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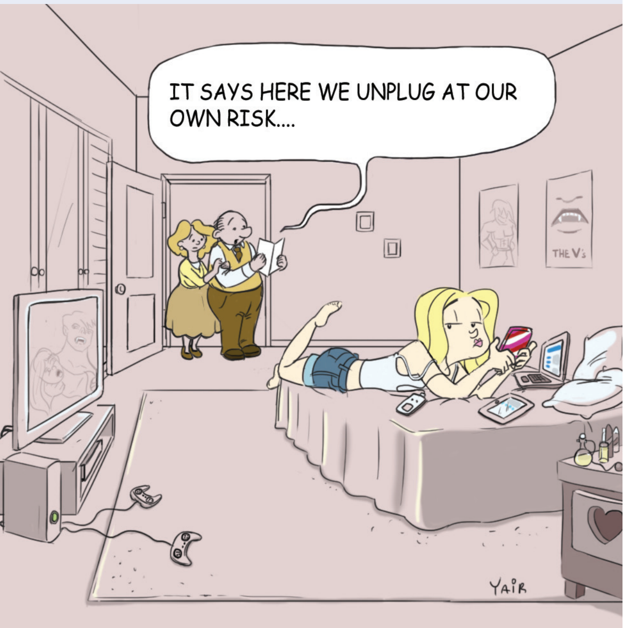
BUCHALTER NEMER

SUMMER 2013

Summer Blockbuster: The Entertainment Issue



In This Issue

It's Always Something: The Repeated Assaults on Licensee Rights in Bankruptcy

Pamela Kohlman Webster

No one has ever asserted that the bankruptcy arena is for the faint hearted. On the road to development of a plan of reorganization (or more commonly these days, a sale of all of the debtor's assets), there can be bruising fights between the debtor and its lenders, trade suppliers, unions, and landlords and between the tranches of senior and subordinated debt. Often these dust-ups are caused by the debtor's attempt to minimize its liabilities by forcing creditors to take less than they are owed, or paying them in TBDs—tiny bankruptcy dollars.

Reducing claims, however, is not the only game in town. Many times what is afoot is for the debtor to seek to enhance the value of what it owns regardless of who is hurt in the process. If what the debtor owns is intellectual property rights such as patents, copyrights, trademarks, and the like, it is the licensee who may be most at risk.

A short summary of bankruptcy law is necessary here.[1] Section 365(a) of the Bankruptcy Code says that a debtor[2] can assume or reject "executory contracts," which are largely understood to be contracts where each side still has meaningful performance due. A promissory note is not an

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Clearance: Start Early and Avoid the Clutter

Sandra P. Thompson, PhD

The film and television industries have expanded beyond traditional studios and locations. Independent and documentary filmmakers swell the ranks of those making large screen feature films and documentaries, while the growing number of channels and the popularity of reality television shows increase the offerings on the small screen. In addition, there is a rapidly expanding content base of entertainment that is exclusively for online consumption, such as original episodic offerings by Netflix and content found on youtube.com.

This additional content means an increase in the probability of improper use of intellectual property. Regardless of whether you are in the entertainment industry, have intellectual property interests, or both, it is important to understand how the use and presentation of intellectual property in a film, television production or online video production can affect the filming process and project costs.

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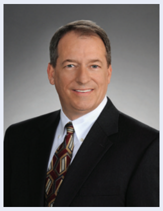
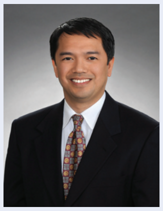
New Faces

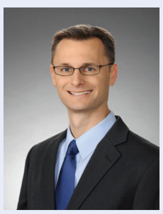


CHARLES W. HURST
Orange County
Of Counsel
Real Estate
949.224.6220
churst@buchalter.com



MICHAEL V. LEE
Orange County
Shareholder
Corporate and Intellectual Property
949.224.6271
mlee@buchalter.com

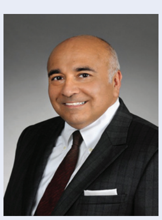
PHILIP NULUD
Orange County
Associate
Intellectual Property
949.224.6249
pnulud@buchalter.com



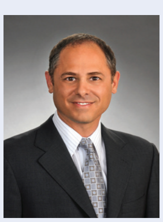
PHILIP C. SCHROEDER
Orange County
Shareholder
Corporate and Intellectual Property
949.224.6241
pschroeder@buchalter.com

BUZZI SHINDLER
Scottsdale
Of Counsel
Litigation
480.383.1837
bshindler@buchalter.com

CHERIE SONG
San Francisco
Associate
Real Estate
415.227.3514
csong@buchalter.com



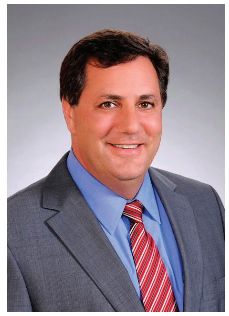
RAJ TANDEN
Los Angeles
Shareholder
Corporate
213.891.5104
rtanden@buchalter.com



MICHAEL N. WESTHEIMER
San Francisco
Shareholder
Labor and Employment
415.227.3530
mwestheimer@buchalter.com

Points from the President

ADAM BASS



We are delighted to bring you our 2013 Summer issue of *Points and Authorities*, focusing on the Entertainment Industry and the unique legal challenges members of that industry face.

