THE IMPACT OF RECENT BIG MUSIC CASES IN REVIEW

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***Note to Readers: Included for each of the following case summaries are accompanying files that include court decisions in the litigations or related court documents.**

BAND SEPARATION/PARTNERHIP INTEREST VALUATION

In July 2008, Kristen Hall, who founded the band "Sugarland," sued her former band mates, Kristian Bush and Jennifer Nettles, in the United States District Court for the Northern District of Georgia, to recover her partnership interest and a share of the band's profits after she ceased performing with the band at the end of 2005. The parties had no written partnership agreement, and although they formed two corporations in 2006, they had never transferred their interests in the federally registered "Sugarland" service mark to either corporation or entered into a Buy/Sell agreement to outline how their interests would be divided if they ever stopped performing together as a band.

In her Complaint, Hall maintained that Bush and Nettles breached their fiduciary duties under Georgia law by not compensating her for her partnership interest or accounting to her for the profits they generated while using the partnership's assets including the band name, trademark and service mark after Hall stopped touring with Sugarland. After the band members agreed that Hall would not tour in 2006, the band's attorney sent a notice to UMG (MCA Nashville) advising that Hall was a "leaving member" of the group under the band's recording contract without discussing the issue with Hall. Bush and Nettles never bought out Hall's interest in the band or its intellectual property and continued to record and perform as Sugarland.

After Hall sued Bush and Nettles, the law firm of the band's lawyer appeared in the action and filed an Answer as defense counsel for Bush and Nettles. Due to the law firm's conflict of interest, Hall requested that the firm withdraw as defense counsel, but when the firm refused to do so, Hall asked the court (U.S. District Judge Timothy Batten) to disqualify the firm from serving as Bush and Nettles defense attorneys. Judge Batten granted Hall's Disqualification Motion agreeing that the attorney's service as the band's lawyer created a conflict of interest that prevented the firm from acting as defense counsel in the case.

In their Answer, Bush and Nettles denied that the parties entered into a partnership and denied that Hall was entitled to any compensation for her interest in the band. Bush and Nettles maintained that because Hall voluntarily withdrew from the band, she had no right to an accounting or a buyout of her interest in the band name, brand and intellectual property.

After over a year of discovery and the disclosure of expert valuation opinions regarding Hall's interest in the band, Bush and Nettles admitted that the parties were in a partnership, but sought to define how and when the partnership was formed in seeking to dismiss Hall's claims on summary judgment. At the same time, Bush and Nettles sought to exclude the opinion of Hall's valuation expert on a number of alternative grounds.

In a lengthy order issued on January 7, 2010, Judge Batten denied Bush and Nettles' motion to exclude Hall's valuation expert. Judge Batten also denied Bush and Nettles' Motion for Summary Judgment in a February 17, 2010 Order. After two years of litigation and extensive trial preparation, Hall's claims against Bush and Nettles were resolved in a confidential settlement shortly before the November 15, 2010 trial date.—*B.O.*

For press reports on the Sugarland settlement, see http://www.accessatlanta.com/atlanta-music/sugarland-duo-settles-suit-739064.html?sms_ss=email&at_xt=4d40c51384a59846%2C0 and http://artsbeat.blogs.nytimes.com/2010/11/15/sugarland-settles-lawsuit-with-ex-founding-member/?emc=eta1.

INTRA-BAND ROYALTY DISPUTE

The U.S. District Court for the Northern District of Illinois, Eastern Division, decided that two musicians who joined the rock band Survivor after its founding could proceed with royalty counterclaims against band principal Frank Sullivan and Survivor Music. *Sullivan v. Jamison*, 06 C 5240. (Sullivan had sued Jamison for trademark infringement.) Neither counterclaimant, vocalist Jimmy Jamison nor bassist Stephan Ellis, were in Survivor when the band signed a 1978 recording agreement with Scotti Brothers Records. But District Judge Sharon Johnson Coleman found that the 1978 contract and an amended 1983 recording agreement with Scotti Brothers "incorporated new members of the band through the execution of inducement letters and bound them to the contracts to the same degree as the original members."

Judge Coleman noted, for example: "On October 23, 1986, Gerald Margolis, an attorney for Survivor, wrote a letter to Jamison's attorney concerning the relationship between the corporation Survivor Music Enterprises, Inc. and Jamison. The letter states in relevant part, 'So far as I am able to ascertain from John Baruck [manager] and from the accountant for Survivor Music Enterprises, Inc., Jimi Jamison has indeed and in fact been extended and enjoyed all the benefits of the other individual members of the recording and performing group Survivor, commencing with the admission of him as a member of the group and through the present date … the group is comprised of five individuals (including your client), and business structures aside, the net revenues of the group from personal appearances and phonorecords are split among the members in equal shares.' "—*S.S.*

DIGITAL DOWNLOAD SALES/ROYALTY ACCOUNTING

The U.S. Court of Appeals for the Ninth Circuit unanimously held in *F.B.T. Productions, LLC v. Aftermath Records*, 621 F.3d 958 (9th Cir. 2010) that under California law, artists and producers should be paid 50% of income derived from digital downloads offered by music download providers, versus the average 12-18% (less certain "standard" deductions) for traditional record sales through "normal" retail channels.

F.B.T. brought suit against Aftermath Records, a UMG owned and distributed imprint (UMG was also a defendant), relating to early Eminem catalog. It alleged that the income derived from permanent digital downloads and mastertones was governed by the "Masters Licensed" provision of certain operative agreements providing for a 50% royalty, rather than the "Records Sold" provision providing for a 12-20% royalty, less certain "standard" deductions." Before trial, F.B.T. moved for summary judgment arguing that the provision in question applied to the foregoing unambiguously; the district court disagreed and the parties went to trial. Following a contentious trial, the jury returned a verdict in favor of Aftermath.

On appeal, the Ninth Circuit reversed and remanded, finding that the district court erred in denying summary judgment to F.B.T. The Ninth Circuit held that: (1) under California law contract interpretation is decided as a matter of law; (2) the contractual provisions in question were unambiguous; (3) the record company's agreements with digital download providers were licenses (according to both the commonly understood dictionary definition of the term as well as U.S. copyright law); and therefore (4) the 50% royalty provision of the parties' operative agreement(s) applied unambiguously to digital download and mastertone/ringtone income.

The key finding in this case was that UMG's agreements with download music providers and mastertone providers are LICENSES. Reasoning that "[i]n the ordinary sense of the word, a license is simply 'permission to act[,]'" the appeals court concluded that UMG's agreements with "iTunes, cellular phone carriers and other third parties to use its sound recordings to produce and sell permanent downloads and mastertones … qualify as licenses." The court also examined the meanings of the terms "license" and "sale" under the Copyright Act, observing the well-established doctrine of copyright law that "a license is an authorization by the copyright owner to enable another party to engage in behavior that would otherwise be the exclusive right of the copyright owner, but without transferring title in those rights." Noting that "Aftermath was at all relevant times the owner of the copyrights to the Eminem recordings at issue in this case[,]" the Ninth Circuit concluded that Aftermath's transactions with Apple and other third parties were licenses.

UMG and the other major labels have for years promoted the notion that their agreements with unaffiliated music download and mastertone providers do not qualify as licenses and, on that basis, have justified paying recording artists and music producers a substantially reduced royalty for the income derived from legacy catalog. (UMG's agreements remain under seal and are unavailable for review, notwithstanding that many were apparently documentary exhibits used and admitted into evidence at the trial of the matter.) A decent rule of thumb is that for every dollar the major labels are accounting for and paying these legacy artists and producers, they should be accounting for and paying roughly six dollars.

The F.B.T. case is expected to return to the district court for a trial on these damages. Meanwhile, UMG's petition for a writ of certiorari was filed with the U.S. Supreme Court on Dec. 8, 2010.—*D.G.*

MUSIC ROYALTY LITIGATION/CONVERSION CLAIM

The U.S. District Court for the Northern District of California ruled in part that members of the 1970s punk rock band The Avengers failed to properly state a conversion claim in their suit for royalties from master recordings and compositions that comprised the early 1980s compilation *Pink Album*. *Houston v. Ferguson*, 10-01881 (N.D.Calif. 2010). District Judge Jeffrey S. White noted: "Plaintiffs allege that [defendant David] Ferguson [with whose companies The Avengers had signed non-exclusive licensing agreements for the masters and two band members signed music publishing agreements] wrongfully received money when he infringed their copyrights, that that money was rightfully theirs, and that he converted it by not turning it over to Plaintiffs when they demanded it in 2009. … [But] Plaintiffs have not alleged a

cause of action for conversion, because they fail to allege that Ferguson converted an identifiable sum of money."

Judge White continued: "Rather, Plaintiffs allege that Ferguson converted the profits he received from unlawfully exploiting their copyrights. This is a general claim for damages for copyright infringement." But the district judge declined to accept Ferguson's argument that the bands' claim for a declaration of rights — under an agreement band member Penelope Houston had signed with Ferguson regarding rights to a 1978 performance by The Avengers at the Winterland venue in San Francisco — was preempted by the Copyright Act. The court instead observed that "the parties dispute which works were transferred. The Copyright Act does not prevent a district court from declaring whether a contract was formed or revoked, or declaring its contents."—*S.S.*

AGENCY AGREEMENTS/POST-TERM COMMISSIONS

The U.S. District Court for the Southern District of New York ruled that artists were precluded from raising as affirmative defenses that the plaintiff booking agency's firing of two of its key persons who handled the artists' account also terminated the artists' agreements with the agency — and thus the artists' obligations to pay post-term commissions to the agency. *Columbia Artists Management LLC (CAMI) v. Alvarez*, 08 Civ. 11254(LBS). CAMI sought post-term commissions from opera singers Marcelo Alvarez, Richard Margison and Ramon Vargas. The artists had left CAMI in February 2005, after CAMI reps Bruce Zemsky and Alan Green were fired and formed their own company. CAMI sued the artists to obtain post-term commissions for engagements secured through CAMI before, but performed after, February 2005.

District Judge Leonard B. Sand first denied CAMI's motion for summary judgment on the ground that a genuine issue of material fact existed regarding the impact of a three-month, termination notice requirement and the post-termination commission provision in CAMI's agreements with the artists. Judge Sand also found genuine issues of material fact existed "as to (1) whether it is a practice within the opera industry for artists to pay commissions for performances booked but not performed prior to a manager's termination, and (2) Defendants' awareness of this practice."

But the district judge also ruled, "Defendants are precluded from offering at trial the affirmative defenses that Plaintiff terminated the contract[s] by firing Zemsky and Green and was therefore not entitled to post-termination commissions due to either breach of contract or failure to satisfy a [three-month termination notice] condition precedent." According to the court: "Here, the contracts imposed Defendants' obligation to pay commissions '[f]or all engagements which you accept,' and did not condition payment of those commissions on Plaintiff's continued retention as Defendants' manager. In other words, Defendants naturally agreed to compensate Plaintiff for the work it performed while the agreement was in effect. Even if Plaintiffs['] dismissal of Zemsky and Green constituted a breach, that breach took place after Plaintiff had already performed under the contract and Defendants' obligation to compensate Plaintiff for its performance had already attached. The alleged obligation to pay commissions on performances secured before any putative breach is 'distinct and independent' from any obligations or

remedies arising from that breach … [T]he claim that Zemsky and Green's termination cancelled any possible obligation of Defendants to pay post-termination commissions is invalid as a matter of law."—*S.S.*

E-MAIL EXCHANGE/NOT WORK FOR HIRE

The U.S. District Court for the Southern District of Florida ordered The Coca-Cola Co. to give immediate songwriting credit to Rafael "Rafa" Vergara — for creating a Spanish translation version of the song "Waivin' Flag" that was used during the World Cup Soccer Games. In doing so, the district court noted of Vergara's copyright infringement complaint, "while an implied, non-exclusive license undoubtedly existed when the work was initially published, this license was unequivocally revoked the moment the present lawsuit was filed." *Hermosilla v. The Coca-Cola Co.*, 771 F.Supp.2d 1297 (S.D.Fla. 2010).

Universal Music Latin America had originally contacted Vergara, who has written songs for popular artists like Marc Anthony, on behalf of Coca-Cola. Coca-Cola argued the Spanish version was at least a work for hire. However, District Judge K. Michael Moore noted: "The document that Coca-Cola relies on is an email [from Vergara] that is an offer to deem the song a work-for-hire in exchange for Universal and Coca-Cola agreeing to other conditions. (Vergara asked that 'my credits are respected as producer and adapter of the Spanish version (that every time the name of any composer of this version appears, my name appears as adapter').) … [S]hortly thereafter, Universal sent Vergara contracts constituting a counteroffer that did not contain Vergara's requested terms. …Vergara then expressly revoked the prior offer … Thus, the translation of song lyrics by Vergara do not qualify as a work-for-hire because the writing requirement for work-for-hire contracts is not met."—*S.S.*

SOUND RECORDINGS/WORKS FOR HIRE

The U.S. District Court for the Southern District of New York decided that sound recordings made by the late reggae legend Bob Marley in the 1970s were works for hire that vested the copyrights in Island Records. The copyright renewal terms thus belong to Island's successor-n-interest UMG Recordings, rather than to Marley's heirs, the court concluded. *Fifty-Six Hope Road Music Ltd. v. UMG Recordings Inc.*, 08 CIV. 6143 (S.D.N.Y. 2010).

District Judge Denise Cote reached her determination under the Copyright Act of 1909, which provided that an employer could be the "author" of a work-for-hire. But the 1909 Act didn't include a list of specific works for hire and has been broadly construed. (The Copyright Act of 1976, which applies to works published or created on or after January 1, 1978, does list works that qualify as for-hire list but excludes sound recordings. Record companies have argued that sound recordings can be works for hire as contributions to statutorily recognized "collective works" or "compilations.")

The 1972, 1974 and 1975 agreements Marley signed with Island didn't use "work-for-hire" language. But the district court noted in part: "While Plaintiffs point to the clause stating that Island and Bob Marley would 'mutually agree' on lyrics and music *before* recordings were made, they disregard the very next provision which gave Island the discretion to decide whether or not such lyrics and music *as recorded* are acceptable and satisfactory. … Plaintiffs contend

that Bob Marley selected the recording studios, chose the musicians and songs to record, and determined when the group recorded. The fact that Marley may have exercised artistic control over the recording process, however, is legally irrelevant; what is dispositive is that Island had the contractual *right* to accept, reject, modify, and otherwise control the creation of the Sound Recordings."—*S.S.*

COPYRIGHT DAMAGES/STATUTORY "WORK"

The U.S. Court of Appeals for the Second Circuit decided that an album constitutes one "work" for purposes of awarding statutory damages to copyright plaintiffs. *Bryant v. Media Right Productions Inc.*, 603 F.3d 135 (2d. Cir. 2010). Songwriters Anne Bryant and Ellen Bernfeld, and their self-owned record label Gloryvision, sued after their albums *Songs for Dogs* and *Songs for Cats* were sold through digital downloads by Orchard Enterprises. The plaintiffs had entered into an agreement for Media Right Productions to market physical copies of the albums. Media Right then entered into an agreement with the Orchard for the "non-exclusive rights to sell, distribute and otherwise exploit" the albums "by any and all means and media (whether now known or existing in the future), including … via the Internet, as well as all digital storage, download and transmission rights, whether now known or existing in the future."

The Bryant plaintiffs sought statutory damages for each of the songs on their two albums. United States District Judge Kimba M. Wood, sitting by designation, noted for the appeals court that the plaintiffs/appellants argued "each song has 'independent economic value': internet customers could listen to and purchase copies of each song, each of which Appellants claim was independently copyrighted." But Judge Wood emphasized that the Second Circuit "has never adopted the independent economic value test, and we decline to do so in this case. … We cannot disregard the statutory language [of 17 U.S.C. § 504(c)(1) that states a compilation, such as an album, is one 'work'] simply because digital music has made it easier for infringers to make parts of an album available separately."

In November 2010, the U.S. Supreme Court denied the Bryant plaintiffs' petition for a writ of certiorari.—*S.S.*

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

KRISTEN ALISON HALL,	)	
	)	
PLAINTIFF,	)	
	)	DOCKET NO. 1:08-CV-2437-TCB
-VS-	)	
	)	
JENNIFER NETTLES,	)	
KRISTIAN BUSH,	)	
	)	
DEFENDANTS.	)	

TRANSCRIPT OF MOTION TO DISQUALIFY
BEFORE THE HONORABLE TIMOTHY C. BATTEN, SR.
UNITED STATES DISTRICT COURT JUDGE
THURSDAY, FEBRUARY 5, 2009

APPEARANCES:

ON BEHALF OF THE PLAINTIFF:

BARRY A. O'NEIL, ESQ.
SCOTT D. SANDERS, ESQ.

ON BEHALF OF THE DEFENDANTS:

JAMES C. GRANT, ESQ.
BARRY E. MALLEN, ESQ.
JOANN ELIZABETH JOHNSTON, ESQ.

ELISE SMITH EVANS, RMR, CRR
OFFICIAL COURT REPORTER
UNITED STATES DISTRICT COURT
ATLANTA, GEORGIA

INDEX

1 (Thursday, February 5, 2009; Atlanta, Georgia.)
2 THE COURT: Good morning. All right. Mr. O'Neil?
3 MR. O'NEIL: Yes, Your Honor.
4 THE COURT: I'll hear from you, sir.
5 MR. O'NEIL: Thank you.
6 Good morning, Your Honor.
7 THE COURT: Thank you. Welcome to Atlanta.
8 MR. O'NEIL: Thank you very much. May it please the
9 Court, my name is Barry O'Neil. I'm from the law firm of Lommen,
10 Abdo, Cole, King & Stageberg in Minneapolis. With me at counsel
11 table is Scott Sanders. We represent Kristen Hall, the plaintiff
12 in this matter.
13 And I first want to thank the Court for allowing us to
14 have an oral argument on this motion. I know it's not local
15 practice to have a hearing on every motion, but we felt the
16 nature of the issue with regard to an attorney's duty to its
17 client, its client's rights, we felt it was of a serious quality
18 and worthy of some time with the Court. And I appreciate you
19 allowing us today. I didn't intend to bring any cold weather
20 with me.
21 THE COURT: Yeah. Thanks for that.
22 MR. O'NEIL: But this is actually a bit of a warming
23 trend from where I came from.
24 But in any event, if I may just briefly go into the
25 factual background of this lawsuit. Kristen Hall is the founder,

1 one of the founders, of the country musical act Sugarland. Ms.
2 Hall conceived the idea for the band and asked Mr. Bush to join
3 with her in that effort. She came up with the name of the band
4 Sugarland. And Mr. Bush and she auditioned members and
5 ultimately asked Jennifer Nettles to be part of the band and
6 become the lead singer.
7 Now, the whole crux of this lawsuit is the fact -- is
8 that they did join in a -- what we maintain is a partnership and
9 undertook as a partnership. The defendants admit in their answer
10 that they agreed to share revenues and share expenses. And until
11 the end of 2005, they were operating as a band and as a
12 partnership. And -- but in 2005, Ms. Hall indicates at some
13 point that she isn't planning to tour with the band next year,
14 and the other members of the partnership took that as an
15 opportunity to close the doors, lock her out. And, basically,
16 since that time they have not accounted to her for a single item
17 of revenue or profits that this endeavor has generated and
18 haven't provided her with access to books and records regarding
19 the performance of the partnership.
20 THE COURT: Well, let me ask you this. If she did
21 voluntarily withdraw as the defendants contend, why would she
22 nevertheless be entitled to any profits after this point?
23 MR. O'NEIL: Certainly, Your Honor.
24 THE COURT: And how long does she want profits; for the
25 rest of the band's life?

1 MR. O'NEIL: Well, Your Honor, the fact of the matter
2 is even if, as they maintain, she intended to voluntarily
3 withdraw and walk away forever from every piece of interest or
4 rights that she had with the partnership, she still under Georgia
5 law would have been entitled to wind up her affairs and receive
6 her interest.
7 THE COURT: Right. I mean, I don't understand how the
8 defendants contend this is not a partnership. If it's not a
9 partnership, I'd like to know what it is. And I've thought of
10 two things; a partnership or a joint venture. I don't think it's
11 a joint venture because it wasn't formed solely for one purpose.
12 I'm going to allow Mr. Grant or whoever's arguing for
13 defendants to answer my question, but for now you're going to
14 have a hard time convincing me this was not a partnership. It
15 was an oral partnership. And she's entitled to, upon
16 dissolution -- I mean, basically the partnership was dissolved,
17 if they're right, when she said I'm out of here. Wouldn't that
18 operate as a dissolution of the partnership?
19 MR. O'NEIL: It could, Your Honor, yes. And under the
20 Georgia statutes, then someone should --
21 THE COURT: And she's entitled to a winding up and an
22 accounting of the partnership assets.
23 MR. O'NEIL: And the fact of the matter, Your Honor, is
24 that was never done.
25 THE COURT: Right.

