit of exposing a broader range of new music to a greater number of people, which in turn can foster the development of new talent. Moreover, record labels will be able to realize a savings on promotional costs and, hence, artists should be able to retain more of their earnings.

Internet radio will also provide an important new revenue stream for record labels and artists as well as for songwriters and music publishers. Currently, record labels and artists do not earn royalties when conventional AM/FM broadcast radio stations play copyrighted sound recordings. Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, however, sound recording copyright owners have the exclusive right to publicly perform their copyrighted sound recordings when performed by means of a digital audio transmission. This means that record labels and artists now earn royalties whenever their copyrighted sound recordings are streamed over the Internet or digitally transmitted over satellite systems and cable networks. Similarly, music publishers and songwriters earn royalties when their copyrighted works are played by digital means. Therefore, the widespread adoption of Internet radio will result in a significant new source of income for record labels, artists, music publishers, and songwriters.

Internet radio engages music consumers in ways that no current media can begin to simulate. Internet radio combines audio, visual, and text-based content to enhance the individual listening experience. For example, Internet radio Web sites display the title of the song, the name of the album, and the featured recording artist while each song is played. Many sites also provide a picture of the album cover artwork and include a Click-to-Buy button from which a listener can sample and purchase the album being played. These features make it easy for consumers to instantly pursue an informed purchase, which can lead to greater consumer satisfaction and increased purchases. Internet radio also offers greater overall variety and provides an alternative to the tightly programmed broadcast radio station playlist. These examples only begin to unearth the new and creative ways that Internet radio can enhance consumers’ listening experience and counter slumping music sales.

Whenever law and technology lurch forward at an unequal pace, lawyers face new challenges—and the emergence of Internet radio is no exception. Some of the challenges that Internet radio has created include navigating the uncertainty in the laws governing the streaming of copyrighted sound recordings over the Internet, relying on domestic and foreign laws that do not address digital rights management and piracy issues adequately, contending with technological advances that outpace legislative efforts, and complying with legal mandates that are technically challenging, financially prohibitive, or otherwise onerous. In order to effectively address client concerns in light of such challenges, lawyers need to keep abreast of new technology, closely monitor legislative developments, and, in a number of cases, manage risk without the benefit of legal precedent.

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