Issues in the entertainment industry run the gamut—from First Amendment to copyright to bankruptcy. In the articles that follow, our attorneys present some of the many situations our clients face.

Our cover stories address intellectual property challenges in the entertainment industry from two very different angles. Pamela Webster warns intellectual property licensees to "keep your shields up," while Sandra Thompson writes about the importance of clearing IP rights early in the production process.

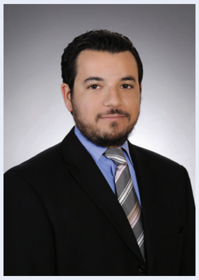
Oren Bitan delves into the First Amendment, discussing the expansion of anti-SLAPP motions into copyright and trademark cases. David Mark passes along a valuable lesson prescribed by the Talent Agencies Act to both artists and their managers who have side agreements with third parties in connection with the artists' projects.

Using models or spokespeople not covered under a collective bargaining agreement in your advertising campaign? Think twice, and read "Companies Beware" by Arthur Chinski and Joshua Mizrahi. Finally, Larry Steinberg explains a U.S. Supreme Court decision anticipated by the entertainment bar—one that takes away the ability of a copyright holder to control redistribution of copyrighted work legally manufactured abroad.

We hope that these articles will shed some light on issues that you may be facing as you navigate new business practices in the 21st Century.

We're also pleased to introduce eight new attorneys who have joined the firm in recent months in Los Angeles, San Francisco, Orange County and Scottsdale. They have expertise in six of the firm's nine primary practice areas, and they, like all of us, are here to serve you.

Adam Bass
President and Chief Executive Officer



The Ray Charles Foundation "Messes Around" and Gets SLAPP'd

Oren Bitan

The Expansion of Anti-SLAPP Motions into Copyright and Trademark Cases and the Threat to the Existence of Anti-SLAPP Motions in Federal Courts

California Code of Civil Procedure Section 425.16 (the "anti-SLAPP" provision) is a wide reaching and powerful tool used by defendants to dismiss a "strategic lawsuit against public participation" ("SLAPP") that seeks to chill a defendant's constitutionally protected rights before any discovery can be taken and with an award of attorneys' fees to a prevailing defendant.

Recently, anti-SLAPP motions have been used in the context of copyright and trademark lawsuits, further expanding the reach of this intimidating litigation-defense hammer. The entire existence of anti-SLAPP motions in federal courts, however, is threatened by Judge Alex Kozinski, the Chief Judge for United States Court of Appeals for the Ninth Circuit, who has called for anti-SLAPP motions to be eliminated from federal courts because they are purely procedural tools and conflict with the Federal Rules of Civil Procedure. As a result, the window of opportunity to use anti-SLAPP motions in copyright and trademark actions may be short-lived.

Anti-SLAPP Summary

A "SLAPP" suit "seeks to chill or punish a party's exercise of constitutional rights to free speech and to petition the government for redress of grievances."[1] Thus, a lawsuit arising from constitutionally protected speech or petitioning activity is a SLAPP suit if it "lacks even minimal merit."[2] SLAPP suits may be disposed of by a special motion to strike under section 425.16, commonly known as an "anti-SLAPP motion," which is "a procedure where the trial court evaluates the merits of the lawsuit using a summary-judgment-like procedure at an early stage of the litigation."[3]

In analyzing an anti-SLAPP motion, the court engages in a two-step process. First, the court decides whether the defendant has made a threshold showing that the challenged cause of action is one arising from protected activity. If the court makes such a finding, it then determines the second prong—whether the plaintiff has demonstrated a probability of prevailing on the merits of the claim under a standard similar to that used in determining a summary judgment motion.[4]

The anti-SLAPP procedure thus operates "like a … motion for summary judgment in 'reverse'"—the plaintiff bears the ultimate burden of stating and substantiating a legally sufficient claim in response to the special motion to strike.[5]

Anti-SLAPP Motions in Copyright and Trademark Matters

Over the last three years, federal district and appellate courts have held that some acts involving copyrights and trademarks, such as filing a trademark application or sending a copyright termination notice, are protected acts within the meaning of the anti-SLAPP provision because they attempt to "establish a property right."[6]

The most recent expansion of the anti-SLAPP statute into intellectual property disputes revolves around the music of the legendary Ray Charles. While Mr. Charles' music is well-known, the details regarding his legacy have remained somewhat mysterious. Over the course of several decades, Ray Charles had twelve children by nine different women.

In 2002, Charles entered into an agreement with each of his 12 children in which they received $500,000 in exchange for a full release of any claim to a portion of Charles' estate. Eighteen months later, Charles passed away and left all of the rights to his musical works to The Ray Charles Foundation (the "Foundation"), a charitable organization dedicated to providing grants to scientific, educational and charitable purposes.

Seven of Charles' 12 children were not content with the bargain they had struck and sought to reclaim the rights to Charles' music by sending the Foundation 39 copyright termination notices pursuant to Section 304(c)(5) of the Copyright Act. Predictably, a lawsuit ensued. The Foundation brought an action against the seven children (the "Defendants") in federal court seeking, among other things, a declaration that they were the proper owners of Charles' music.[7] The Defendants responded by filing an anti-SLAPP motion, which was granted by the district court.