1 MR. O'NEIL: I don't have the authority with me. It
2 relates a little bit more to a motion to compel that we may have
3 to bring. But the fact of the matter is under Georgia law, as a
4 partner improperly excluded from a partnership, she has an
5 election of remedies. She can either take the value of her
6 partnership upon the date that she was -- it dissolved, or she
7 can take -- elect as a remedy the profits generated from her
8 interest in the partnership up until the ultimate dissolution.
9 It hasn't happened yet, Your Honor.
10 THE COURT: She's got a remedy in equity of accounting,
11 though, I think.
12 MR. O'NEIL: Exactly. And that's part or our pleading,
13 too, also, Your Honor. And the fact of the matter is I'm waiting
14 to see what the defendants say this animal was. I see them
15 straddling the fence a little bit in this motion talking about
16 the fact that Mr. Gilbert represented the Sugarland act. Well,
17 what was it? It was a little of this, a little of that, but they
18 don't come out and say it was a partnership, but I do believe,
19 Your Honor, that the facts will lead to that conclusion. And I
20 don't see that ultimately being part of the controversy.
21 But as far as her rights, then, you're correct, she'd
22 be entitled to an accounting. She's entitled to her interest in
23 the partnership. Just because someone says they're not going to
24 tour with a band the next year --
25 THE COURT: Or says I quit.

1 MR. O'NEIL: Or I quit. Even if she says I quit, that
2 doesn't mean she's divorced of every right and every interest she
3 had in the band. In fact, as a matter of fact, she's a one-third
4 owner of the Sugarland registered trademark that they're
5 continuing to use to this day. They're selling tee-shirts,
6 they're selling every merchandise known to man, and she has not
7 received accounting of any of that since -- at any time, frankly.
8 So that's -- that's the rub of our case, which goes a little bit
9 beyond what this specific motion's about.
10 But going to this motion, in 2003 Mr. Gilbert was
11 introduced to my client and the other two members of the band as
12 their attorney by their manager at the time who continues to be
13 the manager, Gail Gellman. They had a telephone call in a hotel
14 room and they each spoke on a phone. And from that moment, Ms.
15 Hall understood that Mr. Gilbert was the band's lawyer, and --
16 the band's lawyer and he handled the legal affairs of the band.
17 Now -- and that continued, Your Honor, up until really December
18 of 2005, on December 20 when he sent a Leaving Member Notice to
19 MCA Records. And, in fact, there was never a communication from
20 Mr. Gilbert to Ms. Hall that he was terminating the relationship.
21 The only indication that he was not acting as her
22 lawyer anymore was the fact that he took -- he started advocating
23 the other two partners' legal position against her in a January
24 9th, 2006 letter in response to a -- an e-mail from Mr. Abdo.
25 THE COURT: Well, they said the act that would have

1 dissolved the partnership or whatever had been done by her
2 statement. And, you know, does she dispute paragraph 7 of Ms.
3 Gellman's affidavit in which Ms. Gellman testifies that on
4 December 19th, on or about December 19th, she, Ms. Hall, told Ms.
5 Gellman I'm leaving the band effective immediately? I notice
6 that she did not -- your client did not file a declaration
7 expressly and unequivocally refuting that testimony.
8 MR. O'NEIL: She does dispute that, Your Honor. As --
9 I -- it's -- and we certainly could have filed a declaration, but
10 I didn't think serial submissions of declarations was in order.
11 But the fact of the matter, she disputes that she said --
12 essentially what the defendants maintain happened is that she
13 says I quit once and forever, always, and every single purpose
14 and I effectively waive every interest I have. That's
15 essentially their legal position here.
16 THE COURT: And I hereby acknowledge that I'm legally
17 estopped and barred from -- I mean, it reminds me of that scene
18 in *A Fish Called Wanda* where they're hanging John Cleese out the
19 windows and he's -- Kevin Kline is hanging him out the window and
20 he says, "I disavow and renounce all of my statements. There was
21 no basis in fact" -- do you remember that?
22 MR. O'NEIL: I don't, Your Honor, but I --
23 THE COURT: It would have been funny if you'd have
24 remembered it.
25 MR. O'NEIL: I wish I had. I wish I could add to it,

1 but I can't.
2 THE COURT: Well, you should rent the movie.
3 MR. O'NEIL: I will. Maybe for the flight back home.
4 But you're correct. That is essentially their legal
5 position here. And she does dispute that she certainly went to
6 the point of making a legal -- saying something that would estop
7 her from now seeking her interest in this court.
8 If you look at the January 4th, '06 e-mail from Mr.
9 Abdo, he relates what Ms. Hall was telling the band members at
10 that time. She was saying I don't want to tour next year. Maybe
11 I want to write or something, maybe I still want to have a role
12 with the band. But they took that as an opportunity, with Mr.
13 Gilbert's counsel apparently, to mean that, boom, you're done.
14 THE COURT: All right. When did she retain Mr. Abdo?
15 MR. O'NEIL: She retained Mr. Abdo sometime in the --
16 the first official, which came from the supplemental filing
17 you'll see, first official --
18 THE COURT: November 29th, I think?
19 MR. O'NEIL: It was November, yes, of '05.
20 THE COURT: Well, now, if she's got him as a lawyer,
21 what does this matter?
22 MR. O'NEIL: What's that?
23 THE COURT: If she's got Mr. Abdo as her own lawyer,
24 why is she complaining about the removal of Mr. -- about Mr.
25 Gilbert's representation of the other two?

1 MR. O'NEIL: It's a very fair question, Your Honor.
2 But the fact of the matter is is just because she has another
3 lawyer, Mr. Gilbert's duties to her don't cease the moment she's
4 talking to Ken Abdo. She was -- this is really the
5 quintessential conflict that you see. He's representing three
6 partners in a partnership. He's representing them on an
7 individual basis. You'll see the MCA contract jointly and
8 individually binds them. He's representing them also -- like I
9 said, with regard to the partnership. He in fact is her legal
10 representation when he sends out that Leaving Member Notice. He
11 is. He's acting on her behalf. He says, well, since she
12 thought --
13 THE COURT: Well, he's either acting on her behalf or
14 he's acting contrary to her interests.
15 MR. O'NEIL: Either, but --
16 THE COURT: Because he's acting on behalf of the
17 others, taking their position that she's essentially out of the
18 band. How can he do that?
19 MR. O'NEIL: He can't, Your Honor. That -- in fact, I
20 noted in their --
21 THE COURT: And he's going to testify in this case?
22 MR. O'NEIL: He is. He'll testify. He'll be a fact
23 witness. It's not a possibility; it's a reality. It will
24 happen.
25 And the fact -- as I said, the mere reason she spoke

1 with Ken Abdo about her legal rights and duties doesn't mean that
2 Gary Gilbert's duties cease at all. He was still supposed to act
3 as her lawyer when he --
4 THE COURT: Can't you have two lawyers?
5 MR. O'NEIL: You can certainly have two lawyers. It's
6 not like marriage, Your Honor. You can have -- you can have more
7 than one lawyer advising you.
8 THE COURT: Everywhere but Utah.
9 MR. O'NEIL: Well, I don't want to attack any other
10 states, but --
11 THE COURT: Oh, we, do it down here all the time,
12 including the place where you're from.
13 MR. O'NEIL: I don't doubt that. Probably about a
14 Senate race.
15 THE COURT: Yeah. That would be the place for me to
16 start, but I wouldn't finish there.
17 Anyway -- all right. Now, you point out that Mr.
18 Gilbert represented these three band members in the Simonton and
19 Hartley lawsuit -- or Simonton and Hartley lawsuit. Why does
20 that disqualify him in this case?
21 MR. O'NEIL: Because, Your Honor, that was -- first of
22 all, they were individual defendants in that case, and that was
23 about --
24 THE COURT: He's written letters that say I represent
25 Bush, Hall and Nettles.

1 MR. O'NEIL: Yes, Your Honor, he has. He suggests by
2 providing the complaint signed by a lawyer here in town that he
3 wasn't the legal representation. He in fact was playing a role
4 and advising all three of them with regard to their individual
5 ownership rights from things arising from the Sugarland band.
6 THE COURT: But what does that have to do with her
7 alleged withdrawal, voluntary withdrawal, in December of 2005?
8 It's got nothing to do with that.
9 MR. O'NEIL: It doesn't have anything to do with
10 specifically that fact, you're correct.
11 THE COURT: Right.
12 MR. O'NEIL: But it does have to do with the fact
13 that -- I mean, part of what we see going on here is they're
14 trying to say, well, no, I only contacted the band. I was kind
15 of like in and out. I didn't pay -- I didn't, you know, really
16 represent --
17 THE COURT: I rarely had contact with the individuals.
18 MR. O'NEIL: Rarely. And, in fact, as I -- as we point
19 out in our reply, that's inconsistent with his own letter to Mr.
20 Abdo. He's talking about things the band's related to him and
21 what he knows about it. So I don't -- they're trying to give you
22 a slanted picture.
23 THE COURT: Well, why can't -- why wouldn't his answer
24 to that be that his January response to Mr. Abdo was based on
25 what his two erstwhile clients had told him; not based on what he

1 had learned from all three of them during the existence of the
2 partnership or the band?
3 MR. O'NEIL: Well --
4 THE COURT: Why couldn't he -- you know, everything he
5 wrote in there, I think he would attribute to his subsequent
6 conversations after December 20, 2005, with his two new clients.
7 MR. O'NEIL: He would, Your Honor. But I think what's
8 drawn up is the distinction between what a lawyer's ethical
9 duties are and perhaps an agent. And a lawyer's a different
10 animal. He's got ethical rules that prevent him from just
11 picking the -- which horse he's going to ride.
12 He was her lawyer when he sent out that Leaving Member
13 Notice at the -- in December 2005. He in fact would have --
14 should have remained her lawyer and the partnership's lawyer.
15 And if they were going to try to resolve it as is pointed out in
16 Mr. Abdo's letter, and I think it's even in Mr. Gilbert's letter,
17 that the other two were going to go get their own independent
18 legal counsel. That's the step that should have been taken in
19 January 2006.
20 Now -- and the other point I wanted to make, too, Your
21 Honor, is as they try to limit the idea of what Mr. Gilbert has
22 done, the one thing that's being done here is they have not,
23 despite the fact that they were subpoenaed in early January --
24 THE COURT: They haven't provided the records.
25 MR. O'NEIL: And despite the fact that Ms. Hall is a

1 client and now former client, I wouldn't have had to subpoena
2 those records, Your Honor. She's her client asking for her file.
3 They should have provided it to me promptly. They forced me to
4 subpoena it and have since been doing a little shell game about
5 where the papers are.
6 THE COURT: I thought they were going to provide it to
7 you by February 2nd, even under their nuanced interpretation of
8 Rules 45 and 26 through 34 of the Federal Rules of Civil
9 Procedure. I'd understood February 2nd was when they were going
10 to provide the stuff to you. Have they?
11 MR. O'NEIL: They have not, Your Honor. And I was --
12 the latest is I was advised in an e-mail yesterday that we're
13 going to talk about what they're going to give me tomorrow. So
14 they're trying to tell you that Mr. Gilbert --
15 THE COURT: Have you served a document request upon the
16 defendants pursuant to Rule 34 for those same documents?
17 MR. O'NEIL: I did, Your Honor.
18 THE COURT: When?
19 MR. O'NEIL: The documents were served, goodness,
20 shortly -- like probably December whatever, two days --
21 THE COURT: Now, why have they not been produced by the
22 defendants in response to a document request?
23 MR. O'NEIL: That's not -- I guess that's a question
24 for the defendants and their counsel, Your Honor. I don't know.
25 THE COURT: Well, I sure hope that the defendants did

1 not assert blanket objections, burdensomeness, et cetera. Have
2 you read my order?
3 MR. O'NEIL: I have, Your Honor.
4 MR. GRANT: As have we, Your Honor.
5 THE COURT: Okay.
6 MR. O'NEIL: And --
7 THE COURT: I don't see how she's not entitled to the
8 records prior to December 20, 2005. But in any event, we'll talk
9 about that with Mr. Grant.
10 MR. O'NEIL: Right. And, Your Honor, we may even hear
11 that ultimately it's our legal position she's entitled to them
12 after that, but I'll leave that for --
13 THE COURT: Right. Right.
14 MR. O'NEIL: -- perhaps another day.
15 THE COURT: Right.
16 MR. O'NEIL: But the fact of the matter is, as I said,
17 they're trying to tell us that he played only a limited role and
18 only acted when Ms. Gellman told him to. And as I point out, I
19 don't even think that's consistent with his duties as an
20 attorney. He has clients that he's supposed to advise. He says
21 clients were supposed to direct him. Ms. Hall was one of his
22 clients up until the time he jumped on what was probably the cash
23 cow that he saw, the going forward Sugarland duo at that point,
24 so --
25 THE COURT: And you say that he's going to testify.

1 How can he testify as to what -- and the key issue in the case is
2 whether or not Ms. Hall voluntarily withdrew from the band.
3 Isn't that the key issue? You would put that as the top issue in
4 the case?
5 MR. O'NEIL: I think the defendants are trying to frame
6 that as the issue because, as I think as the Court has already
7 pointed out, even if she says I quit, that doesn't mean she
8 doesn't get a dime, she walks out of here empty.
9 THE COURT: Well, my question is you're saying that
10 Gilbert is going to testify, but how does he have personal
11 knowledge as to whether or not she quit the band? He heard from
12 Gellman that Hall had told Gellman that Hall was quitting the
13 band. So how is he going to get in here and offer competent
14 testimony on that issue, just that issue?
15 MR. O'NEIL: Well, he certainly -- and I don't know
16 what all the facts are that he knows at this point.
17 THE COURT: Well, I think it would have been made
18 evident by now if he had independent personal knowledge, i.e., a
19 foundation by which he could testify as to what Ms. Hall said or
20 what Ms. Hall did. I don't think he -- I'm not -- I haven't read
21 or seen any basis for him testifying to that. I'm not saying
22 that means he's not disqualified, but I'm just saying I want to
23 hear whether or not I've got that right.
24 MR. O'NEIL: Well, Your Honor, as it goes to directly
25 who we talked to and what was dealt with in December, you're

1 correct, I don't see that there is any indication in his
2 affidavit that he spoke to anyone other than Gellman.
3 THE COURT: Then what's he going to testify to, because
4 a large part of your motion is complaining that he's going to be
5 a fact witness at the case. What facts is he going to testify
6 to?
7 MR. O'NEIL: Some of it goes to, Your Honor, the fact
8 that right now we don't know what type of pig this is. We don't
9 know if the defendant --
10 THE COURT: I do. It's an oral partnership. And
11 it's -- I think a new partnership was formed between the two
12 defendants.
13 MR. O'NEIL: Well, Your Honor, I guess -- he certainly,
14 if the defendants try to maintain that this was something other
15 than a partnership, will be called to testify about what he did
16 and the acts he took with regard -- as the lawyer for the band
17 and the three of them, how things were shared and set up from a
18 legal perspective and things like that. So he would provide that
19 foundational testimony with respect to what the band did prior to
20 December 2005.
21 And, Your Honor, as far as the actions, I know now
22 defendants want to -- are trying to make it clear that, well, it
23 wasn't -- the act of sending the Leaving Member Notice wasn't --
24 she'd already left, you know. The fact of the matter is is that
25 earlier in this case, her position has been that it was December

1 20 when she left. So it's not clear to me, but I certainly think
2 he'll be a witness that is deposed. And I fully expect that
3 he'll be called to testify on some facts relating to the
4 relationship of the band, how they dealt with one another, even
5 if it's prior to the December 2005.
6 THE COURT: Well, I want to ask you that. What inside
7 information, what secrets or confidences did Mr. Gilbert obtain
8 prior to December 20, 2005, that would make it -- that would be
9 detrimental to Ms. Hall in this case, or are you relying
10 exclusively upon the irrebuttable presumption that confidences
11 were shared?
12 MR. O'NEIL: Well, Your Honor, ultimately I -- I do
13 agree with the defendants that this isn't -- the rub of this
14 motion isn't the confidential issue because defendants, as Mr.
15 Grant pointed out in his letter I think in November responding to
16 the request to disqualify themselves --
17 THE COURT: It's just that it stinks.
18 MR. O'NEIL: Well, the fact is --
19 THE COURT: That's what you're saying.
20 MR. O'NEIL: Well, it goes to a lawyer's duty of
21 loyalty.
22 THE COURT: Right. You're saying it stinks.
23 MR. O'NEIL: It does, because a client -- and they talk
24 about the public perception. If you look at the cases discussing
25 a lawyer's duty of loyalty, the perception is is that lawyers

1 just can't be riding three horses and then let one go and try
2 to -- it's the disloyalty issue that she shouldn't have to face
3 her own lawyer as representing the defendants in this case on
4 matters that did substantially relate to his legal representation
5 while he was her lawyer.
6 THE COURT: All right.
7 MR. O'NEIL: Because I agree, Your Honor, and here's
8 the interesting thing. They're trying to get both sides of this
9 confidence argument, too, because they're saying there's no
10 confidences, so we don't have to be withdrawn. But I know full
11 well they're not going to give me their discussions with Nettles
12 and Bush after December 2005. And from my theory, they should,
13 Your Honor. They should, because that partnership was not
14 dissolved. So as far as my client is concerned, she still
15 remains a member of that partnership. It wasn't wound up. And
16 under, I believe --
17 THE COURT: Well, now, if the evidence is going to be
18 that she said I'm no longer going to participate in the band, I
19 think that's when the -- the partnership terminated. Now, that
20 does not -- I think the partnership was dissolved at that point,
21 but that does not mean that she does not have a residual right to
22 an accounting and to a distribution of the profits, the net
23 profits, her third of the profits. But I don't know that that
24 gives you the right to their records, their attorney's -- their
25 attorney/client communications after that point, because it was

1 manifestly apparent that after that point their interests were
2 adverse. They were adverse as a matter of law.
3 MR. O'NEIL: It certainly was, Your Honor. And I -- I
4 guess I haven't done all the fine-tuned legal research on that
5 specific issue. But I do think that the fact that it wasn't
6 wound up at that time, as I said, there's an election of
7 remedies.
8 THE COURT: By the way, where are these people? We
9 were hoping for a concert. I've never met them, I've never seen
10 them, and I've never listened to any of their music, so I'm not
11 biased one way or another about any of that. But I've just heard
12 they're high on the list.
13 MR. O'NEIL: Well, Ms. Hall's in Tennessee, Nashville.
14 But -- and I believe the defendants are on tour, but I'll let
15 their counsel tell you where they are.
16 So that's -- I agree, and I guess going back to your
17 confidences issue, we're not taking the position that there are
18 confidences that are the main issue here. It's the duty of
19 loyalty. It's the fact that lawyers are not supposed to be able,
20 under the ethical rules, to essentially be representing three
21 people and, then, like that --
22 THE COURT: Well, why didn't she say anything about it?
23 MR. O'NEIL: Well, Your Honor, as I point out in our
24 brief --
25 THE COURT: I mean, you know, I'm, A, in a partnership

1 of A, B and C, and the lawyer writes a letter saying I'm just
2 confirming what you had said that you're out, A; and by the way,
3 I now represent B and C. Why didn't she complain about it?
4 MR. O'NEIL: Well, first of all, Your Honor --
5 THE COURT: Why didn't Abdo complain about it?
6 MR. O'NEIL: Because, Your Honor -- and I guess if you
7 look at the Rule 1.7, also the Restatement of Conflicts governing
8 lawyers, the fact of the matter is a lawyer -- for instance, if
9 Mr. Abdo hadn't even been in the picture at all, Mr. Gilbert as
10 the partnership's lawyer could have tried to negotiate a
11 resolution among his clients, that's con -- that's not even a
12 conflict. That's consistent with the rules. So that's why --
13 THE COURT: If they all consent to his doing so.
14 MR. O'NEIL: Excuse me?
15 THE COURT: If they all consent.
16 MR. O'NEIL: Correct, if they consent.
17 THE COURT: Right.
18 MR. O'NEIL: But consent wasn't -- who -- and it kind
19 of becomes, too, who's it incumbent upon to make that noise,
20 first of all? Or who is it incumbent to analyze that? I mean,
21 the fact of the matter is --
22 THE COURT: I mean, I think it's the lawyer's job to
23 tell these people we may be adverse.
24 MR. O'NEIL: I agree with you. That wasn't done at all
25 in this instance. In fact, I really, if Your Honor -- if you