In granting the anti-SLAPP motion, the district court relied upon the Ninth Circuit Court of Appeal decision in *Mindys Cosmetics, Inc. v. Dakar*, 611 F.3d 590 (9th Cir. 2010), which held that the act of filing a trademark application was a protected activity under the anti-SLAPP statute because it constituted "an attempt to establish a property right."[8] Like the court in *Mindys*, the *Ray Charles* court held that copyright termination notices are protected conduct under the anti-SLAPP statute because, like a trademark application, they seek to establish a property right. Therefore, the district court struck the Foundation's entire action and entered judgment in favor of the Defendants. The Foundation appealed the decision, which is pending.

Anti-SLAPP Motions are Threatened in Federal Courts

The Foundation may be in luck with its appeal if Judge Alex Kozinski, the Chief Judge for United States Court of Appeals for the Ninth Circuit, has any say. In *Makaeff v. Trump University LLC*, 2013 DJDAR 4972 (9th Cir. April. 17, 2013), Judge Kozinski issued a concurring opinion directly challenging the Ninth Circuit precedent[9] that permits anti-SLAPP motions to be filed in federal court that seek to strike federal claims for relief. Judge Kozinski reasoned that "[f] ederal courts have no business applying exotic state procedural rules which, of necessity, disrupt the comprehensive scheme embodied in the Federal Rules, our jurisdictional statutes, and Supreme Court interpretations thereof."[10] Judge Kozinski further called for an *en banc* panel to "take a fresh look" at the anti-SLAPP issue.[11]

It remains to be seen whether the Ray Charles Foundation will benefit from Judge Kozinski's plea to lead federal courts "back out of the wilderness" of anti-SLAPP motions.[12] Until then, seven of Ray Charles' children and other defendants in copyright and trademark lawsuits will continue to benefit from the force and breadth of California's anti-SLAPP statute.

Oren Bitan is an Associate in the firm's Litigation Practice Group. He can be reached at 213.891.5012 or obitan@buchalter.com.

1 *Rusheen v. Cohen* (2006) 37 Cal.4th 1048, 1055.
2 *Navellier v. Sletten* (2002) 29 Cal.4th 82, 89.
3 *Varian Medical Systems, Inc. v. Delfino* (2005) 35 Cal.4th 180, 192; Paiva v. Nichols (2008) 168 Cal.App.4th 1007, 1015-1016; *Kibler v. No. Inyo County Local Hosp. Dist.* (2006) 39 Cal.4th 192, 197.
4 *Equilon Enterprises, LLC v. Consumer Cause, Inc.* (2002) 29 Cal.4th 53, 67.
5 *Briggs v. Eden Council for Hope & Opportunity* (1999) 19 Cal.4th 1106, 1123.
6 *Mindys Cosmetics, Inc. v. Dakar*, 611 F.3d 590, 597 (9th Cir. 2010)
7 *The Ray Charles Foundation v. Raenee Robinson, et al.*, CV 12-2725-ABC (C.D. Cal. Jan. 25, 2013), Judge Audrey B. Collins.
8 *Mindys Cosmetics, Inc. v. Dakar*, 611 F.3d 590, 597 (9th Cir. 2010)
9 *United States ex rel. Newsham v. Lockheed Missiles & Space Co.*, 190 F.3d 963 (9th Cir. 1999).
10 *Id*. at *40.
11 *Id*.
12 *Id*.

The Danger of Commingling Fees under the Talent Agencies Act
David E. Mark

During its eight years on the air, *Dog the Bounty Hunter* brought audiences a weekly dose of Duane "Dog" Chapman's successful bounty-hunting. This past November, Dog and his wife, Alice Barmore-Smith, succeeded in convincing the Labor Commissioner to side with them in a dispute against their former manager/producer on their hit reality show.[1] This decision teaches a valuable lesson to both artists and their managers who have side agreements with others in connection with their clients' projects.

In 2007, Chapman and his wife filed a petition with the California Labor Commissioner claiming that their former manager, and producer on their series, Boris Krutonog (and his loan out company)[2], violated the state's Talent Agency Act ("TAA") in connection with his activities on behalf of the Chapmans in connection with their cable show.

According to the Chapmans, before their hit show, they and Krutonog entered into several written rights agreements, the purpose of which was to solicit and negotiate entertainment industry opportunities for the Chapmans. The Chapmans claimed that in those rights agreements, Krutonog agreed to act as their *de facto* talent agent. In return, Krutonog was to receive fees either from third parties or from the Chapmans' entertainment industry earnings. Krutonog, however, characterized those agreements as development or production agreements conferring the rights to Dog's life story.

The Chapmans asserted that Krutonog tried to procure and negotiate employment for the Chapmans by setting up meetings and negotiating with studio executives and producers in connection with the series, another television show and other personal appearances for Dog. The Chapmans claimed that the rights agreements were intended to allow Krutonog to procure employment for them, as well as solicit and negotiate entertainment industry opportunities.

In connection with the series, Krutonog entered into a separate, confidential agreement with the producers under which the producers directly paid Krutonog a "producer fee" out of the amount the Chapmans were to receive for their services on the show. The Chapmans claimed the "producer fee" was simply a disguised commission because the rights agreements between the Chapmans and Krutonog provided that Krutonog would be named as a producer and would receive a producer fee on films and television series involving the Chapmans as opposed to the commission he would receive under the rights agreements for projects like books, merchandising rights, and video games.

The Chapmans further argued that in engaging in procurement activities, Krutonog acted unlawfully because he was neither a licensed talent agent nor were his actions performed in conjunction with or at the request of a licensed talent agent. Indeed, the Chapmans presented evidence that they believed Krutonog was their manager, one who solicited and negotiated many opportunities in the entertainment industry for them, and that others understood and treated him as such. Krutonog never denied that he was their manager but under the producer agreement, Krutonog received specific payments per episode with *pro rata* increases commensurate with those provided to the Chapmans.

For his part, Krutonog claimed that he performed production-related activities on the series that included attendance at the shooting of the series, supplying logistical support on bounty hunting expeditions, helping to produce network promotional material and interacting with crew members and other producers (attending meetings, providing production advice/ideas.

However, the testimony of a co-owner of one of the series' production companies, the Chapmans' entertainment attorney and network in-house counsel combined to show that Krutonog negotiated the deals related to the series for the Chapmans and did not render producer services.

Under the TAA, one cannot work as a talent agent without being licensed to do so.[3] Except with regard to recording contracts, a talent agency is "a person or corporation who engages in the occupation of procuring, offering, promising or attempting to procure employment or engagements for an artist or artists.[4] Notably, it is conduct—not titles—that subjects one to the TAA's licensing requirement.[5]

Krutonog negotiated the artist agreement (which included the Chapmans and other cast members) and independently negotiated his producer agreement without the Chapmans' knowledge. Krutonog's compensation, including his services as a manager who procured the employment, was tied to and was to be paid through the artists' compensation. That arrangement caused a commingling of compensation for Krutonog's producer services and his services on behalf of the Chapmans and the rest of the cast. The Labor Commissioner determined that the only way to effectively address that commingling was to require Krutonog to disgorge all amounts that he unlawfully has received or will receive from the production company under the artist agreement because those amounts cannot be reasonably established and allocated by source of compensation.

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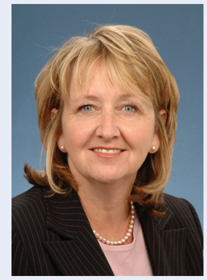

It's Always Something: The Repeated Assaults on Licensee Rights in Bankruptcy

Pamela Kohlman Webster

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executory contract because one side (the lender) did everything it needed to do when it made the loan. Only the borrower must still perform by paying the loan back. A supply contract for goods, on the other hand, is an executory contract because one side is required to continue to supply the goods and the other side is obligated to pay for them.

Debtors typically reject executory contracts because they are burdensome liabilities. A supply contract, for example, may be rejected because the debtor is the consumer of the goods and is locked into paying an above-market rate. But contracts can also be rejected because the debtor may see a better opportunity elsewhere. If the debtor was obligated to supply goods for below what the market now dictates, it might want to reject the contract so it can enter into a new contract with a third party willing to pay a higher price. Of course, this is unfair to the party left behind in the rejected contract, who was fully performing its side of the bargain.

Although now almost 30 years in the past, the epitome of this unfairness is the case of *Lubrizol Enterprises, Inc*.[3] in which the court allowed a debtor licensor to reject a patent license, leaving the licensee, who had fully paid for the licensed rights and needed them in the operation of its own business, irreparably harmed with only an unsecured claim that would be paid in TBDs as solace. The justification for this catastrophic destruction of the licensee's rights was so the debtor could relicense the patent rights to someone else and be paid twice for the same license.

Even Congress could not ignore the imbalance of rights highlighted in *Lubrizol* and reacted by amending the Bankruptcy Code in 1988 by enacting Section 365(n). Section 365(n) prevents an intellectual property licensee's loss of some of rights upon rejection of the license by the debtor although it does so by offering a Hobson's choice. The licensee may elect to allow the license to be terminated and assert whatever claims against the debtor it may have (subject, of course, to bankruptcy law and payment in TBDs), or it may elect to retain its rights. If it elects to retain its rights, it must continue to make all royalty payments and cannot offset any of damages it suffered against those amounts.

Although much better than the result in *Lubrizol*, Section 365(n) still means plenty of licensee pain following rejection. For example, the only rights the licensee can retain are those that existed when the bankruptcy case commenced. If the intellectual property is unfinished—software still being developed, a movie not yet in production, sequels not yet written—Section 365(n) offers no help and the licensee will lose rights to those assets. Even if the licensee has something of value during the bankruptcy case, any subsequent modifications or improvements, even such things as a patch for a bug in software, need not be provided to the licensee despite what the license may provide. If the license doesn't allow the licensee access to what is needed to take full advantage of the intellectual property, such as the source code, trailers, or art work, Section 365(n) will be of no assistance. Finally, Section 365(n) is not self-executing. A licensee not paying full attention to its licensor's bankruptcy case will lose Section 365(n) rights if they are not timely exercised.

Section 365(n) has another critical problem. It only applies to intellectual property as that term is defined in the Bankruptcy Code, not in the broader sense used in business and in art.[4] Most glaringly, the Bankruptcy Code does not include trademarks as intellectual property, so licensees of those rights cannot even invoke Section 365(n). Lately, however, that appears to be a good thing. Several courts, have found ways to protect the rights of a trademark licensee against the debtor licensor's attempted rejection and retrieval of licensed rights. In *Exide Technologies*[5], for example, the Court of Appeals found a way to declare the license at issue not an executory contract, and thus not even subject to rejection. The concurring opinion went even farther and held that even if the license could be rejected, it did not mean that the debtor could regain the intellectual property free of the licensee's rights. Rather, the concurring opinion stated that rejection might be a breach by the debtor but otherwise of no impact on the licensee.