1 look at Mr. Gilbert's response to Mr. Abdo, I don't think -- I
2 don't think, and I -- the objection, Mr. Gilbert, you shouldn't
3 be her lawyer -- their lawyer would have gotten anywhere. It's
4 consistent with what we've seen in this case that --
5 THE COURT: Well, plus, what she's supposed to do; file
6 a lawsuit?
7 MR. O'NEIL: Exactly. And Mr. Abdo and Ms. Hall are
8 not Mr. Gilbert's ethical policemen. They can't -- without a
9 lawsuit, as the case -- I think it's the Cox case points out that
10 the defendants cite, it talks about a litigant --
11 THE COURT: Right.
12 MR. O'NEIL: -- bringing a motion to disqualify in a
13 fashion that doesn't cause prejudice, essentially, to the other
14 side. I made the argument that they hadn't shown any prejudice
15 in this case, and what we got was the affidavit a couple of days
16 ago saying that Mr. Mallen and his firm are the only lawyers on
17 the earth who could handle this.
18 Now, Your Honor, this -- although this is certainly
19 about --
20 THE COURT: I thought it was interesting, the
21 affidavit, that we couldn't repose all of our confidence in the
22 capable hands of Mr. Grant. Especially since I know Mr. Grant
23 and I personally regard him as an outstanding lawyer. I think
24 he's a very good lawyer. But I'm not sure that that doesn't cut
25 against the defendants, because is this really an entertainment

1 law case? Isn't this just a commercial business dispute or is
2 there some magic law that lawyers put up and say, oh, I don't do
3 entertainment law, even though it's really a breach of the --
4 dissolution of a partnership? Who cares if it's an entertainment
5 partnership for a band or if it's a laundromat or anything.
6 MR. O'NEIL: Well, Your Honor, you beat me to my point.
7 That's exactly right. This is -- this could be a doughnut shop
8 being split up. Yes, there are certain intricacies of the music
9 business that, you know, it will help to have some knowledge
10 about.
11 THE COURT: Well, let me ask you: Did Ms. Hall or
12 anyone on her behalf ever contact MCA and dispute the assertion
13 in Mr. Gilbert's December 20, 2005 letter that she was a leaving
14 member of the band?
15 MR. O'NEIL: It's accurate that they have not contacted
16 MCA to say stop.
17 THE COURT: The answer's no?
18 MR. O'NEIL: No. Yes. No, Your Honor. I didn't mean
19 to -- I didn't mean --
20 THE COURT: That's all right.
21 MR. O'NEIL: I didn't mean to indirectly answer no, but
22 that's true, Your Honor. But if you look at Mr. Abdo's
23 affidavit -- excuse me, his e-mail, he certainly says hold on
24 here a second. This doesn't mean that Ms. Hall has totally left
25 the band. He talks about the idea of possibly songwriting for

1 the band, but they took it as the opportunity to basically slam
2 the doors, take away her keys, and leave her with nothing, not
3 account for anything. And that's going directly to the nature of
4 the lawsuit.
5 But does -- and as far as the rest of the issues
6 relating to this motion, I think I've addressed most of the
7 points I intended to. I mean, I think what's -- what's evident
8 here, Your Honor, is for Mr. Gilbert and the Manatt firm, the
9 rules don't appear to apply. 1.7 didn't apply when he in fact
10 was Ms. Hall's attorney, but on a momentary notice, he slipped --
11 switches sides and then starts representing the two of them
12 against her. So the ethical rules, 1.9 and 1.10, don't apply
13 because they're maintaining they shouldn't be disqualified here.
14 The subpoena rules apparently don't apply, either,
15 because although I subpoenaed documents in January, early
16 January, I'm being told that I just can't quite get them here
17 today so this Court and the plaintiff can know exactly what Mr.
18 Gilbert did. We could have seen time records, we could have seen
19 hourlys. We don't have that. We do know from at least one
20 financial statement that at least almost $17,000 was billed in
21 December of 2005. But if you're going to say his scope is
22 limited and not give us the documents, that's certainly --
23 THE COURT: I wonder if they billed the band for that
24 or just the two members.
25 MR. O'NEIL: The statement --

1 THE COURT: I'd like to know.
2 MR. O'NEIL: The statement suggests everyone.
3 But -- and also, I find that even the local rules just
4 governing motions don't apply, because I thought you get one
5 response in this thing, and I've seen a supplemental and an
6 affidavit. I dare say if this motion were next week, I'd
7 probably see a couple more.
8 So I think this Court -- I think it's clear that he
9 represented her individually on matters substantially related to
10 the claims in this case, specifically the partnership's interest,
11 her interest, and what's being done with them. And that's why we
12 believe, Your Honor, that the Court should issue an order
13 disqualifying the Manatt firm from representing the defendants in
14 this case and acting as counsel in this case.
15 THE COURT: All right. Thank you, sir. I'll hear from
16 the defendants. Good morning, Mr. Grant.
17 MR. GRANT: Good morning, Your Honor. If I might
18 approach quickly, if you'll let me, I've got a couple of --
19 THE COURT: She's memorized the entire file. She
20 doesn't need one.
21 MR. GRANT: -- that I would like to discuss with you.
22 MS. JOHNSTON: I was a clerk. I always like to get
23 one.
24 THE COURT: You don't think she's memorized the entire
25 file?

1 All right. What in here have I not read?
2 MR. GRANT: Oh, you've read it. You've read it.
3 THE COURT: All right. I have read everything in this
4 file.
5 MR. GRANT: I can tell from your questions that you've
6 read it, but I might want to point a thing or two out to you with
7 emphasis, if I could.
8 THE COURT: Okay. Hold on just a second, Mr. Grant.
9 (A pause in the proceeding was had.)
10 THE COURT: The brains of the operation are divided
11 into three parts, not counting me, and he's one of the parts and
12 I wanted to see something. Actually, I'm interested, I'll just
13 tell you, whether or not my ruling in this -- on this motion is
14 immediately appealable as an exception to the Collateral Order
15 Doctrine.
16 MR. GRANT: You know, we just got cert granted in a
17 case on the Collateral Order Doctrine from Mohawk about ten days
18 ago.
19 THE COURT: Yeah.
20 MR. GRANT: So it was an attorney/client privilege
21 issue where the judge ordered us to produce some documents that
22 we thought were privileged, and as you know, you can't take that
23 up unless you can establish that. And we didn't get it by the
24 Eleventh Circuit, but the Supreme Court granted us cert about ten
25 days ago.

1 THE COURT: Well, congratulations. I'm interested,
2 I'm just curious. Didn't the Georgia Supreme Court hold not too
3 long ago that that order -- such an order is appealable?
4 MR. GRANT: I don't remember --
5 THE COURT: It's just purely curiosity. It doesn't
6 apply here.
7 MR. GRANT: I remember the old Johnson & Johnson case
8 saying bring your toothbrush and stand for contempt if you want
9 to get it up. Otherwise, you'll have to sit there. I remember
10 Griffin Bell telling, in that old Mosley vs. GM case -- do you
11 remember that case with Jim Butler that had so much harangue
12 going on? And Griffin Bell said --
13 THE COURT: Who couldn't forget?
14 MR. GRANT: I remember all that. But I haven't seen
15 that Supreme Court ruling.
16 THE COURT: Okay. All right. Go ahead.
17 MR. GRANT: All right. Well, you've asked a lot of
18 interesting questions, and I maybe will get to them as you
19 interrogate me.
20 THE COURT: Well, I want to begin -- I'm sorry, I have
21 to interrupt and ask you.
22 MR. GRANT: Sure. Go ahead.
23 THE COURT: I mean, I just love this, that in your very
24 first brief you say the purpose of Ms. -- of Ms. Hall's motion is
25 to harass your clients and protract this litigation. I got to

1 tell you, I have never seen a plaintiff who wanted to protract
2 litigation. I mean, you know, that sounds like a little -- a
3 little overreaching. Do you really think that she's trying to
4 protract this litigation?
5 MR. GRANT: I think that this motion is not well taken
6 whatsoever, and as a result it is protracting this litigation.
7 For example, we're having trouble just getting Ms. Hall's
8 deposition scheduled for a very practical reason; is Grant taking
9 it or is Mallen taking it? And we don't know if Mallen's in the
10 case or not.
11 THE COURT: Well, that's why you asked for a quick
12 hearing and resolution on this.
13 MR. GRANT: That is correct.
14 THE COURT: And, you know, I mistakenly bought right
15 into it, thinking it wouldn't be that complicated.
16 MR. GRANT: Oh, I don't think it is very complicated,
17 candidly, Your Honor, but, you know, you can tell me if I see it
18 wrong.
19 THE COURT: All right. Go ahead.
20 MR. GRANT: Well, I think the thing that we should
21 start with is some of the bedrock principles that apply here, and
22 those are found in Georgia and they're found in every state in
23 the United States. That is, disqualification of a lawyer is an
24 extraordinary thing to do. That remedy should be used very, very
25 sparingly.

1 THE COURT: That's not what Judge Moye said, is it?
2 MR. GRANT: It's what -- well, every case I've read
3 from the Georgia Court of Appeals and the Georgia Supreme Court
4 and most of the judges in the Northern District say as well.
5 THE COURT: I think Judge Moye's statement was perhaps
6 unique or --
7 MR. GRANT: I believe that's correct. I believe that's
8 definitely correct.
9 In fact, the right to choose counsel -- I won't go so
10 far as to say it's a fundamental right, but it's described as a
11 very important right. And if you want to talk about whether
12 there's prejudice or not, I mean, I think interference with the
13 right to choose counsel alone is prejudice. You can do it, of
14 course. Motions to disqualify are granted from time to time.
15 But there's no need for us to show actual prejudice because
16 you're interfering with the right of Nettles and Bush to choose
17 their lawyer.
18 THE COURT: I agree with that. I think that people
19 should ordinarily have the right to choose -- the right to the
20 lawyer of their choosing.
21 MR. GRANT: I think that -- I think that goes without
22 saying. And what has been glossed over here so far, in my
23 judgment, is both the issue of waiver and the actual law that
24 applies to the scant record that's been established by the
25 movant. That's what I really want to talk about.

1 THE COURT: All right. Let's talk about waiver.
2 MR. GRANT: Okay. So we've got January of '06 and
3 we've got an e-mail from Abdo to my guy, Gilbert, my co-counsel,
4 or Ed Manatt -- he's not counsel of record -- saying I understand
5 you represent the operating entities; not the individuals. The
6 individuals are supposed to have separate counsel. Abdo
7 recognizes what Gilbert's role has been at an entity level. And
8 as we know in Georgia and elsewhere, when you represent an
9 entity, you don't represent the individuals.
10 THE COURT: All right. But how about those letters
11 that your client wrote that said I represent A, B and C?
12 MR. GRANT: We'll come to that. We'll come to that.
13 THE COURT: Okay.
14 MR. GRANT: But what Gilbert's work was focused on was
15 representing the band; not representing any one of those
16 individuals. But you take direction when you represent some
17 animal that's an entity from its constituents.
18 THE COURT: Right.
19 MR. GRANT: Whether it be a CEO or a partner or venture
20 or whatever, it's a legal fiction. You have to take direction
21 from those people. Okay? Point one.
22 So he knew in January, at least perceived, that that
23 was Gilbert's role. And this is January of '06. Okay? This is
24 34 months before this motion is brought, and he doesn't object to
25 what plainly is Gilbert taking adverse positions to his now

1 one-month-old client, Kristen Hall, which we now know through
2 some discovery he started to represent as of the end of November.
3 But what was -- what was Hall's perception? Well, she
4 wrote Gilbert in March. If you're looking in my little book at
5 the Gilbert declaration, Exhibit C, we've got an e-mail from
6 Ms. -- or a letter, actually, from Ms. Hall that says send all my
7 files to Abdo. He's been functioning as my attorney for some
8 time.
9 THE COURT: All right. I can't find the letter -- oh,
10 it's Exhibit --
11 MR. GRANT: C to tab 3.
12 THE COURT: I got you.
13 MR. GRANT: Okay. So that's March of '06. There's no
14 misunderstanding about who is my lawyer on Ms. Hall's part as of
15 that time.
16 THE COURT: Well, why is misunderstanding required?
17 MR. GRANT: There's been an assertion, Your Honor, that
18 Gilbert's kind of still her lawyer, he never formally withdrew.
19 Everybody knew who was representing whom as of this time. And
20 for purposes of waiver, that's important for how long --
21 THE COURT: Well, I think the plaintiff's contention
22 goes beyond that. I think the plaintiff's contention is
23 regardless of -- even assuming that Ms. Hall knew that she was
24 represented by Abdo and the other two were represented by
25 Gilbert, the Plaintiff Ms. Hall is contending that that doesn't

1 matter. Gilbert couldn't do this to me.
2 Is that not what she's saying?
3 MR. GRANT: Yeah.
4 MR. O'NEIL: That's correct, Your Honor.
5 MR. GRANT: That is what she's saying, but that doesn't
6 focus on the point about waiver. She needed to say something
7 about it.
8 THE COURT: Why?
9 MR. GRANT: Because that's what the law requires, Your
10 Honor. She has to object. She has to object --
11 THE COURT: Who's she going to object to; her lawyer?
12 I mean, is she supposed to file a lawsuit to protect her rights?
13 MR. GRANT: Yes.
14 THE COURT: She's supposed to file a State Bar
15 complaint?
16 MR. GRANT: Yeah, absolutely. There's two things she
17 could have done. I do it all the time in my practice. I don't
18 file State Bar complaints all the time, although she could have.
19 In fact, I've never filed a State Bar complaint.
20 THE COURT: They don't know you over there?
21 MR. GRANT: They don't know me over there, never have
22 in 20 years. But she could have done that, of course. But
23 what's a more common thing to do is you say, Gilbert, I object to
24 this. You used to be my lawyer. But you know what, I'm going to
25 give you a limited waiver and you can do this for purposes of

1 settlement, but if we ever get to the point of litigation, you're
2 out.
3 THE COURT: Yeah. But --
4 MR. GRANT: I've done that dozens --
5 THE COURT: -- every case you cited except for the Sims
6 case involved a delay that occurred during litigation. Am I not
7 right?
8 MR. GRANT: You're not right. You're absolutely not
9 right.
10 THE COURT: Which other case?
11 MR. GRANT: The Chemical Waste case. The Chemical
12 Waste case was a huge --
13 THE COURT: That's the Sims case.
14 MR. GRANT: Oh, different one. Okay.
15 THE COURT: I said Sims because it's shorter. But
16 we're talking about a district judge in Illinois in that case,
17 which in that case there was a combination of pre and
18 post-litigation delay.
19 MR. GRANT: Absolutely. Correct. 13 months pre, 6
20 months post.
21 THE COURT: And let me ask you in this case. You know,
22 I'm a little bit taken aback by the defendant's assertion that
23 there is a waiver based -- well, let me just ask it this way. Do
24 you contend that if the only thing we looked at in this case was
25 the post-filing of the lawsuit delay, she would be deemed to have

1 waived the conflict?
2 MR. GRANT: Absolutely, no.
3 THE COURT: Okay. Thank you.
4 MR. GRANT: Absolutely.
5 THE COURT: Okay. So we're talking about whether or
6 not the pre-litigation delay bars her claim. Now, the best
7 you've come up with and I --
8 MR. GRANT: Correct.
9 THE COURT: -- have a sense that you've scoured the
10 earth and you came up with the Sims case, which involved pre and
11 post-litigation delay. Right?
12 MR. GRANT: I haven't scoured the earth, no.
13 THE COURT: But that's the only thing you've found.
14 MR. GRANT: It was a very persuasive case that was very
15 similar to this, so we cited it to you. If you look at the
16 language of the cases we cite, it doesn't talk about just
17 bringing a motion to disqualify. It talks about objecting. And
18 I'm telling you, Your Honor, this --
19 THE COURT: Oh, I don't find an objection --
20 MR. GRANT: Ever.
21 THE COURT: -- during the pretrial proceedings.
22 MR. GRANT: Ever. Not here when she asked for her
23 files. Not in the next exhibit, which is in September of '07
24 when Mr. Abdo writes Mr. Gilbert and says let's resolve these
25 ownership issues. Not in February of '08 when Mr. Abdo writes

1 again to Mr. Gilbert and says we need to resolve these ownership
2 issues. It is front and center on the table. They're writing
3 back and forth. They're taking contrary positions, and never
4 once does her lawyer say and by the way, Gilbert, what in the
5 world are you doing here, buddy? You can't do this.
6 And I can tell you that in the real world, I've done it
7 a zillion times. I have objected, but I've said you know what,
8 I'll give you a limited waiver to talk settlement with me, but if
9 we ever cross over, you're out. And people do that and they sign
10 up those waivers. It's a common practice. I used to be the
11 conflicts lawyer for five years at the firm, and we would do
12 this. And I would counsel my partners about it. That's not
13 unusual. Not in the least.
14 What Abdo and Hall -- Abdo on Hall's behalf should have
15 done in January or March or in any of these circumstances is
16 said, whoa, time out. Gilbert, we think you've got a conflict of
17 interest. I don't think he does. We'll get to that in a second.
18 We think you've got a conflict of interest, and the easy way to
19 resolve this is we'll give you a free pass for now, but we're
20 tabling the issue and we're preserving our objection if we ever
21 actually have to litigate this.
22 THE COURT: Yeah. But is there any law that says
23 that's what you have to do? I recognize -- I agree with you that
24 lawyers do that out of an abundance of caution and they do it to
25 preserve their client's rights. But is there any law that says

1 that you have to do that?
2 MR. GRANT: Yeah. There is law -- there's not law that
3 says you have to use my procedural device. There's law that says
4 you have to object. Absolutely, Your Honor. I have cited it to
5 Your Honor. It's in our papers. It doesn't talk about just
6 filing a motion, it talks about objecting.
7 THE COURT: But just about every case you cite involves
8 post-litigation delay. You haven't cited a case, other than the
9 Sims case.
10 MR. GRANT: Right.
11 THE COURT: And -- that provides that pre-litigation
12 failure to object can be used to bar the waiver issue. And we
13 looked and we couldn't find a case that says that.
14 MR. GRANT: Yeah, we didn't find one in Georgia. We
15 found Sims. I mean, but Sims is a case where substantial
16 relationship was -- wasn't conceded, but it should have been
17 conceded.
18 THE COURT: Well, it clearly was.
19 MR. GRANT: Right. Okay. So the only issue there, and
20 we dispute hotly -- and we'll get to that in a second -- was
21 waiver. Assuming substantial relationship was present, that case
22 nonetheless found a waiver based on 13 months of pre-litigation
23 sitting on your hands and 6 months of post-litigation sitting on
24 your hands. We have got 34 months, 34 months. Or if you want to
25 just take it to the time of the filing of the complaint, if you

1 want, it's about 29 months. It's a long period where they were
2 interacting with Gilbert as adversaries with no objection
3 whatsoever. And we think, Judge, that that plainly shows waiver
4 on these facts. And these facts are undisputed, you know.
5 The Cox case, a failure to make a timely objection may
6 result in a waiver said the Eleventh Circuit. Timely objection.
7 Okay? Where a client has an opportunity to object and does not,
8 waiver.
9 THE COURT: All right. I think that's just going to be
10 an important issue in the case that there's not a whole lot of
11 law on.
12 MR. GRANT: Okay. Now, on substantial relationship,
13 first of all, of course, these folks have the burden of proof.
14 THE COURT: That's right.
15 MR. GRANT: Okay? Not me. They have to show a
16 material and logical connection between the former representation
17 and what's at stake in this lawsuit. Right?
18 THE COURT: That's my understanding of the law.
19 MR. GRANT: Okay. And what they've shown us is in
20 paragraphs 4 and 5 of Hall's affidavit. That's the whole record
21 we got on this. She says, well, there was this Simonton case,
22 which she doesn't tell you anything about. But we attached the
23 complaint to show you what the case was about. And there was
24 this other thing where I had to get -- I had to get title to this
25 song back that he assisted me with. Those are her examples where

she says for sure Gilbert represented me personally, at least with respect to those matters. Right? Paragraphs 4 and 5 of her affidavit.

THE COURT: Right. I remember them well.

MR. GRANT: Okay. Now, Judge Vining says -- well, actually, let me just say this. Let me say it this way. The test has been said to be this in Georgia. The movant must show a specificity, the subject matters of the past and present matters overlap, the issues overlap, and the causes of action overlap. This record --

THE COURT: I'm sorry, Mr. Grant. I'm going to give you a chance to say everything, and I genuinely apologize for interrupting you. I mean, I know I have the right to do that, but I also think it's rude. But I can't help it. I'm looking at this -- so I want to roll you back to the waiver issue for just a moment.

MR. GRANT: Okay. Sure.

THE COURT: I'm looking at this *Carragher vs. Harman* case. I'm sure you're familiar with it.