Last year, the concurring opinion was followed (and expanded) by another Court of Appeals in the *Sunbeam* case[6]. In *Sunbeam*, the court revisited *Lubrizol*, disagreed with it, and held that a trademark licensee continued to have the right to use the mark following rejection. Indeed, *Sunbeam* means that trademark licensees, forgotten by Congress when it enacted Section 365(n), may be substantially better off than licensees of other types of intellectual property and that other licensees may start to waive the protections of Section 365(n) for the broader rights announced in *Sunbeam*.

While *Exide* and *Sunbeam* may have suggested a safer world for the rights of intellectual property licensees, a new threat has materialized. Here again, a short exposition of bankruptcy law is required. Section 363(f) of the Bankruptcy Code allows a debtor to sell its assets "free and clear of any interest in such property" subject to certain conditions. The intent of Section 363(f) is that a buyer will pay more

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for assets if it does not have to worry about known and particularly unknown liens and other claims to the assets. The more value that is realized, it is widely thought, the better for all the creditors including those whose interests were stripped away in the sale. Those "interests" include intellectual property rights.[7]

Does 363(f) right to sell free of clear to intellectual property interests trump Section 365(n) provisions allowing a licensee to retain its rights in licensed intellectual property? Does it trump the rights protected in *Exide* and *Sunbeam*? Surprisingly, we don't know. In a very similar context, a court ruled that the debtor could sell property it owned that was leased and strip a tenant of its rights despite Bankruptcy Code Section 365(h) that expressly protects tenants of a rejected lease.[8] In large measure, however, the case was decided on the fact that the tenant failed to object, which was deemed akin to implied consent.

More recently, the buyer of the Blockbuster Video assets in the United States sought to prevent the Canadian subsidiary (whose assets it had not purchased) from using the Blockbuster name and other intellectual property. Despite the fact that the subsidiary had a written, fully paid-for license to use the intellectual property, the buyer asserted that the Canadian's affiliates rights under Section 365(n) and otherwise were extinguished when the assets were sold "free and clear" without objection by the subsidiary.[9] That the subsidiary had no practical ability to object to a sale its own parent was promoting was ignored.

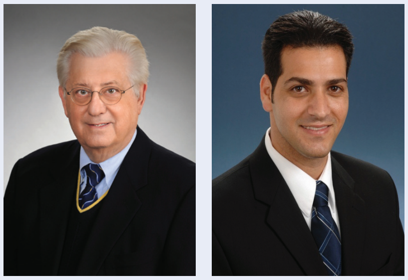
If the buyer's position had been adopted by the court, it would have been catastrophic to the rights of the Canadian affiliate and its creditors. Not surprisingly, the matter settled leaving the issue unresolved. But, it is only a matter of time before another debtor or another buyer seeks this new avenue to destroy a licensee's bargained for and valuable rights. What can a licensee do in the face of this new attack?

First and foremost, regardless of how ironclad the contract, the licensee must closely monitor the licensor's bankruptcy case. It is very easy to request notice of all activity in the case and have all the pleadings and other papers filed in the case sent directly to the licensee by email, fax or mail. Whoever is monitoring the case needs to look for motions to reject executory contracts and/or motions to approve sales of assets. Active participation in the bankruptcy case may be required. If the licensee finds its name in those motions, it needs to assess the best course if it wishes to retain its rights uninterrupted and in full. The licensee could take the position that the license is not executory and the debtor is not entitled to reject it. Or it could timely exercise its Section 365(n) rights by providing the notice required. Or it could object. There are several grounds for an objection to a sale free and clear of intellectual property subject to a license and it could prevent any court from finding an implied consent to the destruction of those licensed rights.

Perhaps if some court issues an opinion as dramatic as *Lubrizol* Congress will again step in and fix, ideally better than it did with Section 365(n), the latest attack on licensees. Until then, licensees, be alert and keep your shields up.

Pamela Kohlman Webster is Chief Financial Officer and Chief Operating Officer of Buchalter Nemer and a Shareholder in the firm's Insolvency and Financial Solutions Practice Group. She can be reached at 213.891.5030 or pwebster@buchalter.com.

1 The bankruptcy law discussed throughout this article is the federal United States Bankruptcy Code, found at title 11 of the United States Code.
2 The statute actually gives these powers to a trustee but by operation of other sections of the Bankruptcy Code these powers are available and often used by Chapter 11 debtors in possession of DIPs.
3 *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.)*, 756 F.2d 1043 (4th Cir. 1985)
4 Bankruptcy Code section 105 limits intellectual property to a trade secret, invention, process, design or plant protected under patent law, a patent application, plant variety, and a work of authorship or mask work protected under copyrights law.
5 *In re Exide Techns*., 608 F.3d 957 (3rd Cir. 2010)
6 *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 372 (7th Cir. 2012).
7 *FutureSource LLC v. Reuters Ltd*., 312 F.3d 281 (7th Cir. 2002).
8 *Precision Industries, Inc. v. Qualitech Steel SBQ, LLC*, 327 F.3d 537, 545 (7th Cir. 2003).
9 See Reply of Blockbuster L.L.C. to the Objection of Receiver of Blockbuster Canada Co. to Debtors' Motion (I) to Reject Certain Executory Contracts and (II) Establish Expedited Rejection Procedures for Non-Lease Executory Contracts., *In re Blockbuster Inc., et al*, I0-14997-BRL (Bankr. S.D.N.Y. June 21, 2011).



Companies Beware When Using Models and Spokespeople in Advertisement Campaigns

Arthur Chinski and Joshua Mizrahi

Due to a recent increase in wage and hour claims in the entertainment industries, companies using models and spokespeople for their advertising campaigns need to be conscious of how they treat talent who are not covered under a collective bargaining agreement. (This excludes celebrity spokespeople and supermodels that are covered under a SAG-AFTRA agreement, or one with the American Association of Advertising Agencies and/or the Association of National Advertisers). Failure to do so may expose a company to unnecessary, costly California Labor Code claims.

Companies often retain the services of talent through a talent agency. At times, a company will rely on an independent contractor photographer, advertising agency or director to obtain talent for a photo shoot or commercial advertisement. Typically, a claim filed by the plaintiff's bar will assert that the model or spokesperson who provided these advertisement services, even if only for a few hours, a day or a few days, was an employee of the company and not an independent contractor. Thus, he is not only entitled to overtime pay and all pay by a date established under the California Labor Code for employees, but also penalties related to violations of the pay provisions of the California Labor Code..

A company that terminates an *employee* must pay him all wages on the day of termination under Labor Code section 201. If it can be established the "*employee* is engaged in the production or broadcasting of motion pictures" or whose "job duties relate to or support the production or broadcasting" and who is hired "for a period of limited duration" including on the basis of one or more daily or weekly calls," then the Company must pay the *employee* by the "next regular payday" under Labor Code section 201.5. Under Labor Code section 201.5, "*production or broadcasting of motion pictures*" is further defined to include "*commercial advertisements*." Should an employer fail to make such payment, an *employee* is entitled to a continuation of wages for up to 30 days. Hence, if a model charges a fee of $1,000 per day and was not paid within 30 days of the end of the shoot, the model, if found to be an *employee*, arguably would be entitled to penalties in the amount of $30,000.

Attorneys for models and spokespeople are using Labor Code sections 201 and 203 and 201.5 and even Labor Code section 204 (sets forth a limitation on how often and when pay days must occur), as tools to squeeze exorbitant penalties out of companies, often offering to "settle" these cases for a much lesser amount than the full amount alleged to be owed.

To support their arguments, Plaintiffs rely primarily on a 1980 California Court of Appeal's case, *Zaremba v. Miller*, which held that professional photography models generally render their services as employees. That case involved a model who was hired by a photographer for a photo shoot that lasted two hours. The model obtained the job through her agent and her agent billed the photographer for the services once the model completed the shoot. The photographer failed to pay the model for five months. In defense of the claim, the photographer argued the model was an independent contractor and that it was customary in the industry to pay the model once the photographer was paid by the company. The *Zaremba* court did not accept these arguments and awarded the model waiting time penalties.

Hence, companies that use the services of a model or spokesperson, directly or through a photographer, director, or talent agency, should take important steps to avoid or minimize a finding by a court, or the California Division of Labor Standards Enforcement, that the company is actually the employer of the model.

The most typical defense a company can assert is that the model or spokesperson is not an employee, but an independent contractor. In determining this, the most important factor a court or labor commissioner will analyze is whether the company had the right to control the means and manner of the job. In other words, if the company tells the model or spokesperson where to go, when to show up, what to wear, how to model or present whatever product the company manufacturers, what make-up to wear, what hairstyle to wear, and when to leave, it will be more likely that a plaintiff will be able to argue the company exerted enough control for it to be considered the employer.

Obviously, every case is different, so the decision will turn on specific facts. In some cases, a company will have very strong arguments the model or spokesperson truly is an independent contractor, and therefore, litigating the issue would be appropriate, particularly if the company sees this as an ongoing issue. In other cases, defense counsel's role would be to make the best possible arguments with the hope of gaining as much leverage as possible to force a more palatable settlement. Since these cases are fact intensive and many could go either way, the results of the independent contractor analysis will be the primary factor in determining whether or not a company will be liable for wages still owed and/or waiting time penalties.

Another defense companies can assert in waiting time penalty cases is that the failure to pay was not willful (i.e.

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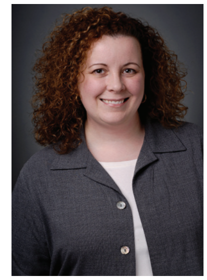


Clearance: Start Early and Avoid the Clutter

Sandra P. Thompson, PhD

Continued from page 1

The process of clearing a film or television episode/ production involves reviewing the production components, determining whether there is any potentially actionable intellectual property in the production, categorizing the instances, developing a strategy as to how to address each instance and then executing that strategy. Clearance considerations should be addressed early in the process, in order to determine whether potentially actionable instances can be removed or minimized.

Two key intellectual property interests to consider for clearance purposes are trademark and copyright interests. A trademark is designed to identify the source of the goods or services in the minds of a consumer. Therefore, as long as the product or service is being fairly represented in the film or television show, that use cannot be limited.

Two modern films that have been newsworthy in this regard are the feature film *Flight* with Denzel Washington and the documentary *Super Size Me* with Morgan Spurlock. In *Flight*, the main character is an alcoholic who is shown drinking Budweiser beer while driving. Anheuser-Busch asked the filmmakers to blur or hide the label, but they could not legally compel the filmmakers to do so, since the beer was being represented fairly. While McDonald's trademarks were utilized throughout *Super Size Me*, McDonald's food and restaurants were not being misrepresented, but instead were integral to the documentary.