MR. GRANT: Yeah, I've got it.

THE COURT: And on page 446 of the Southeastern 2d Reporter, the court says, "It would defy logic to find some obligation by Carragher to file a formal motion when the case had been dismissed and before any other case was filed."

Now, that seems to support Ms. Hall's contention that,

1 you know, I didn't have to do anything while the case was pending
2 to avoid waiver of the conflict.
3 MR. GRANT: It was -- I don't have it highlighted,
4 Judge. I have the case right here. I read it recently. My
5 memory is there was an objection before then, though. There was
6 a pre-objection to that, I could have sworn. Yeah. In the
7 interim between the first filing and the dismissal -- look at
8 page 446. Carragher wrote a letter stating his view that Feagin
9 was disqualified from the representation.
10 So the first case was alive for a little bit of time,
11 no motion to disqualify was filed, and there was a gap in
12 between. And during that gap, he said you can't do this and then
13 filed a motion.
14 THE COURT: Right.
15 MR. GRANT: So it's different.
16 THE COURT: Okay. Go ahead, now. Resume you're
17 argument on the substantive issue.
18 MR. GRANT: So what they have to show, it's a
19 three-part test that they have to show. Is with -- specificity,
20 a required showing of specificity, you have to show an overlap of
21 the subject matters, the issues, and the causes of action. What
22 Judge Vining said is a district court must focus on the precise
23 nature of the relationship between the present and former
24 representations.
25 Those former cases were about who owned the rights to

1 songs, did you have a one-third interest or a half interest or a
2 hundred percent interest in the song.
3 THE COURT: Well, I think that your adversary has
4 conceded that --
5 MR. GRANT: Not at issue here.
6 THE COURT: Right.
7 MR. GRANT: It's just not at issue. So the substantial
8 relationship test is not implicated at all.
9 THE COURT: Well, talk about --
10 MR. GRANT: Not --
11 THE COURT: Well, talk about Yerby.
12 MR. GRANT: Yerby?
13 THE COURT: *Crawford Long Hospital vs. Yerby*.
14 MR. GRANT: Did we cite it? Is that something you
15 found?
16 THE COURT: Surely you know about it.
17 MR. GRANT: Pardon me?
18 THE COURT: Surely you know about it.
19 MR. GRANT: Help me.
20 THE COURT: Okay. It's the case where the lawyer
21 worked for Crawford Long Hospital and he defended the hospital in
22 18 malpractice actions.
23 MR. GRANT: Okay.
24 THE COURT: Towards the end of his employment for the
25 hospital, someone named Yerby who was a patient in the hospital

1 died.
2 MR. GRANT: Okay.
3 THE COURT: The lawyer left the hospital and
4 subsequently was retained by Yerby's estate to represent the
5 estate in a malpractice wrongful death claim against the
6 hospital.
7 MR. GRANT: Uh-huh.
8 THE COURT: The court -- the trial court and the Court
9 of Appeals said there's no problem with that because there's no
10 substantial relationship between the Yerby litigation and the 18
11 cases in which the lawyer had defended the hospital.
12 And the Supreme Court took a very different view of it
13 and said, look, you represented the hospital and you -- on
14 everything, including malpractice cases, and therefore you know
15 the ins and outs of how the hospital works and all that. And
16 it's at the very least unseemly for you to come along now and sue
17 the hospital on behalf of the victim of -- the alleged victim of
18 medical malpractice. The court said, "The circumstance of
19 representing a client against a former client in an action that
20 is of the same general subject matter and grows out of an event
21 that occurred during the time of such representation creates an
22 impermissible appearance of impropriety."
23 And as you heard Mr. O'Neil say, that's the problem is
24 there's an appearance of impropriety when a guy who drafts a
25 contract for three people and the contract says that they are

1 individually and collectively obligated to MCA, when this guy,
2 he's their general counsel in essence for three years, regardless
3 of how many specific communications he had with any of the
4 members as opposed to a conversation or conversations with the
5 band's manager Ms. Gellman, this fellow says I now am going to
6 represent two of the partners against one of them. And what
7 we're talking about, the representation arising from, is an event
8 that occurred when I was representing all three and when I was
9 representing the band, which was her alleged voluntary withdrawal
10 from the partnership.
11 You'd have to concede that -- I mean, your position is
12 that she withdraw on December 19th, the day before Mr. Gilbert's
13 letter; right?
14 MR. GRANT: The evidence in the case will show that she
15 withdrew on multiple occasions over years of performing, but that
16 it really came to --
17 THE COURT: Well, that evidence has not been adduced so
18 far.
19 MR. GRANT: I understand. I'm answering your question.
20 There's lots of things that have been talked about this morning
21 that aren't in the record so far from Mr. O'Neil. What the
22 evidence is going to show is it really got to have a head of
23 steam at the end of November of '05 and culminated on December
24 19th. That three weeks is going to be the critical period. But
25 you're right.

1 THE COURT: Well, and during that three week period,
2 there's no question about the fact that Mr. Gilbert represented
3 the entire band; right?
4 MR. GRANT: He did represent the band during that
5 period.
6 THE COURT: So this event which he's centrally involved
7 in, the culmination --
8 MR. GRANT: Why is he centrally involved?
9 THE COURT: Because even using your own
10 characterization, this is the culmination, the steam rising, of
11 the event -- of this brouha that they had apparently had that you
12 claim extended over months and was just the finality of a series
13 of -- with -- of tentative withdrawals on her part, he's right in
14 the middle of it. Right at that time he says -- he says the day
15 after you contend it happened -- December 20th is the day he
16 writes the letter. December 19th according to Gellman's
17 affidavit is the date that Ms. Hall told Ms. Gellman and the
18 defendants how -- it doesn't say how she knows that, but in any
19 event her affidavit says: Ms. Hall told me on December 19th that
20 she's out of here once and for all.
21 At that time it's undisputed that this lawyer, Mr.
22 Gilbert, represents the whole band. Okay? The next day he
23 writes a letter -- I mean, I can't believe that there's not going
24 to be some testimony from him, some inquiry as to what he did,
25 what conversations he had with Ms. Hall, if any, what

1 communications he had with -- okay. You're indicating for the
2 record's sake that with -- by putting your thumb and index finger
3 together that he had zero communication.
4 MR. GRANT: With Ms. Hall, yeah.
5 THE COURT: With Ms. Hall.
6 MR. GRANT: She said so.
7 THE COURT: Okay. So he has no communications, and
8 then he drops her like a hot potato without telling her that, by
9 the way, you may want to get another lawyer.
10 MR. GRANT: He knew she had another lawyer, Your Honor.
11 She'd already gotten one and he --
12 THE COURT: He knew that?
13 MR. GRANT: -- had been told that. Yeah, Gail Gellman
14 told him that. It's in his letter. I understand --
15 THE COURT: All right. Well, it's -- okay.
16 MR. GRANT: Yeah, it's in his letter. I understand --
17 THE COURT: The reason I was so surprised as I just
18 evinced with my question is that I had understood briefly that
19 this was a recent disclosure, that as of November 29th, Ms. --
20 Mr. Abdo represented Ms. Hall.
21 MR. GRANT: The precise timing was new to us. But in
22 the Leaving Member Notice, you can tell that it was already known
23 by Gilbert that at some point Abdo had entered the fray. Whether
24 it was two days ago or three weeks ago, we didn't know, but --
25 THE COURT: Okay. But what does the fact that she's

1 got another lawyer have to do with what duties Gilbert has to
2 her?
3 MR. GRANT: Okay. I think we're conflating a bunch of
4 different issues here, Your Honor.
5 THE COURT: Okay. She gets another lawyer. Can't she
6 have two lawyers?
7 MR. GRANT: Of course.
8 THE COURT: Okay.
9 MR. GRANT: Of course.
10 THE COURT: So why does the fact that she was
11 represented by Abdo at the time on December 19th mean that
12 Gilbert no longer owes her a duty of loyalty?
13 MR. GRANT: Because for this purpose, they discussed
14 having their own separate counsel each for this breakup purpose.
15 That's reflected in Abdo's e-mail.
16 THE COURT: And he's going to have to testify about
17 some of that, isn't he?
18 MR. GRANT: If he -- if there's anything for him to
19 talk about, yeah. But I'm telling you, what the evidence is
20 going to show is that in the -- the lead-up to December 20th, he
21 didn't speak to Ms. Hall. He was told she left. He wrote --
22 THE COURT: Which I find dumbfounding.
23 MR. GRANT: Well, we're not here for a malpractice
24 case. I mean, whether he did or not --
25 THE COURT: I know. But we're here to talk about the

1 duties a lawyer has to a client.
2 MR. GRANT: There's a difference between the standard
3 of care duties a lawyer has to his client and --
4 THE COURT: I'm not talking about malpractice.
5 MR. GRANT: -- ethical duties.
6 THE COURT: I'm confining my comments to the duties
7 under the professional rules. And those duties include a duty of
8 candor --
9 MR. GRANT: Right.
10 THE COURT: -- a duty of loyalty, which is --
11 encompassed within the duty of loyalty, the duty of candor. I
12 mean, I just find it hard to understand how he would write this
13 letter allegedly on behalf of his two remaining clients and not
14 on her behalf -- that's his position -- even though the contract
15 that he negotiated obligates all three of them individually.
16 He's written letters saying I represent all three individually.
17 I mean, I know I'm rambling, but I'm just thinking out loud for
18 you. I'm not really giving you a question. Let me give you a
19 question.
20 MR. GRANT: All right.
21 THE COURT: Isn't the issue whether or not Ms. Hall had
22 a subjective expectation that he represented her?
23 MR. GRANT: Whether or not she's his client?
24 THE COURT: Yes.
25 MR. GRANT: Yes.

1 THE COURT: Okay. Why can it not -- why is the
2 conclusion not compelled that she in fact had a subjective
3 expectation that Gilbert represented her and that that
4 expectation was reasonable as of December 19, 2005, when she
5 allegedly voluntarily withdrew from the band?
6 MR. GRANT: Even if she was his client then, that's
7 only one part of what we're here to talk about. We know he
8 stopped representing her at least by March of '06. So once she's
9 a former client, if she -- if he dropped the ball with respect to
10 its merits, substantive duties to her on representing her,
11 advising her on the consequence of this notice, all that, that's
12 a different issue than -- even if she was his client then, she
13 was no longer his client at the very latest by March, we say by
14 January, you then say: Is what he did before substantially
15 related to what's at issue here? That's all the inquiry's about.
16 And is what he did before tied to what is at stake here? And
17 what's at stake here --
18 THE COURT: Okay. What's at stake here --
19 MR. GRANT: Okay. Let's talk about that.
20 THE COURT: -- is the -- what's at stake here is the
21 dissolution of this partnership. Let me ask you first: Is this
22 a partnership? I can't wait to hear the answer to this.
23 MR. GRANT: I thought that might be where we would
24 start.
25 THE COURT: You're afraid that might come up and maybe

1 even as my first question.
2 MR. GRANT: No, I thought that's where you might start.
3 I'm going to be a lawyer, if you'll indulge me for a second.
4 THE COURT: Oh, no. Oh, no. This is why people hate
5 lawyers, the duplicity that -- the lack of a straight answer.
6 MR. GRANT: You're going to appreciate my answer, I
7 think. This may well be a partnership.
8 THE COURT: All right. I want you to tell me, Mr.
9 Grant, what else might it be? I told you I thought of two
10 things.
11 MR. GRANT: Okay.
12 THE COURT: Joint venture and partnership. Now, can
13 you tell me, just a straight answer, what's the third
14 possibility?
15 MR. GRANT: It could be a corporation. There were
16 corporations that preceded this time period. Sugarland Music,
17 Inc., and Sugar Rush, Inc. And Georgia law says that even if you
18 once had a partnership, if you transfer the business of a
19 partnership to a corporation, the partnership terminates as a
20 matter of law. That's one thing that could happen. We don't
21 know whether or not that's the actual case. We're investigating
22 it, but that's a distinct possibility. It could be just a good
23 old general partnership.
24 It could be an unincorporated association. Georgia law
25 recognizes that, too, as do the ethical rules. So -- but for the

1 sake of argument, let's call it a partnership.
2 THE COURT: Well, we need to, because the record should
3 reflect that the Court finds as a matter of law and fact based on
4 the record to this point that the three parties had an oral
5 implied partnership.
6 MR. GRANT: Okay. Is that a ruling on partial summary
7 judgment?
8 THE COURT: That's a ruling based on the record before
9 me. And I'm making this decision on the motion presently before
10 the Court based on the record before me. I'm not at all saying
11 that you may not adduce --
12 MR. GRANT: Additional --
13 THE COURT: -- evidence that would counter that
14 finding.
15 MR. GRANT: Fine.
16 THE COURT: No, you're not bound by that finding.
17 You're bound by that finding today for purposes of this motion,
18 but not for purposes of judgment in the case.
19 MR. GRANT: So let's say it was a partnership.
20 THE COURT: All right. That's what I just said.
21 MR. GRANT: What's the law say? The law says that when
22 a partner withdraws, it's dissolved; right?
23 THE COURT: That's right.
24 MR. GRANT: And then you go into a period of winding
25 up, perhaps. But if the withdrawing partner consents to

1 continuation, that can also happen. Okay?
2 THE COURT: Consents to continuation of the
3 partnership?
4 MR. GRANT: Of the business as a new partnership. She
5 can do that. She can consent to that. That's Section --
6 THE COURT: Right. But it's a new partnership.
7 MR. GRANT: Yeah. Right.
8 THE COURT: That's exactly what I think happened is
9 that when she withdrew, as you contend, and I think that
10 obviously at a certain point it's undisputed. Okay? It's
11 obvious. Okay? She withdrew. All right? And at that point a
12 new partnership was formed between the two remaining members. I
13 think that's what the -- that's my finding of fact based on the
14 record so far before the Court. And, again, you can counter that
15 after this motion is resolved.
16 MR. GRANT: Sure.
17 THE COURT: But -- so we got a new partnership --
18 MR. GRANT: We understand that --
19 THE COURT: -- with the two members.
20 MR. GRANT: We understand that law.
21 THE COURT: Okay.
22 MR. GRANT: What the law also says is that in a -- a
23 partnership that is based exclusively -- yeah, entirely if not
24 exclusively on personal services, which is what this is --
25 THE COURT: That's correct.

1 MR. GRANT: -- that she's not necessarily entitled to a
2 lick of the profits going forward, that what she would get at
3 most is a third on December 20th of the value.
4 THE COURT: Right.
5 MR. GRANT: Okay?
6 THE COURT: Possibly --
7 MR. GRANT: Possibly.
8 THE COURT: -- that's right.
9 MR. GRANT: Okay. Now, what's the value we have here?
10 We have a name. We had a name, by the way, which Gilbert and
11 company had nothing to do with. That name was created long
12 before --
13 THE COURT: By another law firm that represented all
14 three of the individual parties in the case.
15 MR. GRANT: I don't know the facts to go with you on
16 that. One way or the other.
17 THE COURT: Well, once again, that's another finding I
18 make.
19 MR. GRANT: But what we do know is that law -- that
20 name was conceived not by Ms. Hall. We'll prove it. But anyway,
21 it was conceived.
22 THE COURT: Well, she contends that it was.
23 MR. GRANT: I understand.
24 THE COURT: She contends lots of things that you don't
25 agree with.

1 MR. GRANT: I understand. I'm not so worried about
2 that. But anyway, it was conceived. We know that. I won't
3 attribute it to anybody.
4 THE COURT: All right.
5 MR. GRANT: Long before Hall -- excuse me, Gilbert's on
6 the scene. And, in fact, the federal registration was sought
7 long before Gilbert was on the scene. It was sought in September
8 of '02, almost a year before Gilbert was on the scene. So, you
9 know, the rights and what happened to the name and all that,
10 Gilbert doesn't know anything about that.
11 THE COURT: All right. But those are the nascent
12 issue -- facts regarding the formation of the partnership.
13 MR. GRANT: Yeah. Well, if we're going to talk about
14 it --
15 THE COURT: But do you not agree that the central fact
16 regarding legal representation or the central event was the
17 negotiation of the contract with MCA, but for which these people
18 would not have any money in their partnership, or maybe they
19 could have gotten another partnership -- I mean, another contract
20 with another recording label. But the big issue or the big --
21 the big event is the negotiation and execution of this contract.
22 MR. GRANT: No, I don't agree with that.
23 THE COURT: Why not?
24 MR. GRANT: That's not what's at the heart of this
25 dispute.

1 THE COURT: Oh, I didn't say it was the heart of this
2 dispute. I said --
3 MR. GRANT: Okay.
4 THE COURT: -- the central legal event, it's the most
5 important act involving lawyers in this case. I mean, at
6 least -- at least it's as important -- I mean, you could argue
7 technically or theoretically that the filing of a application
8 with the USPTO was equally essential. But once they got the
9 preliminaries taken care of, the legal niceties, the dotting of
10 the i's, the crossing of the t's, after that point, the big
11 event, the big gorilla is getting the contract with MCA.
12 MR. GRANT: It's important for sure in the life of this
13 band. I don't know why it's got any relevance to either this
14 motion or what's at stake vis-a-vis what, if any, monies we owe
15 her post-'05.
16 THE COURT: The reason it's relevant is because the
17 contract explicitly obligates each of the individual band members
18 and the band itself as the individual -- as the members
19 collectively. And Mr. Gilbert manifestly represented all three
20 of them on a number of matters and was general -- or on a few
21 matters and was general counsel, in essence, for the partnership.
22 MR. GRANT: Let me see if we agree. What you're
23 telling me is that evidence in your mind is saying that they were
24 his clients individually.
25 THE COURT: Absolutely.

1 MR. GRANT: Okay. That is only one part of this test.
2 THE COURT: Okay.
3 MR. GRANT: Okay? I'm still having trouble seeing how
4 his work for that is substantially related to what's at stake
5 here.
6 THE COURT: It doesn't have to be substantially related
7 under the *Crawford Long vs. Yerby* case.
8 MR. GRANT: It has to be substantially related under
9 the Jackson case that Judge Vining says.
10 THE COURT: What does he know?
11 MR. GRANT: I'll tell him you said that.
12 THE COURT: Please don't.
13 MR. GRANT: You know, merely pointing to a superficial
14 resemblance between the present and prior representations does
15 not substitute for the careful comparison demanded. You've got
16 to look at what's at stake in the prior --
17 THE COURT: And there's nothing more at stake --
18 MR. GRANT: -- compared to the present.
19 THE COURT: -- than the dissolution of the partnership
20 and your client -- or Mr. Gilbert was intimately involved in
21 that. He's the guy that wrote the letter effecting the act of
22 dissolution.
23 MR. GRANT: No, sir. Your Honor, she withdrew.
24 THE COURT: Right. But it --
25 MR. GRANT: That caused dissolution.

1 THE COURT: Okay. I understand that. But in terms of
2 dealing with third parties, he's the one that wrote that
3 communication that had the practical effect, the effect that
4 mattered, the effect that terminated Ms. Hall from the contract
5 with MCA.
6 MR. GRANT: No. No. That's not correct. What it says
7 is when a member ceases to perform, send a notice. That's when
8 she --
9 THE COURT: And who has to send the notice?
10 MR. GRANT: Anybody can send the notice.
11 THE COURT: No. The contract says you shall send the
12 notice. Okay? And "you" is defined as all three individuals and
13 the band collectively.
14 MR. GRANT: Right.
15 THE COURT: So he writes a letter to MCA and he doesn't
16 say I represent these two or I represent the band. He just sends
17 a letter that says Ms. Hall is out of the group.
18 MR. GRANT: No, Your Honor. Gail Gellman could have
19 written that letter on her behalf. It doesn't have to be a
20 lawyer.
21 THE COURT: You're right. But he did write it.
22 MR. GRANT: Right. But that's not -- that misses the
23 point, I would submit to you, Your Honor. She withdrew. That's
24 the fact. For partnership law, that's what matters. Whether
25 that letter was written or not, the partnership dissolved. That

1 contract has no impact on whether her withdrawal caused a
2 dissolution of this partnership.
3 THE COURT: But it has a lot of impact on determining
4 the issue of who he represented --
5 MR. GRANT: Right.
6 THE COURT: -- because he represented all three of
7 them.
8 MR. GRANT: Okay. We have talked about that a few
9 times now, and I hear you on that, Your Honor. And I'm telling
10 you that even if he did, it doesn't matter. Even if he did,
11 there's a second part of that test. And the other thing that we
12 talked about -- you talked about with Mr. O'Neil --
13 THE COURT: Well, I'm stuck on this test, and I'll tell
14 you why. He wants to come in here and testify as to what
15 happened. Okay? And, I mean, that is -- you don't think the
16 jury's eyes are going to be locked on him to hear what happened?
17 I mean, the central -- you know, you yourself have said that
18 there are a number of ways that one could possibly interpret the
19 termination of this business arrangement. Well, he's going to
20 testify as to how the relationship -- he's going to testify that
21 she was a departing member under the agreement and that he
22 carried that out by writing this letter. Not carried it out, not
23 put it into effect, but without telling her that -- okay. He
24 didn't tell her to get other advice; right?
25 MR. GRANT: She already had a lawyer. He didn't need

1 to.
2 THE COURT: Why does that absolve him or relieve him of
3 the duty to inform her that his -- that her -- their two
4 interests are adverse? How can he presume anything about the
5 relationship or the communications between Ms. Hall and her
6 lawyer? How can he say, well, she's got another lawyer now, so I
7 don't have to tell her that I'm going to drop her like a hot
8 potato and I'm going to go represent her two partners?
9 MR. GRANT: Your Honor, the reason she had another
10 lawyer was to get independent legal advice. That's the whole
11 idea.
12 THE COURT: On what scope? How do you know that? I
13 mean, obviously it was to get some independent legal advice on
14 something, but how do we know the scope of it? We don't know the
15 scope of it. We don't know that it was necessarily to be adverse
16 to her two partners. It may have been just to find out what
17 rights do I have under my -- under this existing arrangement I
18 have. You can't presume that she was adverse to the other two
19 partners at the time the partnership was still in effect, even if
20 she went and got a lawyer.
21 MR. GRANT: You can't presume she was adverse to the
22 other two partners at the time --
23 THE COURT: How can you presume that?
24 MR. GRANT: I presume that when someone has an
25 intra-partnership dispute and hires their own lawyer, they're

1 doing so because they know their interests are adverse to the
2 stakeholders. That's why you do that. That's the only reason
3 you do that.
4 THE COURT: Oh, I don't agree. I mean, why couldn't
5 she go to a lawyer and say, Mr. Abdo, I'm a member of a de facto
6 partnership. I'm sure those were the words she'd use.
7 MR. GRANT: Maybe it's a real partnership, whatever.
8 THE COURT: And I just want to know as a matter of law,
9 what are my rights right now as a member of the partnership? She
10 doesn't have to say, and by the way, I can't stand the other two
11 people that I've been singing music with for two or three years
12 and I want to cut their throats from ear to ear and I've got a
13 dispute with them. Why can't she just go to a lawyer for some
14 counsel as to what her rights are? Why can we -- why must we
15 presume that his representation of her prior to December 19,
16 25 -- 19 of 2005 was necessarily adverse?
17 MR. GRANT: Because that's what the state of mind was
18 as evidenced by this record. Beyond, I think it's the only thing
19 you can infer from that fact. Only thing you can infer from that
20 fact, but --
21 THE COURT: Okay. Answer this, Mr. Grant. Why is
22 that? Why is it that that's the only conclusion that this
23 evidence compels? I mean, you tell me you're a lawyer at Alston
24 & Bird and you want to withdraw from the partnership.
25 MR. GRANT: Yeah. Get my own lawyer.

1 THE COURT: Okay. Right. And so you go get your own
2 lawyer just to say, you know, look at this partnership agreement
3 for me, and just tell me, what do you think? I've got a question
4 about this issue. What do you think this entitles me to?
5 MR. GRANT: Right.
6 THE COURT: Okay. Do you think that that automatically
7 means that at that point you are adverse to Alston & Bird?
8 MR. GRANT: Yes, absolutely. I have hired -- when you
9 ask the question what does this entitle me to, you're saying
10 review this agreement, this partnership agreement, and tell me
11 what my rights and obligations are vis-a-vis Alston & Bird. That
12 is adversity. That is adversity under the law.
13 THE COURT: Okay.
14 MR. GRANT: And Abdo recognized that just 11 days later
15 when he said: The members agree that each was to secure
16 independent counsel, as you represent the operating entities, and
17 move forward to work your business, legal and logistical matters.
18 That was the point. That's the end of -- the first paragraph of
19 that e-mail on January 4th, '06. The members agree that each was
20 to secure independent counsel, as you represent the operating
21 entities, and move forward to work through business, legal and
22 logistical matters.
23 You know, on December 20th, Gary said: Kristen, Gail
24 has told me you've retained your own counsel, Ken Abdo. If Ken
25 has any questions, please have him give me a call.

1 If I were in those shoes, Your Honor, I would be
2 thinking she's got her own independent counsel to counsel her on
3 what her rights and obligations are going forward. That's
4 what --
5 THE COURT: Key words "going forward."
6 MR. GRANT: Right.
7 THE COURT: After December 20, on which date this
8 lawyer, Mr. Gilbert, undeniably represented the partnership.
9 MR. GRANT: Right. I didn't mean to limit it to the --
10 the future only. Why wouldn't he also advise her with respect to
11 the past? I mean, that wasn't an intentional statement on my
12 part. She's got independent counsel. That's the point. That is
13 the point of hiring Mr. Abdo in these circumstances. And if I
14 were leaving Alston & Bird and I went to hire, you know, I don't
15 know who, whoever does law firm departure disputes in town.
16 THE COURT: Schreeder, Wheeler & Flint.
17 MR. GRANT: Well, Alex Simmons, for example, although
18 he's not there as we all know, you know. And said Alex --
19 THE COURT: By the way, did he jump or was he pushed?
20 MR. GRANT: Yeah. Exactly. You know, Alex, what are
21 my rights here, that would be the point of me hiring Alex.
22 That's why I would do it. That's the only reason I would do it.
23 So I don't -- I fundamentally don't understand. I
24 mean, there's been this lurking suggestion when I talked to Barry
25 O'Neil, we got too many Barrys in this case, that, you know,

1 Gilbert dropped the ball and maybe there's a malpractice claim.
2 Well, okay, whatever. But that's not what we're here for.
3 That's got nothing to do with this issue before the Court.
4 THE COURT: Oh, I don't see any malpractice. Maybe
5 there's another claim lurking out there.
6 MR. GRANT: Oh, no. It's not here. Not here.
7 So it doesn't -- it doesn't matter. And I want to go
8 back to Gilbert did not cause the dissolution.
9 THE COURT: I understand that.
10 MR. GRANT: The MCA contract didn't even need to exist.
11 THE COURT: I'm presuming for purposes of this motion
12 that she withdrew on -- I believe the evidence in the record
13 right now shows by a preponderance that Ms. Hall withdrew
14 voluntarily on December 19, 2005, and that Mr. Gilbert's act of
15 sending a letter to MCA the next day did not constitute the
16 termination of the partnership. I understand that. I understand
17 that's your contention and I agree with that.
18 MR. GRANT: Right. Right.
19 THE COURT: The problem for you is that on December
20 19th and December 20th, the Court is inclined to find that he in
21 fact still represented both of them. And I also find that at
22 that time that was very important. It was very important at that
23 time that he's representing both -- both her individually and the
24 other two individuals of the band and the entire group
25 collectively.

1 MR. GRANT: Okay.
2 THE COURT: Even if she's talked to Mr. Abdo about
3 whatever she's talked to him about. Even if one were to presume
4 that she's talked to him about possible disputes that might arise
5 with respect to the termination of her interests in the band.
6 Mr. Gilbert at that time, nonetheless, represented her.
7 MR. GRANT: Let's assume that since you're telling me
8 you believe that's what the record shows. That doesn't get them
9 past the second hurdle of what they've got to show under the
10 Northern District cases we cited to you. They've got to show
11 that this Simonton litigation matters here. It doesn't. They
12 have to show that getting the copyright to that one song where
13 somebody signed a title document transferring it over to her
14 matters here. It doesn't.
15 It's got nothing to do with what is going to be largely
16 an accounting exercise of money here and whether she's entitled
17 to a third of everything they've made, she's entitled to a third
18 of zero, what value the name Sugarland has contributed to their
19 success or not. That's what this is about. And what he did for
20 her in the past, to the extent he did anything for her in the
21 past, it didn't relate to any of that. And what -- he knows
22 nothing -- you're very perceptive. You read this stuff. The
23 reason it's all this she said, he said, she said is that Gilbert
24 has no personal knowledge of any of this. There is not going to
25 be a competent witness on what was going on in November and

1 December of 2005 about the departure.
2 THE COURT: All right. Let me ask you this. Let's
3 suppose that she had not consulted Mr. Gilbert -- I mean, Mr.
4 Abdo --
5 MR. GRANT: Yes.
6 THE COURT: -- until January of 2006.
7 MR. GRANT: Okay.
8 THE COURT: Would you not concede that if that were the
9 case, she would have had a reasonable expectation subjectively
10 that she was represented by Mr. Gilbert?
11 MR. GRANT: She could have tried to prove that. I will
12 tell you this record doesn't bear that out.
13 THE COURT: Okay. Let me also ask you. Do you concede
14 that if Mr. Gilbert is disqualified, then Mr. Manatt and the law
15 firm are?
16 MR. GRANT: You know, I'm not so sure about that.
17 THE COURT: It's a pretty tenuous connection, but I
18 think the rules stick it -- I think the rules --
19 MR. GRANT: No. Here's why.
20 THE COURT: How do you get saved from that conclusion?
21 MR. GRANT: Here's why. I don't think Gilbert is
22 disqualified.
23 THE COURT: Really?
24 MR. GRANT: I really mean that. Mr. O'Neil has
25 conceded, Your Honor pointed it out, Judge Vining's talked about

1 it, it's talked about in lots of cases, that in this
2 circumstance -- well, let me take it a step back. The purpose of
3 the rule, one of the big purposes of the rule is so that Gilbert
4 or whoever's in Gilbert's position doesn't intentionally or
5 inadvertently disclose secrets to his now client that he gained
6 from his former client. That's one thing that the rule wants to
7 prevent.
8 THE COURT: And another thing it wants to prevent is
9 the appearance of impropriety.
10 MR. GRANT: I understand. But let me talk about this
11 one step at a time.
12 THE COURT: Okay.
13 MR. GRANT: We know, given this circumstance, sharing
14 was allowed, and so there is no breach of that confidence that's
15 a risk. I'm not benefitting from some knowledge I shouldn't
16 otherwise be getting, whether it's intentionally disclosed or
17 inadvertently disclosed. Not going to happen here, which is the
18 normal and most important issue you find in a successive
19 representation conflict.
20 THE COURT: Yeah. I think the cases are in conflict in
21 that some of them seem to suggest that the movant must prove
22 harm.
23 MR. GRANT: Correct. And then some have the
24 irrebuttable presumption.
25 THE COURT: Right.

1 MR. GRANT: And they're hard to reconcile. I would
2 agree with that. But what we do know as a matter of fact is that
3 there's no breach of confidence issue presented given these
4 facts. Okay?
5 THE COURT: Yeah. The plaintiff has conceded that.
6 MR. GRANT: Conceded that. Right.
7 The concept of imputation is a knowledge concept. You
8 don't have that concept of -- I was thinking about this. This
9 actually came to me as I was sitting at the table.
10 THE COURT: They usually come to me in the shower.
11 MR. GRANT: Yeah. Imputation is a knowledge concept.
12 Knowledge is worrisome when you talk about confidences, but not
13 loyalty. Imputation of loyalty?
14 THE COURT: Oh, I think so.
15 MR. GRANT: I don't think so.
16 THE COURT: But you don't have a case that says that.
17 MR. GRANT: Oh, but I will go find you one. I'll go
18 find you one, because it did --
19 THE COURT: I think it may be too late, because I'm
20 going to rule this morning. I tell you as a lawyer I wanted the
21 judge to just rule.
22 MR. GRANT: Well, I understand.
23 THE COURT: Okay. And I've done plenty of work on it
24 and I'm not going -- it's not going to be three months from now
25 and you get an order.

1 MR. GRANT: Good.
2 THE COURT: We're going to find out in about 10
3 minutes.
4 MR. GRANT: But the knowledge doesn't -- isn't the
5 problem here.
6 THE COURT: Okay.
7 MR. GRANT: Only the supposed purported worry that
8 there's a breach of loyalty and therefore it's got, as you said,
9 the stink factor.
10 THE COURT: Right.
11 MR. GRANT: Okay? The premise for the stink factor is
12 an assumption of the centrality of Gilbert as a witness. And
13 that is a false presumption. That is a false presumption. We
14 don't dispute he sent the leaving member notice. We'll stipulate
15 to it. I mean, what do we need Gilbert for that he is competent
16 to testify that's not rank hearsay? The things that happened in
17 '05 are rank hearsay. The contract with MCA says what it says to
18 the extent it's relevant at all.
19 THE COURT: Okay. But in the Yerby case, there was no
20 suggestion that the lawyer for Yerby was going to testify.
21 MR. GRANT: In the Jackson case --
22 THE COURT: Wait a minute. What's the answer to the
23 Yerby case?
24 MR. GRANT: The answer to the Yerby case is you've got
25 a guy who did apparently 19 or 20 malpractice claims.

1 THE COURT: 18 exactly.
2 MR. GRANT: 18 for Crawford Long, and as a result of
3 his just being entrenched at the hospital and presuming that he
4 knows about the policies and procedures and all the stuff that
5 you worry about in a medical malpractice case, he can turn
6 around, serve the right document requests, ask the right requests
7 for admissions, he knows who the witnesses are. He can trade off
8 of all of that.
9 THE COURT: Why can't Mr. Gilbert do the same in this
10 case? Why can't he tell Mr. Mallen everything he learned about
11 the band and here's the way we need to go about attacking Ms.
12 Hall?
13 MR. GRANT: That's -- that's not -- we don't already
14 know because of the privilege isn't there? There's nothing.
15 There's nothing there. In Yerby you don't have this shared
16 privilege issue. This fellow owed a duty of confidence to
17 Crawford Long and he ran afoul of that when he represented the
18 estate of Yerby.
19 THE COURT: No, he owed a duty --
20 MR. GRANT: Sure.
21 THE COURT: No. The case says he owed a duty of
22 loyalty, not a duty of confidence. He obviously had a duty of
23 confidence. But the Supreme Court's reason for debarring the
24 lawyer from representing Crawford Long was that he owed a duty of
25 loyalty to Crawford Long.

1 MR. GRANT: That doesn't make any sense to me. It
2 doesn't make any sense to me because --
3 THE COURT: Oh, I'm not going to overrule the Georgia
4 Supreme Court.
5 MR. GRANT: I understand. But my simple point on that,
6 Your Honor, is what you do know for sure is that Yerby -- I guess
7 Yerby -- no, that was the estate problem. Smith the lawyer,
8 whatever his name was, owed a duty of confidence to Crawford Long
9 and he switched sides and started representing the estate of
10 Yerby and could trade off of that confidential information.
11 THE COURT: His name was Bennett.
12 MR. GRANT: Thanks.
13 THE COURT: It makes a difference.
14 MR. GRANT: He could trade off that confidential
15 information.
16 You know, in this Jackson case, it's interesting
17 because it's about the same. I don't know how closely you
18 studied this one Judge Vining wrote. He had a guy who
19 represented GM in a products case. Okay? And he represented
20 them in five or six products cases. And then he joined a law
21 firm where they were suing General Motors in a products case.
22 And what Judge Vining says is I want to know what was at stake in
23 those products cases. Was it a seatbelt case, was it a brake
24 case, was it a whatever case, because in the present action it
25 was about a battery.

1 THE COURT: And GM is the largest corporation in the
2 United States as of the time of that case?
3 MR. GRANT: I'm not sure why that matters.
4 THE COURT: Well, because we've got three people here
5 which presumably is a much more intimate arrangement, much more
6 easy to open up the interactions among the clients, the nature of
7 their relationship, the -- all of that than a matter involving
8 GM.
9 The noise you're hearing is from a presumably
10 disgruntled criminal defendant who's about to come up here.
11 MR. GRANT: Understood. I suspected.
12 THE COURT: I just want you to know why people are
13 hollering in the next room.
14 MR. GRANT: I suspected that was the case.
15 Judge Vining said in that case you worked on seatbelt
16 cases, you worked on one battery case, two. So he was on the
17 same subject. But in the one battery case you worked on, your
18 sole defense was it wasn't our battery.
19 THE COURT: Right.
20 MR. GRANT: It didn't go to the merits. And so it's
21 still not close enough.
22 THE COURT: Got you.
23 MR. GRANT: Still not close enough. He inspected what
24 the cases were about in the former representation. He compared
25 them to the present representation, which is what you do, you

1 have to do under the substantial relationship test. Found them
2 not substantially related and said you haven't proven what you
3 need to prove.
4 A burden is on the plaintiff to show that. And the
5 plaintiff hasn't done that -- the movant, the plaintiff movant
6 hasn't done that here. This record is just too thin to show a
7 relationship between Simonton or the copyright transfer or
8 anything else with respect to what is at stake here. That is,
9 whether or not she's entitled to a third of our profits going
10 forward, what they are? And those are just business issues.
11 Where is the money coming from? How much money did you make on
12 the road? How much money did you make writing songs?
13 THE COURT: Why can't Jim Grant handle all that?
14 MR. GRANT: There are -- you know, it's funny you say
15 that. It -- you know, my -- I was, you know, dissed in that --
16 THE COURT: Yeah, I was going to say. How offended
17 were you?
18 MR. GRANT: But, you know, there are things that are
19 going to be helpful to me to understand. There are things like
20 what's a mechanical royalty and what -- how does the money flow?
21 I'm still not sure I know what that means. It has something to
22 do with pressing a record in the olden days. How is an agent
23 paid versus a --
24 THE COURT: It doesn't seem to me that pressing a
25 record is an issue in this case or how it's pressed.

1 MR. GRANT: No, I understand. But my point is the
2 money flows for different reasons in this world. You get money
3 from ASCAP for writing. You get money from MCA for record sales.
4 You get money from whoever the heck pays you when you play at
5 Chastain. You know, I get it at this level. I don't know it at
6 the intricate level. That's not something that I'm getting help
7 from Gilbert that's special to Sugarland on. That's just --
8 THE COURT: You strike me as a lawyer who pursues these
9 unknown areas with alacrity.
10 MR. GRANT: Well, I like to think so, but I don't mind
11 the help. Let me say that.
12 THE COURT: All right. Okay.
13 MR. GRANT: I don't mind the help.
14 THE COURT: All right. Anything else, Mr. Grant?
15 MR. GRANT: I don't have anything else. I think you
16 know our position.
17 THE COURT: All right. Thank you, sir.
18 You have the rebuttal because you have the burden.
19 MR. O'NEIL: Thank you, Your Honor. And maybe I'll go
20 right to the burden issue. We're told the plaintiff has the
21 burden and this record is thin and et cetera, et cetera. The
22 record of thin, of course, is the complete scope of Mr. Gilbert's
23 representation because they haven't given me the records.
24 MR. GRANT: That's not true. And we didn't talk about
25 this, and Your Honor had some questions.