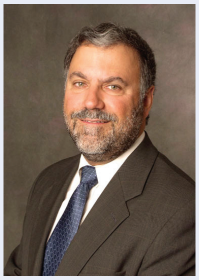
The logical question is why products or logos are blurred in some productions. In many instances, trademarks and logos are blurred or hidden, in order to keep from providing free advertising to the products or services or to keep another sponsor satisfied. If product placement is an issue in a current project, it may be wise to contact the trademark owner to discuss the use in and potential product placement revenue generated from the production.

Another consideration is copyright infringement. A copyright protects the expression of an idea and is designed to give the creator of an artistic work the right to produce/publish and reproduce the work. Copyrights protect artistic works, literary works, music, films, scripts, video productions and other creative works. While the creator of the script and film or television production can protect those works by copyright, there is often music, video clips from news programs or sporting events, scripts, literary works used as the basis for the script or production and other forms of expression that must be cleared as part of the review of the film or production.

One of the key considerations is whether the use of the copyright protected material is a fair use of the material. The Copyright Act of 1976 established a four-part test to determine fair use: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for, or value of, the copyrighted work (17 USCA §107). As with many multi-part tests, there is room for different interpretations. Yoko Ono sued to get 15 seconds of the song "Imagine" removed from a film project, because she did not agree with the premise of the film, but was unable to do so under the Fair Use Doctrine. There are some other exceptions for the use of copyright protected work, such as private, noncommercial use or educational use, but these are specific exceptions and must be reviewed in context.

Clearance of intellectual property issues is a key step to begin early in the process of making a feature film, a documentary or a television program. The filmmaker and production team should understand that the failure to involve a clearance attorney during the review of the script, first cuts and subsequent editing can results in delays, budget overages, reshoots and/or reediting, and possibly litigation. A coordinated clearance strategy can result in a final product that has few, if any, significant intellectual property risks, while at the same time ensuring that proper licenses, permissions and documentation are in place prior to release and distribution.

Dr. Sandra Thompson is a Shareholder in the firm's Corporate and Intellectual Property Practice Groups. She can be reached at 949.224.6282 or sthompson@buchalter.com.



U.S. Supreme Court Upholds Importation and Re-Sale of Gray Market Goods Manufactured Abroad

Larry Steinberg

On March 19, 2013, in a decision eagerly awaited by the entertainment bar,[1] the United States Supreme Court, in *Kirtsaeng v. John Wiley & Sons*, ruled that, under the First Sale Doctrine, a person who buys lawfully made copyrighted goods outside the United States may re-sell those goods in this country. The result of this decision will be to take away from a copyright holder the ability to control redistribution of copies of the copyrighted work legally manufactured abroad, and to allow the free and unfettered importation of "gray market" goods into this country.

A fundamental precept of copyright law is that ownership of a copyright carries along with it a "bundle of rights" regarding exploitation of the copyrighted work. Among the exclusive rights controlled by a copyright owner are those provided for in Sections 106(3) and 602(a) of the Copyright Act to distribute copies of the work and to prohibit unauthorized imports of copies of the work.

For more than 100 years,[2] a notable limitation on a copyright owner's exclusive right of distribution has been the First Sale Doctrine, which allows the lawful owner of a copyrighted work to resell or distribute that copy.[3] The doctrine recognizes that a copyright owner does not have control over distribution of a particular copy of his work forever, but that the copyright owner's exclusive right under Section 106(3) to control distribution of a particular copy of his work ends with the work's first commercial sale. From that point forward, the copy can be resold without permission of the copyright's owner. John Wiley & Sons argued, based on its construction of the statutory language, that the First Sale Doctrine only protects the re-sale of goods if those goods were manufactured in the United States.

The facts presented to the *John Wiley* court are a testament to entrepreneurial spirit. Defendant Supap Kirtsaeng, a citizen of Thailand studying at Cornell University and the University of Southern California, saw that foreign edition English language textbooks were selling for a much lower price in Thai bookstores than the price in the United States of essentially equivalent versions of the textbooks. Recognizing a business opportunity when he saw one, Kirtsaeng asked friends and family to purchase and ship textbooks to him in the United States, where he re-sold hundreds of textbooks on eBay, realizing a substantial profit. The trial court found Kirtsaeng liable for copyright infringement, holding that the First Sale Doctrine did not protect Kirtsaeng because the textbooks were manufactured outside of the United States. Statutory damages of $75,000 per title, totaling $600,000, were awarded to the textbook publisher.

The language of Section 109(a) of the Copyright Act, which codifies the First Sale Doctrine, provides that "the owner of a particular copy or photo record lawfully made *under this title* . . . is entitled . . . to sell or otherwise dispose of the possession of that copy or photo record" (emphasis added). This language, which only became part of the First Sale Doctrine when the Copyright Act was re-written in 1976, gave rise to the argument that goods manufactured outside of the United States (and this, not protected under United States law) were not "lawfully made" under the Copyright Act and, thus, were not protected by Section 109(a). Also cited in support of this position was Section 602(a), which makes unlawful the importation of a copyrighted work without the copyright owner's permission.