1 THE COURT: I'll give you a chance, Mr. Grant.
2 MR. GRANT: Okay.
3 THE COURT: No. No. No. Right now.
4 MR. GRANT: Oh, okay.
5 THE COURT: Why is that not true?
6 MR. GRANT: We have produced records we control. We
7 have given all of the business records and all of Manatt's
8 records. We don't control Baker & Hostetler. It's a third party
9 that's been subpoenaed. We have told them to produce the
10 non-privileged records -- I mean, all the records because we
11 aren't asserting privilege pre-December.
12 THE COURT: All the records prior to December 20, 2005.
13 MR. GRANT: Yeah. Yeah. We're not asserting privilege
14 and we didn't withhold anything that we had on privilege grounds
15 pre-December 20th, 2005.
16 THE COURT: All right.
17 MR. GRANT: And the -- and we do have one merits
18 dispute that we're going to talk about tomorrow. We do have
19 that, a substantive dispute on discovery, that he and I are going
20 to talk about tomorrow and hopefully work through.
21 MR. MALLEN: May I add one point of clarification as
22 well?
23 THE COURT: Yes, sir.
24 MR. MALLEN: Baker sent me their documents to look at.
25 There were no time records in there, so I don't know whether they

1 maintained the time records from many years ago or not. I know
2 that the documents that Mr. Gilbert took with him from Baker &
3 Hostetler to Manatt didn't include time records. I know that was
4 mentioned earlier in Mr. O'Neil's presentation to Your Honor. I
5 wanted to clarify that.
6 THE COURT: All right. Thank you, Mr. Mallen.
7 MR. O'NEIL: And to be clear, Mr. Mallen was correct in
8 I guess clarifying that, because it was on January 14th that a
9 representative of the Baker law firm told me he was delivering
10 the CD of documents of the Baker Sugarland documents to Mr.
11 Mallen for review. That's where they are. I don't have those
12 documents, Your Honor.
13 I would expect there are other contracts that may have
14 been negotiated. And in the music industry, it is typically an
15 individual like contract that we see in the MCA contract. So if
16 this record is skinny, it's certainly because I don't have the
17 records of the Baker Sugarland documents that defense counsel
18 does have.
19 MR. MALLEN: May I respond to that?
20 THE COURT: Yes, sir.
21 MR. MALLEN: Everything that Mr. Gilbert had when he
22 was at Baker in which he represented Sugarland he took with him
23 to Manatt Phelps. So Manatt Phelps has those documents, and Mr.
24 O'Neil has been produced already with the totality of the records
25 that exist prior to December 20th, 2005, that Mr. Gilbert had as

1 it related to Sugarland.
2 And, again, everything that Baker would have, they
3 might have copies. But everything that Mr. Gilbert had in which
4 he worked on for Sugarland he took with him. In fact, I wrote to
5 Mr. O'Neil and I told him -- I acknowledged to him that as it
6 relates to pre-December 20th, 2005 documents -- he served a de
7 facto subpoena, and I told him, look, she's still entitled to the
8 pre-December 20th, 2005 records, whether or not your subpoena is
9 defective or whether or not you serve a new subpoena.
10 THE COURT: By the way, I don't think the subpoena was
11 defective, but go ahead.
12 MR. MALLEN: He served a subpoena out of the Northern
13 District of Georgia.
14 THE COURT: Oh, that is defective.
15 MR. MALLEN: Yeah. Yeah.
16 MR. O'NEIL: It's been resolved, Your Honor.
17 THE COURT: Okay.
18 MR. MALLEN: But in any event --
19 THE COURT: I was thinking of the substance of the
20 request.
21 MR. MALLEN: No. The point is is that Manatt never
22 took the position that those documents had to be subpoenaed. And
23 in any event, all pre-December 20th, 2005 documents that Manatt
24 had, which again would include what Mr. Baker took with -- Mr.
25 Gilbert took with him from Baker, which was the totality of the

1 Sugarland files, he already has.
2 Now, again, whether or not Baker has time records from
3 2002, 2003, 2004, I don't know. I've certainly never seen them.
4 THE COURT: All right. Thank you, sir.
5 MR. O'NEIL: Well, Your Honor, I don't know what is on
6 the CD that's been provided to Mr. Mallen. And if -- it's --
7 it's hard to not be a little bit surprised about just hearing
8 right now that they never took the position that I had to
9 subpoena them. They told me the subpoena was defective, serve it
10 again. I served it again. So I -- I don't understand.
11 THE COURT: And that's the one I saw was the one served
12 out of the California court.
13 MR. O'NEIL: Right. And the last of that is that there
14 are some documents, I don't know what they are, that are in Mr.
15 Mallen's possession to --
16 THE COURT: Well, to win this motion, you're not
17 needing me to presume that there's --
18 MR. O'NEIL: Okay.
19 THE COURT: -- damaging evidence in those not yet
20 produced documents, do you?
21 MR. O'NEIL: No. But to the sense that they're trying
22 to say that he had some narrow role as their lawyer and that it's
23 not substantially related, I mean, as the Court has pointed out,
24 he was essentially general counsel for this partnership. This is
25 about the partnership dissolution dispute. I think that in and

1 of itself is substantially related. I don't think I have to show
2 a time record. I agree with you. But to the extent they're
3 saying the record is skinny, I just think there's a reason for
4 that beyond what's -- I've been doing.
5 THE COURT: Anything else?
6 MR. O'NEIL: Yes. Briefly, Your Honor. I have to go
7 to your point of the Court saying that the record shows that she
8 withdrew on December 19th and point you to Exhibit 3 of our
9 papers which -- and why this case is about an improper lockout.
10 I'm looking at Mr. Abdo's January 4th, 2006 e-mail. The last --
11 Mr. Grant read you the first paragraph of that e-mail. The last
12 paragraph states this: Kristen believes that there may have been
13 other meetings and discussions regarding the governance and
14 business plan for the band. She wishes to fully participate and
15 be fully apprised of any matters that concern the operating
16 entities and the band as we proceed to negotiate the details to
17 resolve her future involvement with the band.
18 THE COURT: And the point?
19 MR. O'NEIL: The response by Mr. Gilbert was the
20 lockout, that finally -- in his January 9th letter: Finally, as
21 to your comments that there may have been other meetings and
22 discussions regarding the governance and business planning for
23 the band and that Kristen wishes to participate in same, since
24 Kristen has withdrawn from the band, this does not seem
25 appropriate.

1 My distinction is, Your Honor, saying you're not going
2 to tour next year doesn't mean the partnership is done. I
3 understand the Court suggesting that he believes the
4 preponderance of the evidence shows it dissolved, but one -- one
5 part of that is touring. That doesn't mean a partnership ceased.
6 And that goes to the fact that you are correct, that Mr. Gilbert
7 was representing Ms. Hall on December 20.
8 And although he says, well, I was aware Mr. Abdo was
9 out there representing her interests, the fact of the matter is
10 the letter he sent out to his three clients, Ms. Nettles, Mr.
11 Bush and Ms. Hall, wasn't copied to Mr. Abdo. He wasn't looking
12 at Mr. Abdo at that point as the sole legal representative of Ms.
13 Hall. He was acting as her legal representative at that time.
14 THE COURT: What is Sugarland doing now; selling
15 records and performing?
16 MR. O'NEIL: Yes. Yes, they are, Your Honor.
17 THE COURT: All right. We'll take a 10 minutes recess.
18 (A recess was had.)
19 THE COURT: All right. I told you I'd give you a
20 ruling this morning and I am. The Court has considered the
21 entire record in this case, as well as the arguments of counsel
22 for both sides, and the Court finds that the plaintiff has
23 carried her burden of showing that a conflict exists that
24 precludes the representation of Mr. Gilbert of the two defendants
25 in this case.

1 The Court further finds that by imputation those -- the
2 law firm with which he was formerly affiliated and his present
3 law firm, the Manatt firm, is likewise disqualified. And
4 therefore the Court grants the plaintiff's motion.
5 MR. GRANT: Thank you, Your Honor.
6 MR. O'NEIL: Thank you, Your Honor.
7 (End of proceedings.)
8 *****
9 UNITED STATES DISTRICT COURT
10 NORTHERN DISTRICT OF GEORGIA
11 CERTIFICATE OF REPORTER
12
13
14 I do hereby certify that the foregoing pages are a true
15 and correct transcript of the proceedings taken down by me in the
16 case aforesaid.
17 This the 12th day of February, 2009.
18
19
20
21 _____
ELISE SMITH EVANS, RMR, CRR
OFFICIAL COURT REPORTER
22
23
24
25

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

KRISTEN ALISON HALL,	)	
	)	
Plaintiff,	)	
	)	CIVIL ACTION FILE
v.	)	NUMBER 1:08-cv-2437-TCB
	)	
JENNIFER NETTLES and	)	
KRISTIAN BUSH,	)	
	)	
Defendants.	)	

ORDER

Before the Court are Defendants' motion to exclude Plaintiff's proposed expert, Glenn Perdue [86], and Defendants' motion to strike Perdue's declaration [126].

I. Background

Defendants Jennifer Nettles and Kristian Bush are current members of the country musical duo, Sugarland. Plaintiff Kristen Hall was a part of the group from its inception until she stopped touring with the band in

December 2005.[1] Plaintiff has not performed or worked with Defendants since she departed in late December 2005.

On July 29, 2008, Plaintiff filed this action, alleging that Defendants (1) breached the parties' partnership agreement by excluding Plaintiff from the partnership business, (2) breached the fiduciary duties they owed Plaintiff as a result of their partnership relationship, and (3) have a duty to properly account to Plaintiff and to hold for Plaintiff one-third of any profits that Defendants derive from the partnership business.

Plaintiff has retained Glenn Perdue to provide expert testimony about the economic damages she allegedly suffered as a result of Defendants' wrongfully excluding her from the Partnership. In his report, Perdue addresses (1) the economic lifecycle of the Sugarland Act; (2) the Sugarland Act's forecasted revenues for purposes of assessing past profits; (3) the value of Plaintiff's interest in the partnership as of three different dates (assumed date of trial, filing date of initial complaint, and date Plaintiff left Act); and (4) the present values of Sugarland's service mark and trademark as of the above three dates.

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[1] The Court does not address the parties' dispute as to what decision Plaintiff made with respect to her continued involvement with the group and Defendants' understanding of that decision.

On September 8, 2009, Defendants' filed a motion to exclude Perdue [86]. On September 28, 2009, Plaintiff filed a response in opposition to Defendants' motion and included therewith Perdue's declaration. In his declaration, Perdue states that (1) he has the specific training as a valuation expert to provide opinions about the value of the service marks at issue; (2) his methodologies and assumptions are reasonable, sound, and in accordance with generally accepted practices; (3) his assumptions about the Act's lifecycle are based on documents produced by Defendants in this litigation; (4) his use of post-valuation date data was appropriate under the "book of wisdom" doctrine; (5) his choice of royalty rates is reasonably close and valid for assessing a comparable rate for the marks; (6) his decision to ignore the tax effects for the profits generated by the Sugarland Act since December 2005 was based on an industry-recognized valuation approach; and (7) he properly isolated the appropriate value of Defendants' continuing services as workers for the Act so as not to overstate Plaintiff's damages.

On October 16, 2009, Defendants' filed a motion to strike Perdue's declaration [126].

On December 18, 2009, the Court held a hearing during which the parties argued their respective positions on Defendants' motion to exclude Perdue. The Court took both motions under advisement.

II. Motion to Strike Perdue's Declaration

The Court first addresses Defendants' motion to strike Perdue's declaration, which was filed by Plaintiff in opposition to Defendants' motion to exclude Perdue.

A. Legal Standard

Defendants' motion to strike is governed by FED. R. CIV. P. 12(f). Guiding the Court's evaluation of Defendants' motion is the general disfavor of motions to strike. In the Eleventh Circuit, "the use of a rule 12(f) motion for the advancement of objections to an affidavit filed in support of a motion is generally considered improper. A motion to strike is only appropriately addressed toward matters contained in the pleadings." *McNair v. Monsanto*, 279 F. Supp. 2d 1290, 1298 (M.D. Ga. 2003). Even when appropriately addressed, a motion to strike is considered a drastic remedy. *Stephens v. Trust for Public Land*, 479 F. Supp. 2d 1341, 1346 (N.D. Ga. 2007).

B. Analysis

In their motion, Defendants contend that Perdue's declaration should be stricken because it (1) violates the Court's scheduling order as it was not disclosed prior to the end of the expert discovery period; (2) is a sham affidavit as it contradicts and misconstrues Perdue's deposition testimony; and (3) contains unsupported legal conclusions.

Plaintiff responds that (1) Perdue's declaration does not violate the scheduling order because it is not a supplemental disclosure; (2) there are no inconsistencies between Perdue's declaration and deposition; and (3) Perdue's declaration was filed to rebut Defendants' *Daubert* motion, not to supplement his report, and so the declaration does not inappropriately add to or contradict his report.

Given the case law treating motions to strike with disfavor, the Court finds Defendants' arguments that the declaration violates the scheduling order and contains unsupported legal conclusions insufficient grounds on which to grant their motion. Consequently, the Court focuses its analysis on Defendants' argument that Perdue's declaration is inconsistent with his deposition testimony.

1. Number of Projects Involving Valuation and/or Intellectual Property

Defendants contend that Perdue's statement in his declaration that he has been involved in approximately one hundred valuation and/or intellectual property projects is inconsistent with his deposition testimony that he has been involved in fewer than five projects involving actual valuation of trademarks.

Plaintiff disagrees and counters that Perdue's declaration establishes an outer circle of his project experience whereas his deposition testimony identifies a subset specific to trademarks and their valuation within the larger circle of his experience. The Court agrees and find Defendants' argument unpersuasive.

2. Number of Intellectual Property Cases in Which Perdue Has Been an Expert Witness

Defendants claim that Perdue's declaration statement that he has been an expert witness in forty-five cases, twenty-five of which involved intellectual property and twelve of which involved valuation, contradicts his deposition testimony that he has never been qualified as an expert witness to provide opinions about the value of a trademark or service mark.

Plaintiff contends that Perdue's declaration establishes his experience as an expert in intellectual property valuation and the deposition identifies a specific area of the law in which Perdue has not been retained. However, Plaintiff opines that Perdue never claimed he had testified on the value of a particular trademark.

The Court finds that the declaration and deposition are not inconsistent in this respect. Perdue stated both in his deposition and his declaration that he had recently testified as to trademark infringement damages. When asked in his deposition whether this included valuation of a particular trademark, Perdue said no. This is not inconsistent with the broad intellectual property experience identified by Perdue in his declaration.

3. Number of Business Valuation Articles Authored by Perdue that Involve Intellectual Property Valuation and Damages

Defendants aver that Perdue's declaration statement that he has authored seven articles addressing intellectual property valuation, five addressing trademarks, and three dealing exclusively with trademarks is inconsistent with his deposition testimony that only one of the publications

or presentations listed in his expert report deals with valuation of trademarks and service marks.

Plaintiff responds that this is not an inconsistency but once again Perdue's deposition identifying a smaller subset of Perdue's experience discussed in his declaration. The Court agrees.

Nothing in Perdue's declaration leads to the conclusion that he has authored more than one article that deals exclusively with trademark or service mark valuation, which was the specific question asked by Defendants and answered by Perdue. Perdue further qualifies in his deposition that he could have authored other articles that touch on trademark or service mark valuation, but that he could not say for sure without looking at the articles. Neither Perdue's uncertainty nor his response to Defendants' question creates the inconsistency Defendants allege.

4. Number of Intellectual Property Presentations

Defendants also argue that Perdue's declaration statement that he has delivered fourteen presentations dealing with intellectual property-related topics, including valuation and damages, contradicts his deposition

testimony that he has given one presentation that touched on intellectual property valuation.

Plaintiff opines that Defendants' deposition question asked Perdue how many of his presentations addressed fair market value of trademarks or service marks and that Perdue's response that one presentation did was not inconsistent with his declaration statement about his presentations. The Court agrees.

Perdue's declaration applies to the broader field of intellectual property, whereas Defendants' deposition question limited Perdue's response to fair market value of trademarks and service marks. Defendants' focus on a narrower field of intellectual property does not create the inconsistency they allege.

5. Parties' Depositions

Defendants argue that Perdue's declaration statement that he considered all of the documents referenced in exhibit 2 of his report, which lists the depositions of Plaintiff and Defendants, is inconsistent with his deposition testimony that he did not read any of the parties' depositions.

Plaintiff responds that nothing in the parties' depositions would inform or change Perdue's opinion about the business and intellectual

property valuation of Sugarland in his expert report. Plaintiff further argues that Defendants have cited no testimony from the parties' depositions that would impact Perdue's valuation opinion.

While the Court does not necessarily agree with Plaintiff's response, the Court disagrees with Defendants' contention that Perdue's statements are inconsistent. Perdue's declaration statement that he considered the parties' deposition when drafting his report does not explicitly state that he read the depositions, in whole or in part. This statement is misleading but not inconsistent and not enough to warrant granting Defendants' motion to strike the declaration.

C. Conclusion

The Court finds that the alleged inconsistencies between Perdue's declaration and deposition do not exist. At best, Perdue's statement that he considered the parties' depositions is misleading but still insufficient to persuade the Court to grant Defendants' motion. As the Court finds Defendants' other two arguments unpersuasive, the Court denies Defendants' motion to strike Perdue's declaration.

III. Motion to Exclude Perdue's Report and Testimony

A. Legal Standard

Rule 702 of the Federal Rules of Evidence provides:

> If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise, if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case.

To properly exercise its role as a gatekeeper of the admission of expert testimony, the Court must consider whether (1) the expert is qualified to testify regarding the matters he intends to address, (2) the expert's methodology is sufficiently reliable under *Daubert*, and (3) the expert's testimony assists the trier of fact to understand the evidence or to determine a fact in issue. *Quiet Tech. DC-8, Inc. v. Hurel-Dubois UK Ltd.*, 326 F.3d 1333, 1340-41 (11th Cir. 2003). Plaintiff, as the proponent of Perdue's testimony, bears the burden of showing the above three criteria are met. *United States v. Frazier*, 387 F.3d 1244, 1260 (2004).

The main issue before the Court is whether Perdue's expert report is reliable. However, the Court will still briefly address Perdue's

qualifications and the helpfulness of his report in light of the Court's critical gatekeeping function concerning the admissibility of expert evidence. *Id.*

B. Qualifications

The Court first must determine whether Perdue is qualified to give expert testimony. *See Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 156 (1999). Under Rule 702, an expert may be qualified by knowledge, skill, experience, training or education.

Perdue's credentials suggest that his knowledge, training and experience qualify him to testify as an expert on business and intellectual property valuation. Perdue has a bachelor of business administration, with a concentration in finance, from Middle Tennessee State University and a master of business administration from Vanderbilt University. He also is an Accredited Valuation Analyst and a Chartered Forensic Financial Analyst ("CFFA"). Both certifications are issued by the National Association of Certified Valuation Analysts ("NACVA") and required classroom instruction, prior education or experience, and evaluation of Perdue throughout the certification process. Perdue also has an additional specialty designation in intellectual property damages, which is presented to CFFA-certified individuals who have prior experience in intellectual

property matters, attend a forty-hour NACVA training event focused on intellectual property, and receive passing grades on daily tests.

As for his experience, Perdue has over twenty years of valuation experience. He started his career as an associate in a venture capital firm in 1987, and he currently serves as the member-in-charge of Kraft Analytics, LLC, a valuation and forensics affiliate of Kraft CPAs PLLC. Throughout his professional career, Perdue's various positions involved intellectual property valuation and damages.

Perdue has also authored ten business valuation articles, seven of which included intellectual property valuation and damages, and given at least eight presentations dealing with valuation topics and at least fourteen presentations on intellectual property-related topics.

The Court finds that Perdue's education, certification and experience are sufficient to qualify him as an expert on business valuation and intellectual property valuation and damages. Any doubts Defendants may harbor as to Perdue's qualifications to value the specific business and intellectual property at issue here are proper subjects of cross-examination and are not sufficient to prevent Perdue from testifying at trial. *See generally Quiet Tech.*, 326 F.3d at 1341 ("[A] district court's gatekeeping

role under Daubert is not intended to supplant the adversary system or the role of the jury.") (quotation and citation omitted).

C. Reliability

Defendants' main argument for excluding Perdue is that his economic analysis is not a reliable methodology for formulating an opinion on the value of the trademark and service mark at issue in this case. *Daubert* sets forth a non-exclusive checklist for evaluating the reliability of expert testimony. The factors include (1) whether the expert's technique or theory can be or has been tested, that is, whether the expert's theory can be challenged in some objective sense, or whether it is instead simply a subjective, conclusory approach that cannot reasonably be assessed for reliability; (2) whether the technique or theory has been subject to peer review and publication; (3) the known or potential rate of error of the technique or theory when applied; (4) the existence and maintenance of standards and controls; and (5) whether the technique or theory has been generally accepted in the scientific community. *Daubert*, 509 U.S. at 593-94. Even though Perdue is not proffered as a scientific expert, the *Daubert* factors are still relevant to the Court's determination of reliability. *See*

Kumho Tire, 526 U.S. at 149 (holding that the *Daubert* factors might also be applicable in assessing the reliability of non-scientific expert testimony).

The Court is not required to consider each of these factors, "and a federal court should consider any additional factors that may advance its Rule 702 analysis." *Quiet Tech.*, 326 F.3d at 1341. In applying the *Daubert* criteria and others that may be relevant, the Court must determine if the expert unjustifiably extrapolated from an accepted premise to an unfounded decision. *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997). That is, there must not be too "great an analytical gap between the data and the opinion proffered." *Id.* The Court must be assured that the expert is using the "same level of intellectual rigor that characterizes the practice of an expert in the relevant field." *Kumho Tire*, 526 U.S. at 152.

Moreover, "not only must each stage of the expert's testimony be reliable, but each stage must be evaluated practically and flexibly without bright-line exclusionary (or inclusionary) rules." *Heller v. Shaw Indus., Inc.*, 167 F.3d 146, 155 (3d Cir. 1999). Thus, the Court must focus on the expert's principles and methodology and not the conclusions reached. *Daubert*, 509 U.S. at 595.

Also guiding the Court's decision is the fact that "case law after *Daubert* shows that the rejection of expert testimony is the exception rather than the rule." FED. R. EVID. 702 advisory committee's note. "Vigorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence." *Daubert*, 509 U.S. at 595.

Defendants contend that Perdue's economic analysis methods are unreliable because (1) Perdue has no experience in predicting the lifecycle of a musical act; (2) his modeling for financial performance of the continuing business uses post-valuation date financial data; (3) there is no basis for Perdue using the weighted average of supposedly comparable royalty rates when choosing comparable royalty rates; and (4) Perdue applied the wrong discount rates and did not include the appropriate tax considerations. Defendants also aver that Perdue improperly calculated the compensation due Defendants for their personal services in the Sugarland Act when he determined the profits due to Plaintiff.

In response, Plaintiff's overarching argument is that Defendants' issues with Perdue's report and potential testimony are best addressed in

Defendants' cross-examination of Perdue. Generally addressing Defendants' reliability arguments, Plaintiff avers that Perdue's opinions are admissible under *Daubert* because his methods and data are reliable and consistent with generally accepted practices of business and intellectual property valuation experts. Plaintiff further opines that the Court must look at the underlying theories used by Perdue, not whether his testimony and conclusions are correct, and that if Perdue's testimony is within the range where experts might reasonably differ, the jury (not the Court) should decide among the conflicting views. Plaintiff's contentions specifically addressing Defendants' reliability arguments are discussed below under the appropriate section.

1. Lifecycle Methodology

To determine Plaintiff's damages, Perdue considered three dates as the basis for three different economic recovery scenarios: a hypothetical trial date (December 31, 2009), the date Plaintiff filed her complaint (July 29, 2008), and the date Plaintiff stopped performing with the Sugarland Act (December 20, 2005). To assess Plaintiff's interest in the Sugarland business and brands under each scenario, Perdue projected Sugarland's economic lifecycle to be through March 31, 2015. He based this projected

date on (1) Sugarland's six-album recording contract; (2) prior commercial success; (3) historical income growth and positive financial performance trends; (4) reasonable expectation of continued commercial success; and (5) the economic incentives for Defendants to continue to exploit their commercial success.

Defendants contend that Perdue's opinions regarding the lifecycle of the Sugarland Act are unreliable because Perdue has no experience predicting the lifecycle of a musical act. Specifically, they contend that his reliance on his personal consumer knowledge about country music and on Sugarland's previous and anticipated record release dates leads to an arbitrary lifecycle. In support of their argument, Defendants point to Perdue's deposition, in which he testifies that the methodology he used to determine the lifecycle was "really just an observation of fact . . . [and] plotting factual data." Defendants aver that Perdue's projected lifecycle relies on his experience; thus, he is required explain how his experience leads to his conclusion. Defendants contend that Perdue's deposition testimony on this topic fails to adequately explain his lifecycle conclusion.

Plaintiff disagrees and contends that Perdue's lifecycle methodology is reliable because Perdue used factual information and documents

produced by Defendants, and case law allows Perdue to review and consider all information that may impact a damages valuation. Plaintiff further contends that case law also allows Perdue to make projections based on reasonable assumptions and conclusions. Plaintiff also argues that Perdue's twenty-seven-percent discount rate, which he says is based upon an exhaustive study of Angel Investor Returns in the 2000s sponsored by Kauffman Foundation, adequately addresses the uncertainty of Sugarland's future success as of December 20, 2005.

In both his report and declaration, Perdue explains how he determined Sugarland's economic lifecycle and what sources he relied on for facts and data. He explains that he "selected a lifecycle development approach based most notably on the band's recording agreement . . . [and] discounted forecasted values to address prospective uncertainties." Perdue then explains that he chose three valuation dates because the parties dispute the date of dissolution and winding up of the partnership, and he explains how he determined the twenty-seven-percent discount rate and his source for that determination.

Throughout Plaintiff's response and Perdue's declaration, Perdue testifies that his analysis was in accordance with generally accepted practices for business and intellectual property valuation experts.

The Court finds that Perdue provides sufficient explanation of how he determined Sugarland's economic lifecycle to render his testimony on this point reliable under *Daubert*. Defendants base their unreliability argument on Perdue's lifecycle conclusion (March 31, 2015), his bare statements that he followed accepted methods, and the Supreme Court's *Joiner* opinion, which states that district courts are not required "to admit opinion evidence that is connected to existing data only by the *ipse dixit* of the expert." *Joiner*, 522 U.S. at 146. Defendants' focus, however, largely ignores Perdue's explanations in his report of how he determined the lifecycle.

Perdue has supported his determination of Sugarland's lifecycle with more than a singular statement that the lifecycle date is the result of him applying accepted methods. In his report, Perdue identifies the data and documents he used and how he then used that information in determining Sugarland's lifecycle. *Cf. Frazier*, 387 F.3d at 1265 (finding expert's opinion based on his work experience unreliable because he offered little in the way of a reliable foundation or basis for his opinion); *Dukes v. Georgia*,

428 F. Supp. 2d 1298, 1314-1315 (N.D. Ga. 2006) (finding expert unreliable in part because he offered no support for his statements, basis for his conclusions, or specific experience or material upon which he relied in making his conclusions).

Perdue does not identify a treatise or specific source to support his analysis, but his process for reaching his conclusion is provided. *See Coleman v. Dydula*, 139 F. Supp. 2d 388, 394 (W.D.N.Y. 2001) (finding supportive of reliability the fact that the questioned expert identified the number of years he used and offered a reasoned explanation of why he used that number). *Cf. Frazier*, 387 F.3d at 1265 (finding expert's testimony unreliable because he never explained how his own experience or the texts he mentioned supported his opinion).

Notably, Perdue's determination of the lifecycle was based in large part on the record options remaining under Sugarland's recording contract. Given the inherent uncertainty in determining a musical act's longevity, the Court finds Perdue's reliance on Defendants' recording contract when determining Sugarland's lifecycle sufficiently reliable and connected to

relevant data.[2] If Defendants believe that Perdue relied on inappropriate data or facts, these are proper subjects of cross-examination at trial. *See Daubert*, 509 U.S. at 595 ("Vigorous cross-examination . . . [is] the traditional and appropriate means of attacking shaky but admissible evidence.").

Moreover, Perdue's reasoned explanation of what information he relies on and how he used that information eliminates the Court having "to take a leap of faith and rely on [Perdue's] *ipse dixit* and assurance that his testimony is based on nationally accepted standards." *Dukes*, 428 F. Supp. 2d at 1315. The *ipse dixit* situation the *Joiner* court addressed simply does not exist here. There is not "too great an analytical gap between the data and opinion proffered," *Joiner*, 522 U.S. at 146, and the Court does not

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[2] In her response brief, Plaintiff cites to a publication, THE INTANGIBLE ASSETS HANDBOOK, written by Defendants' expert, Weston Anson. In this book, Anson addresses determination of "remaining useful life." WESTON ANSON, THE INTANGIBLE ASSETS HANDBOOK 83-85 (2007). He defines RUL as "how many more months or years the asset is going to continue to generate cash flow, income, or other value." *Id.* at 83-84. Anson acknowledges, though, that "[t]here are a number of different definitions of remaining useful life, and there are a variety of ways of estimating remaining useful life." *Id.* at 84. For example, in his review of the various ways, Anson identifies the term of a commercial contract as a means for determining RUL. *Id.* He then goes on to state that "[t]here is no single rule as to the best definitional choice for RUL." *Id.* at 85.

Plaintiff misuses Anson's book to undermine Anson's choice for Sugarland's lifecycle. However, the Court does find that it lends credibility and reliability to Perdue's explanation and conclusion of Sugarland's lifecycle.

have to rely "on naked assurances of the purported expert." *Dukes*, 428 F. Supp. 2d at 1315.

2. Financial Performance Model

Based on the three dates discussed above, Perdue developed three different recovery models for Plaintiff. Defendants contend that these models are unreliable because Perdue considers post-valuation-date financial data for 2006 through 2008. They aver that use of actual data allows Plaintiff to benefit from Defendants' success without having to incur any of the risk. Defendants also contend that Perdue admits in his deposition that his use of actual financial information is not grounded in sound valuation principles. Thus, they assert that Perdue should have used only information known or knowable as of December 20, 2005, and not the actual financial information for 2006 through 2008. Defendants further opine that Perdue compounded his error by then ignoring the actual financial data available for 2009.

It appears from Plaintiff's response brief and Perdue's declaration that Perdue rebuts Defendants argument by pointing to his use of a twenty-seven-percent discount rate to account for the uncertainty of Sugarland's future success as of December 20, 2005. Perdue's twenty-seven-percent

discount rate is based upon an exhaustive study of Angel Investor Returns in the 2000s sponsored by Kauffman Foundation. Plaintiff opines that Perdue's use of actual financial data is acceptable under the book of wisdom principle, which was coined by Justice Cardozo in *Sinclair Ref. Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689, 698 (1933). Perdue also claims that his models can be adjusted once the Court determines the proper valuation date.

The Court finds Perdue's financial models sufficiently reliable. First, Perdue does not admit in his deposition that his use of actual financial information is not grounded in sound valuation principles. Rather, he acknowledges that outside the litigation context, if performing a business valuation, he would likely not use actual financial information. He does not say that he absolutely would not.

Second, Perdue's method of using actual financial data with a discount rate to account for riskiness appears to be objective enough to be tested by Defendants and subjected to cross-examination. Perdue explains in his report how he valued Plaintiff's ownership interest and provides the spreadsheets showing the calculations in which he uses the actual financial data. Perdue's explanation includes what method he chose and how he

arrived at the twenty-seven-percent discount rate. Thus, Defendants know what Perdue did, can insert their own numbers, and consequently are able to cross-examine Perdue on the effect of using forecasted data rather than actual financial data.

Moreover, the cases cited by Defendant to support its contention that the Court should find Perdue's use of post-valuation data unreliable are not binding precedent. The Court also finds the cases unpersuasive and easily distinguishable as they address items with determinable market values, not valuation of a business or intellectual property for "superstar musicians like Defendants."

As for the *Sinclair* case that Plaintiff cites for the book of wisdom principle, the court there addressed the value of a patented device. 289 U.S. at 698. In determining the value of the patent, the Court said that actual experience can be used to correct uncertain prophecy when a court determines the value of a patent many years later. *Id.* at 699. However, the Court then went on to say that a different situation arises when determining damages arising from breach of contract or a tort. *Id.* In those situations, it opined that uncertain prophecies are corrected by "bring[ing] out and expos[ing] of light the elements of value that were there from the

beginning" rather than "charg[ing] the offender with elements of value nonexistent at the time of his offense." *Id.* As this case involves valuation of intellectual property several years after Plaintiff's departure from Sugarland as well as tort and breach of contract claims, Plaintiff's reliance on this case for support of Perdue using actual financial data is not entirely misplaced. Cross-examination is the best forum for Defendants to challenge Plaintiff's reliance thereon. *See* FED. R. EVID. 702 advisory committee's note (stating that rejection of testimony is the exception rather than the rule).

In sum, the Court is not forced to rely solely on Perdue's assertions that he used accepted valuation methods when developing his financial performance models. In his report, he provides a reasoned explanation for his conclusions and spreadsheets showing his calculations. Consequently, the Court finds Perdue's financial performance models sufficiently reliable under *Daubert*.

3. Relief From Royalty Method

Perdue uses the relief from royalty method to value the intellectual property of the Sugarland Act. In his report, Perdue opines that this

method is a commonly utilized income-based approach for valuing an intangible asset, particularly patents and trademarks.

Defendants argue that this portion of Perdue's report should be excluded as unreliable because Perdue lacks a sound basis for his choice of comparable royalty rates and for his decision to use a weighted average rate. They claim that his choices lack a basis because he fails to cite any authority supporting his decision, explain how his experience guided his choices, or state why his experience is sufficient or applies to the facts of this case.

Plaintiff asserts that Defendants do not challenge the suitability or reliability of the method employed by Perdue but rather the correctness of Perdue's opinion. Thus, Plaintiff contends that Defendants challenge the weight of Perdue's testimony, but not the reliability of the method he used. The Court agrees.

Defendants do not challenge the actual royalty rate method used by Perdue. They only challenge the data Perdue used when applying this method to value the intellectual property. Perdue's report discusses step-by-step what method he used, how he selected information, and how that information generated his conclusions. Moreover, in his declaration

Perdue points to the portion of Defendant's expert report where Anson concludes that Perdue's selections are "illustrative of entertainment trademark royalty rates paid by third parties to a band for use on merchandise."

In his declaration, Perdue also supports his selections by referencing Anson's book, THE INTANGIBLE ASSET HANDBOOK, which states that "there is no such thing as an 'exact' comparable royalty rate, and any valuation project that claims to present exact comparables is flawed in its basic premise." *Id.* at 72. Finally, Perdue notes that all of the rates he developed were within the rate range that Anson cites as applicable to entertainment-oriented trademarks in his book. *Id.* at 71.

Consequently, the Court finds that the relief from royalty method used by Perdue is sufficiently reliable.

4. Discounted Cash Flow Method

Of the methods available, Perdue used the discounted cash flow method, an income-based approach, to value Plaintiff's ownership interest in Sugarland. When using this method, Perdue selected a discount rate that is supposed to reflect a rate of return commensurate with the risk of the expected future cash flows.

Defendants claim that the discount rate used by Perdue is unreliable because he does not consider the impact of discounts for lack of marketability or minority interests. Defendants further aver that Perdue's discounted cash flow analysis is flawed because he does not include the appropriate tax considerations.

a. Minority and Marketability Discounts

Plaintiff defends Perdue's disregard of the lack of marketability and minority interests discounts by relying on *Blitch v. Peoples Bank*, 246 Ga. App. 453, 540 S.E.2d 667 (2000), and the alleged Georgia public policy set forth therein. *Blitch* addressed the applicability of minority or marketability discounts when determining the fair value of dissenters' shares under the Georgia Revised Model Corporation Act. Plaintiff avers that the case evinces a Georgia public policy disfavoring minority discounts that would be equally applicable to Plaintiff, a minority partner. To support her conclusion, Plaintiff references an article, "Control Premiums and Minority Discounts," by Phillip Saunders, Jr. in which the author states that minority discounts are not usually relevant in minority buyout cases.[3]

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[3] Philip Saunders appears to be the principal of the firm Philip Saunders Associates, which according to its website is an economic consulting firm providing business valuation and litigation support. *See* www.philipsaunders.com. The hyperlink to the article referenced by Plaintiff no longer works.

Without commenting on the validity of Plaintiff's reliance on *Blitch* and on Saunders's article to guide Perdue's disregard of certain discounts, the Court finds that Defendants' arguments go to the weight of Perdue's testimony, not its reliability. Defendants do not challenge the discounted cash flow method used by Perdue, but rather, his application of that method to the facts of this case. Their disagreement with his application goes to the credibility and weight of his testimony. In his report, Perdue provides ample explanation of his application of the discounted cash flow method, thereby giving Defendants sufficient material to challenge on cross-examination. Thus, the Court finds Perdue's use of the discounted cash flow method reliable.

b. Tax Considerations

Defendants aver that Perdue's discounted cash flow analysis is flawed because he did not perform his analysis on an after-tax basis. Plaintiff and Perdue respond that Perdue did not tax-affect the earnings being calculated because the subject entity (be it a partnership, S-corporation, or LLC) is a pass-through entity for tax purposes; consequently, earnings are distributed to the owners for tax purposes and no taxes are paid at the entity level. In support of his position, Perdue cites several articles showing

a debate within the business valuation community whether S-corporation income streams should be taxed at the entity level. Given this debate, the Court finds Perdue's method of not tax-affecting the earnings sufficiently reliable; Defendants can argue for their preference on cross-examination of Perdue or through presentation of contrary evidence.

5. Determining Defendants' Compensation

When calculating the profits before distributions, Perdue applied certain adjustments to account for Plaintiff's non-participation as a performer with Sugarland after December 20, 2005 and for Defendants continuing as workers (not owners) in the business. According to Perdue, this deduction considers salary, employer matching expenses, and employer-paid benefit deductions for both Defendants.

Defendants challenge how Perdue determined this deduction, contending that he arbitrarily chose which percentile of self-employed musicians and singers Defendants fell within and his various increases to his selected base salary. It appears that Defendants' main issue with Perdue's discount here is that Perdue concluded "superstar musicians like Defendants" only make $202,000 as "workers" for the Sugarland Act.

Plaintiff responds that Perdue relied upon objective data from the U.S. Department of Labor, which he corroborated with industry observations, to isolate an appropriate value by which to adjust Plaintiff's cash flow. In his declaration, Perdue testifies that he has performed compensation research and calculated normalized compensation levels in many cases and in various business and industry settings. He further opines that this discount was intended to isolate an appropriate value of a continuing worker, not to define the worth of Defendants as owners/performers.

Again, Defendants' argument challenges Perdue's application of the deduction but not his decision to apply such a deduction. As stated above, Defendants mainly appear offended by Perdue's selection of such a low salary for them. Perdue's report provides a step-by-step explanation with spreadsheets of how he determined the worker discount. The Court finds this explanation reliable.

6. Perdue's Application of Law

Within their motion to exclude Perdue, but not within their discussion of why *Daubert* requires the Court to exclude him, Defendants make various arguments that Perdue should be excluded because he

applied the wrong law. For purposes of this motion, the Court evaluates Defendants' arguments as challenges to the reliability of Perdue's testimony.

Defendants contend that (1) Perdue's opinions are inconsistent with Georgia's version of the Uniform Partnership Act of 1914 ("GUPA"), specifically his use of it to calculate Plaintiff's damages and prejudgment interest; (2) he did not apply the appropriate valuation date for Plaintiff's claims; (3) he erroneously treated Plaintiff as an equity holder in the continuing business and allocated her a share of the post-judgment profits; and (4) Plaintiff is not entitled to recover a share of the continuing business's profits or interest on her ownership rights in the partnership.

Plaintiff asserts that Perdue does use the appropriate law and that Defendants' arguments are merely their position on the disputed facts that should not be decided within this motion.

The Court finds that Defendants' arguments are their position on the disputed facts, and the Court will not resolve the factual disputes within the context of this motion. The factual controversy in this case revolves around the effect of the decision that Plaintiff would not tour with the band in 2006 on the status of the Sugarland partnership and intellectual property.

Defendants' applicable law arguments attempt to persuade the Court that only their version of the facts is permissible. However, "[w]hen facts are in dispute, experts sometimes reach different conclusions based on competing versions of the facts," and Rule 702 is "not intended to authorize a trial court to exclude an expert's testimony on the ground that the court believes one version of the facts and not the other." FED. R. EVID. 702 advisory committee's note. Consequently, the Court finds Defendants' applicable law arguments are insufficient grounds on which to grant their motion.

D. Assists the Trier of Fact

The Court's final inquiry is whether Perdue's testimony assists the trier of fact. "Expert testimony is admissible if it concerns matters that are beyond the understanding of the average lay person." *Frazier*, 387 F.3d at 1263. The Court finds that valuation of the Sugarland business and intellectual property are beyond the understanding of the average lay person. Consequently, Perdue's testimony does assist the trier of fact in determining the damages owed to Plaintiff.

IV. Conclusion

Defendants' motion to strike Perdue's declaration [126] and Defendants' motion to exclude Perdue as an expert [86] are hereby DENIED.

IT IS SO ORDERED this 7th day of January, 2010.

Timothy C. Batten, Sr.
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

KRISTEN ALISON HALL,	)	
	)	
Plaintiff,	)	
	)	CIVIL ACTION FILE
v.	)	NUMBER 1:08-cv-2437-TCB
	)	
JENNIFER NETTLES and	)	
KRISTIAN BUSH,	)	
	)	
Defendants.	)	

ORDER

Before the Court is Defendants' motion for summary judgment [85].

I. Background

Defendants Jennifer Nettles and Kristian Bush are current members of the country musical duo, Sugarland. Plaintiff Kristen Hall was a part of the group from its inception until she stopped touring with the band in December 2005.

When the parties were performing as "Sugarland," they registered certain marks with the U.S. Patent and Trademark Office. On September 9, 2002, the parties filed an application to be the individual registrants of a

service mark for use of the name "Sugarland" for live performances. The mark was registered in the parties' individual names on August 5, 2003. On October 5, 2005, the parties applied in their individual names to register a trademark for use of the name "Sugarland" for clothing. The mark was registered to the parties individually on June 12, 2007. According to the applications, the name "Sugarland" was first used for commercial purposes on September 1, 2002.

In September 2003, the parties signed a recording contract with MCA Nashville. Subsequently, the parties incorporated two Georgia companies to run Sugarland's touring and merchandise sales operations. The parties became equal shareholders of the corporations and agreed to split profits and losses equally.

From October 2003 to November 2005, the parties recorded and released an album and toured to promote the album and their musical act.

On November 26, 2005, Plaintiff announced that she would no longer tour with Defendants after their December 19, 2005 performance. The parties dispute the impact of Plaintiff's decision to cease touring. Plaintiff contends that Defendants used her decision to wrongfully exclude her from their partnership. Defendants aver that Plaintiff left with the

understanding that she was available to perform but did not have the expectation that Defendants would need her. Regardless, Plaintiff has not performed or worked with Defendants since she departed in late December 2005.