Ruling 6-3,[4] the Supreme Court took a different approach, ruling that there was no geographical limitation on application of the First Sale Doctrine. The majority opinion, written by Justice Breyer, concluded that the language of the statute, the context of the law and the common law history underlying the First Sale Doctrine all spoke against implying a geographical limitation onto the doctrine. The Court seemed persuaded by the practical consequences of a contrary holding on buyers and sellers of all sorts of used copyrighted goods, including libraries, museums and retailers. As one example at oral argument, Justice Breyer asked whether a contrary holding would prevent an owner of a used Toyota with a copyrighted sound system from re-selling that car in the United States. Similar "horribles" were cited in amicus briefs filed with the Court, including briefs filed by eBay, the Retail Industry Leaders Association, the American Library Association, Costco, Powell's Books, the Association of Art Museum Directors and Goodwill Industries.

The practical effect of the Court's holding will be to make it more difficult for manufacturers who frequently price goods differently in different areas of the world to maintain those prices. There will likely now be an attempt by copyright owners to use other legal structures to enforce pricing protocols, such as trademark law and patent law (which has its own first sale doctrine, called the "exhaustion" doctrine). Creators of content may also rely more on content *licensing* (rather than sale), a form of distribution commonly used by software makers.

Larry Steinberg is a Shareholder in the firm's Litigation Practice Group specializing in entertainment industry disputes. He can be reached at 310.460.4481 or lsteinberg@buchalter.com.

1 This is the second time that this issue has been before the United States Supreme Court. The Court heard argument in 2010 on the applicability of the First Sale Doctrine to goods manufactures outside of the United States in *Costco Wholesale Corp. v. Omega*, S.A., 131 S.Ct. 565 (2010) (per curiam). But due to the recusal of newly appointed Justice Elena Kagan, the Court split 4-4 and could not reach a decision.

2 See, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 349-51 (1908). The following year, the First Sale Doctrine was codified in Section 41 of the Copyright Act of 1909, and was repeated without material change in Section 27 of the Copyright Act of 1947. As discussed below, the current version of the doctrine, which did make significant language changes, is codified in Section 109 of the current Copyright Act of 1976.

3 The First Sale Doctrine extends only to distribution and display of tangible copies of a work, and does not apply to reproduction of the copyrighted works or to public performance or the preparation of derivative works.

4 The coalitions voting on different sides of this case is one rarely, if ever, seen on the current Supreme Court. Teaming up together in dissent were the left, right and middle of the Court: Justices Ginsburg, Scalia and Kennedy.

The Danger of Commingling Fees under the Talent Agencies Act
David E. Mark

Continued from page 4

Furthermore, because Krutonog created multiple sources of compensation in an effort to ensure that he would get paid through allotment under the Chapmans' contract, he was not allowed to claim that all of the compensation he received was *only* for lawful activity (e.g., producer services). The Labor Commissioner found this to be the proper result because Krutonog would not have received any money were it not for the fact that he procured the series for the Chapmans.

This case provides a valuable lesson for managers: even if one has a development or producer agreement, such an agreement may not shield the disgorgement of fees obtained from it if the facts show those fees were inseparable from the gains of any unlicensed procurement activities. Similarly, artists should be aware that California law can help protect them from managers who are not licensed agents, but attempt to hide their unlawful commission in the cloak of a producer or development agreement or the like.

David Mark is an Associate in the firm's Litigation Practice Group. He can be reached at 213.891.5034 or dmark@buchalter.com.

1 *Chapman, et al. vs. Krutonog, etc.*; Cal. Lab. Comm. Case No. TAC 3351 (2012).
2 For ease of reference, Krutonog and his loan out company will be referred to simply as "Krutonog."
3 CAL. LABOR CODE §1700.5.
4 *Id*. at §1700.4(a).
5 *See, Marathon Entertainment Inc. v. Blasi* (2008) 42 Cal.4th 974, 986.

Companies Beware When Using Models and Spokespeople in Advertisement Campaigns
Arthur Chinski and Joshua Mizrahi

Continued from page 7

Labor Code section 203 requires a "willful" failure to pay by the employer) and that they had a "good faith belief" that the model was not an employee of the company. While asserting the "lack of willfulness" and "good faith belief" are proper defenses to penalties, labor commissioners who find that a company exerted enough control over a model or spokesperson to warrant a conclusion that they were, indeed, an employee are less likely to reduce or eliminate a sought-after penalty based upon these arguments. However, such defenses under the right set of facts are more likely to be given greater credence in a court proceeding.

In order to protect against these types of claims altogether, a company should exert as little control as possible over the model or spokesperson for an advertisement campaign. If that is not possible, a company should make arrangements with the talent agency or photographer to make payment to the model immediately or as otherwise required under the Labor Code (i.e. Labor Code section 201.3 allows for payment by a "temporary services employer" on a weekly basis and Labor Code 501.5, if applicable, the "next regular payday"). Companies should also have written agreements with the talent agencies and photographers supplying them with the model or spokesperson. These agreements should contain indemnity provisions in the event they fail to make a timely payment to the model or spokesperson.

Thus, the best practice is to make sure a company does not exert overly broad control over the model's or spokesperson's services. When this is unavoidable and a company could potentially be found to be an employer of the model or spokesperson, it is important to compensate them as quickly as possible upon completion of the assignment.

Arthur Chinski is a Shareholder in the firm's Labor & Employment Practice Group. He can be reached at 213.891.5060 or achinski@buchalter.com.

Joshua Mizrahi is an Associate in the firm's Labor & Employment Practice Group. He can be reached at 213.891.5258 or jmizrahi@buchalter.com.

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