On July 29, 2008, Plaintiff filed this action, alleging that Defendants (1) breached the parties' partnership agreement by excluding Plaintiff from the partnership business, (2) breached the fiduciary duties they owed Plaintiff as a result of their partnership relationship, and (3) have a duty to properly account to Plaintiff and to hold for Plaintiff one-third of any profits that Defendants derive from the partnership business and from the use of the "Sugarland" service mark and trademark.

On September 8, 2009, Defendants filed this motion for summary judgment, asserting that the partnership was dissolved after Plaintiff's last performance on December 19, 2005 and terminated when Defendants provided Plaintiff with an accounting of the partnership's assets and liabilities as of December 20, 2005. Defendants contend that at the time of Plaintiff's withdrawal, the partnership's assets of $15,344 were vastly exceeded by its liabilities of $99,042. Defendants further assert that the Sugarland marks were never assets of the professional partnership, and

that even if they were, they had no monetary value as of December 20, 2005 to be distributed to Plaintiff. Thus, they aver that Plaintiff received the accounting she was entitled to and the partnership was properly terminated.

On December 18, 2009, the Court held a hearing during which the parties argued their respective positions on Defendants' motion for summary judgment. The Court took the motion under advisement.

On January 7, 2010, the Court denied [140] Defendants' motion to exclude Plaintiff's proposed expert [86] and their motion to strike the expert's declaration [126].

II. Analysis

A. Legal Standard

Summary judgment is proper when no genuine issue as to any material fact is present, and the moving party is entitled to judgment as a matter of law. FED. R. CIV. P. 56(c). The movant carries the initial burden and must show that there is "an absence of evidence to support the nonmoving party's case." *Celotex Corp. v. Catrett*, 477 U.S. 317, 325 (1986). "Only when that burden has been met does the burden shift to the non-moving party to demonstrate that there is indeed a material issue of

fact that precludes summary judgment." *Clark v. Coats & Clark, Inc.*, 929 F.2d 604, 608 (11th Cir. 1991). The nonmovant is then required to "go beyond the pleadings" and present competent evidence in the form of affidavits, depositions, admissions and the like, designating "specific facts showing that there is a genuine issue for trial." *Celotex*, 477 U.S. at 324. "The mere existence of a scintilla of evidence" supporting the nonmovant's case is insufficient to defeat a motion for summary judgment. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 252 (1986). Resolving all doubts in favor of the nonmoving party, the Court must determine "whether a fair-minded jury could return a verdict for the [nonmoving party] on the evidence presented." *Id.*

B. Analysis

The Court finds that Plaintiff has presented sufficient evidence to create a genuine issue of material fact as to when the parties' partnership was created, when it was dissolved, whether the Sugarland marks were properly accounted for, and whether Defendants' actions to wind-up the parties' partnership properly accounted for Plaintiff's interest therein. At this stage, the Court declines to adopt Defendants' argument that the Sugarland marks, if property of the professional partnership, had no

monetary value as of December 20, 2005 to be distributed upon dissolution. There is also a genuine issue of material fact as to whether the Sugarland marks were or were not property of the partnership. Given the numerous issues of material fact, the Court denies Defendants' motion for summary judgment.

III. Conclusion

Defendants' motion for summary judgment [85] is hereby DENIED. The parties are directed to file a proposed consolidated pretrial order by March 18, 2010.

IT IS SO ORDERED this 16th day of February, 2010.

Timothy C. Batten, Sr.
United States District Judge

United States District Court,
N.D. Illinois,
Eastern Division.
Frank M. SULLIVAN, III, Plaintiff,
v.
Jimmy JAMISON, Defendant
Jimmy Jamison and Michael Stephan Ellis, Counterclaimants,
v.
Frank M. Sullivan, III (d/b/a Survivor) and Survivor Music, Inc., Counter-defendants.
No. 06 C 5240.

Dec. 1, 2010.

Annette Michele McGarry, Marianne C. Holzhall, Patrick M. McGarry, Michael Stephan Ellis, McGarry & McGarry, LLC, Chicago, IL, for Plaintiff.

Paul Stephen Turner, Joseph Ryan Menning, Stephen Donald Koslow, McCullough Campbell & Lane LLP, Chicago, IL, for Defendant/Counter-defendants.

MEMORANDUM OPINION AND ORDER

SHARON JOHNSON COLEMAN, District Judge.

Plaintiff, Frank M. Sullivan ("Sullivan"), and Survivor Music, Inc. ("SMI") move to dismiss the counterclaim brought against them by Jimmy Jamison ("Jamison") and Michael Stephan Ellis ("Ellis"). The counterclaim alleges seven claims against Sullivan and SMI for breach of contract, breach of fiduciary duty, fraud, fraudulent concealment, quantum meruit, unjust enrichment, and an accounting based on Sullivan and SMI's failure to pay royalties. Sullivan and SMI contend that Jamison and Ellis are not entitled to relief because without a contract the claims fail and, even if there were a contract for payment of royalties, the claims are barred by the applicable statute of limitations. For the reasons that follow, the motion is denied.

Background

The following factual background derives from the counterclaim and attached exhibits. On November 7, 1978, Sullivan, Dave Bickler ("Bickler"), Jim Peterik ("Peterik"), Robert Gary Smith ("Smith"), and Dennis Keith Johnson ("Johnson") formed a joint venture to create the band Survivor. (Counterclaim, Exhibit 1). The joint venture agreement provided that all five original members of Survivor would share equally in the profits generated by the band. The joint venture agreement also provided for compensating members after they leave the joint venture. On that same date, Survivor entered into a recording contract with Scotti Brothers Records, Inc. ("Scotti Brothers"), that provided for royalties to be paid to the band. (Counterclaim ¶ 9, Exhibit 2). The Scotti Brothers' recording contract also provided for the removal and replacement of members. In 1983, Survivor entered an amended recording contract with Scotti Brothers. (Counterclaim ¶ 20, Exhibit 3).

Jamison and Ellis allege that they were members of Survivor entitled to royalties under the 1978 and 1983 recording contracts with Scotti Brothers since they each signed inducement letters as replacement members, agreeing to be bound by the terms of the contracts. (Counterclaim ¶¶ 22, 25). Jamison and Ellis also allege that Sullivan and the other members of Survivor induced them to join the band by telling them that they would enjoy all the benefits of the joint venture agreement and share equally in any profits and royalties. Ellis left Survivor around 1987, and Jamison stopped performing with Peterik and Sullivan in 1988.

Sometime in 1996, Sullivan's accountant and Survivor band manager, Charles DiGiovanni ("DiGiovanni") began reviewing Survivor's royalty statements. DiGiovanni discovered that Scotti Brothers and their successor-in-interest All American Communications, Inc. ("All American"), had not been issuing royalty statements to Survivor since the early 1990's. On February 8, 1997, DiGiovanni wrote a letter on behalf of Survivor to Michael Botros of All American, demanding payment of the royalties due the band. (Counterclaim ¶ 36, Exhibit 8). In the letter, DiGiovanni specifically stated that, with certain exceptions for Peterik (who was also a producer), that the royalties should be paid to the band as a whole because "[t]his allows us to square away any internal discrepancies in payments among *all the band members.*" (Counterclaim ¶ 36, Exhibit 8) In April 1998, Sullivan and SMI filed suit against All American claiming $1.5 million in damages. (Counterclaim ¶ 39, Exhibit 9). The litigation ended in a settlement agreement. Sometime in 1999, Peterik learned of the litigation and demanded his share, and also that proceeds be distributed evenly between the members and former members of the band who performed on each of the recordings. The terms of the settlement agreement provided that Sullivan, SMI and Survivor release claims against All American through December 31, 1998. Jamison and Ellis allege that, since that date, Sullivan and SMI has received at least 80% of the royalties directly from All American and subsequent owners of Survivor's master recordings.

From 1996 to 1999, Ellis toured with Survivor, though no new albums were recorded. Ellis frequently asked Sullivan about royalties, including proceeds from "Eye of the Tiger," the band's most successful single on which Ellis performed. Sullivan allegedly told Ellis that Survivor would never receive any money due to the unfavorable terms of the 1978 and 1983 recording contracts with Scotti Brothers. During this same time frame, Sullivan was pursuing the litigation against All American and claiming $1.5 million in damages from unpaid profits and royalties.

In March 2000, Sullivan and Jamison reached an agreement for Jamison to rejoin the band and created a new entity, "Unified Music," an Illinois corporation. Under the new agreement, Jamison became a 50% partner in Survivor and believed that royalties on all of the band's recordings would be paid to Unified Music. Sullivan, DiGiovanni, and SMI allegedly acknowledged that Jamison was entitled to royalties based on his previous tenure with the band, but represented to him that Survivor still had a negative balance with the record label and it was unlikely that it would ever receive any royalties. Jamison claims he was never informed of the litigation and settlement reached with All American. Jamison also claims he was never informed that SMI, not Unified Music, was operating as the legal entity of Survivor and was receiving 80% of the royalty payments.

Around mid-2009, Jamison discovered from Peterik that Peterik had been receiving a 20% share of royalties, while Sullivan was receiving the remaining 80% directly from Sony (which now owns most of Survivor's master recordings) and paid to SMI. Jamison informed Ellis that Peterik had been receiving royalties and the instant counterclaim was filed.

Legal Standard

In order to withstand a motion to dismiss, a complaint must provide a short and plain statement of the claim showing that the pleader is entitled to relief. Fed.R.Civ.P. 8(a)(2). The allegations must be sufficient to give the defendant fair notice of the claim and its basis. *Windy City Metal Fabricators & Supply, Inc. v. CIT Tech Fin. Servs.,* 536 F.3d 663, 667 (7th Cir.2008). "In order to demonstrate that he is entitled to relief, however, the pleader must show through his allegations that it is plausible, rather than merely speculative, that he is entitled to relief." *INEOS Polymers, Inc. v. BASF Catalysts,* 553 F.3d 491, 497 (7th Cir.2009). When deciding to dismiss a complaint, the Court accepts all well-pleaded allegations as true (*Bell Atlantic Corp. v. Twombly,* 550 U.S. 544, 559, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007)), and draws all reasonable inferences in favor of the pleader. *Pisciotta v. Old Nat. Bancorp,* 499 F.3d 629, 633 (7th Cir.2007).

Discussion

1. Failure to State a Claim

Sullivan argues that the counterclaim fails to state a claim upon which relief can be granted because Jamison and Ellis are not parties to any written or oral contracts that would entitle them to royalty payments. Sullivan asserts that Jamison and Ellis have "cobbled together" from various contracts and letters a claim for royalties. A copy of any written instrument that is an exhibit to a complaint is considered to be a part of the pleadings. Fed.R.Civ.P. 10(c); *Moranski v. Gen. Motors Corp.,* 433 F.3d 537, 539 (7th Cir.2005).

A review of the counterclaim and attached exhibits, shows that Jamison and Ellis, though not signatories to the original recording contract, have pled sufficiently to make a plausible claim for relief as replacement members under the relevant provisions of the 1978 and 1983 recording contracts. The 1978 recording contract with Scotti Brothers provided for replacement members, stating: "You shall cause any such individual so approved by us as a *replacement member* to be bound by *all of the terms and provisions of this contract ...".* (Emphasis added) (Exhibit 2, ¶ 24(b)).

In 1983, Sullivan, Bickler, and Peterik, entered a "new agreement" with Scotti Brothers, amending the 1978 contract. (Counterclaim, Exhibit 3). Paragraph 6, referred to "Additional Members," stating: "Survivor agrees to cause all other persons performing musical services as part of or to Survivor, on other than a 'sideman' basis, including without limitation, Marc Doubray and Stephen Ellis, to execute the inducement letters attached hereto as Exhibit 'B' (with respect to Marc Doubray), Exhibit 'C' (with respect to Stephen Ellis), and Exhibit 'D' (with respect to any such persons other than Marc Doubray or Stephen Ellis), and Survivor further agrees to deliver such executed inducement letters to Scotti Bros. promptly after the execution

hereof. Such execution and delivery shall be deemed a material condition of this agreement." The inducement letters executed by Marc Doubray and Stephen Ellis are attached to the counterclaim and state that the signatories "agree to be bound by the terms and conditions thereof including, without limitation, the terms and conditions of the Present Contract [1978] and the terms and conditions of the New Agreement [1983]." (Counterclaim, Exhibit 4, 5). Jamison alleges he entered into the same inducement letter as Ellis and Marc Doubray. (Counterclaim ¶ 25) A letter, on Scotti Brothers' letterhead, evidencing Jamison's inducement letter states: "Enclosed please find a document to be executed *by the new member of Survivor, Jimi Jamison.* This document provides that Mr. Jamison assents to and agrees to be bound by the terms of the Survivor Agreements as amended. Please cause Jimi Jamison to execute the document, then have it returned to me." (Emphasis added) (Counterclaim, Exhibit 6). Accordingly, the 1978 and 1983 contracts incorporated new members of the band through the execution of inducement letters and bound them to the contracts to the same degree as the original members.

On October 23, 1986, Gerald Margolis, an attorney for Survivor, wrote a letter to Jamison's attorney concerning the relationship between the corporation Survivor Music Enterprises, Inc. and Jamison. (Counterclaim, Exhibit 7). The letter states in relevant part, "So far as I am able to ascertain from John Baruck [manager] and from the accountant for Survivor Music Enterprises, Inc., *Jimi Jamison has indeed and in fact been extended and enjoyed all the benefits of the other individual members* of the recording and performing group Survivor, commencing with the admission of him as a member of the group and through the present date .... *the group is comprised of five individuals (including your client),* and business structures aside, the *net revenues of the group* from personal appearances and phonorecords *are split among the members in equal shares.* This is pursuant to the understanding that Jimi Jamison would, from and after the event of joining the group, share equally *with the other fully vested members* the actual revenues derived from services as recording artists and musical performers." (Emphasis added) (Counterclaim, Exhibit 7). Although Sullivan claims this letter only refers to *negotiations* for Jamison to join the group, the content of the letter refutes that claim by repeatedly referring to Jamison in terms of being a present and ongoing member of Survivor. In fact, Mr. Margolis apologizes for "a failure on [his] part to formalize or document the understandings which in fact exist and which in fact your client has been living under and benefitting by, and I represent to you that it is neither from disrespect nor lack of care and concern from the interests of Jimi Jamison or the obligations of my own clients, but rather my own notion of priorities which has resulted in there not being appropriate documentation of the understandings which have existed and which are in fact being performed." (Counterclaim, Exhibit 7).

Sullivan's argument that there was no enforceable contract because the documents offered by Jamison and Ellis as evidence of a contract, do not indicate all of the essential terms is unavailing at this stage of the litigation. Jamison and Ellis have alleged sufficiently that they were bound, as replacement members, by all the terms and conditions of the 1978 and 1983 recording contracts with Scotti Brothers to the same extent as the other members of the band. The counterclaim and attached exhibits at least raise above the speculative level Jamison and Ellis' claim that they were members of Survivor entitled to royalties and that the failure to pay their share was a breach of those contracts.

Even under the heightened pleading requirements of Rule 9(b) for claims sounding in fraud, Jamison and Ellis' counterclaim alleges sufficient facts to withstand a motion to dismiss. The heightened pleading of Rule 9(b) requires "the who, what, when, where, and how: the first paragraph of any newspaper story." *DiLeo v. Ernst & Young*, 901 F.2d 624, 627 (7 th Cir.1990). Jamison and Ellis allege that Sullivan fraudulently concealed their claim for royalty payments. Under the Illinois fraudulent concealment statute, 735 ILCS 5/13-215, specific acts or representations by a defendant must have been "calculated to lull or induce [a plaintiff] into delaying filing [its] claim or to prevent [it] from discovering [its] claim." *Int'l Star Registry v. ABC Radio Network, Inc.*, 451 F.Supp.2d 982, 986 (N.D.Ill.2006).

Here, the counterclaim alleges that Sullivan concealed from Jamison and Ellis their potential claims for profits and royalties by never informing either Ellis or Jamison of the litigation and settlement in 1999, involving Scotti Brothers' successor in interest, All American. (Counterclaim ¶¶ 62, 73-74). Jamison and Ellis further allege that they specifically asked Sullivan and the band's management about royalty payments and that Sullivan told them that no royalties would ever be paid from the Scotti Brothers' contracts because of unfavorable terms and a negative balance with the record label. (Counterclaim ¶ ¶ 59-60, 70,72). Ellis alleges that Sullivan made these representations to them at the same time (1996-1999) that he was pursuing litigation against All American. (Counterclaim ¶¶ 59-66). Jamison alleges that he began asking about royalties when he rejoined the band in March 2000. (Counterclaim ¶ 70). Those allegations, taken as true, are sufficient to withstand a motion to dismiss.

2. Statute of Limitations

Next, Sullivan argues that the counterclaims are barred by a five-year statute of limitations and Jamison and Ellis have known of their claim for royalties for more than five years. *See* 735 ILCS 5/13-205 (governing oral contracts and other claims). In Illinois the statute of limitations on written contracts is ten years. 735 ILCS 5/13-206.

Illinois follows the general rule that claims arising from a contract accrue when the contract is breached, and most tort claims accrue when the plaintiff sustains an injury. *Hermitage Corp. v. Contractors Adjustment Co.*, 166 Ill.2d 72, 209 Ill.Dec. 684, 651 N.E.2d 1132, 1135 (Ill.1995). But courts also have a discovery rule to protect those who are unaware of their right to sue, "to encourage the trial of cases on their merits and avoid premature summary dismissals." *Superior Bank FSB v. Golding*, 152 Ill.2d 480, 178 Ill.Dec. 720, 605 N.E.2d 514, 518 (Ill.1992). The discovery rule delays the accrual of claims until the plaintiff reasonably should know that he has been injured and that the injury was wrongfully caused. *Id.*

Here, Jamison and Ellis would have known that the recording contracts they entered as replacement members of Survivor would entitle them to a share of the royalties, *if such royalties were being paid.* In their counterclaim, however, Jamison and Ellis allege that they did not receive any royalty payments and Sullivan represented to them that due to the unfavorable terms of the recording contracts the band had a negative balance with the label and that no royalties would ever be paid. Even if they doubted that no royalty payments had ever been made, "an abstract fear of wrongdoing is not enough" for the statute of limitations to begin running. *See CSC Holdings, Inc. v. Redisi*, 309 F.3d 988, 992 (7th Cir.2002); *Sokol Crystal Prducts, Inc. v.*

DSC Communications Corp., 15 F.3d 1427, 1430 (7th Cir.1994). Jamison and Ellis allege that they relied on Sullivan's representations. Therefore, it is reasonable that Jamison and Ellis would not know of a breach in the contract until they discovered that royalties were being paid. Jamison alleges that in mid-2009 he had dinner with Peterik and discovered that Peterik had been receiving 20% of the royalties. (Counterclaim ¶¶ 78-82). Jamison informed Ellis that Peterik was receiving royalty payments. (Counterclaim ¶ 83). The instant counterclaim was filed in August 30, 2010, which is well within the statute of limitations, even if the claims were based on oral contracts. Since all the other claims arise out of the contracts and the claim for royalties, the remaining claims are also timely.

Conclusion

For the reasons set forth in this order, Sullivan's motion to dismiss the counterclaim [47] is denied. Sullivan's motion for sanctions pursuant to Rule 11[51] is also denied. This Court finding oral argument unnecessary in this matter, the scheduled date of 12/3/10 at 9 a.m. is stricken. The previously scheduled status date of 2/25/2011 at 9 a.m. stands.

FOR PUBLICATION

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

F.B.T. PRODUCTIONS, LLC; EM2M, LLC, *Plaintiffs-Appellants,* v. AFTERMATH RECORDS, DBA Aftermath Entertainment; INTERSCOPE RECORDS; UMG RECORDING, INC.; ARY, INC., *Defendants-Appellees.*	No. 09-55817 D.C. No. 2:07-cv-03314-PSG-MAN
F.B.T. PRODUCTIONS, LLC; EM2M, LLC, *Plaintiffs-Appellants,* v. AFTERMATH RECORDS, DBA Aftermath Entertainment; INTERSCOPE RECORDS; UMG RECORDING, INC.; ARY, INC., *Defendants-Appellees.*	No. 09-56069 D.C. No. 2:07-cv-03314-PSG-MAN OPINION

Appeal from the United States District Court
for the Central District of California
Philip S. Gutierrez, District Judge, Presiding

Argued and Submitted
July 12, 2010—Pasadena, California

Filed September 3, 2010

Before: Jerome Farris, Cynthia Holcomb Hall and
Barry G. Silverman, Circuit Judges.

Opinion by Judge Silverman

COUNSEL

Jerome B. Falk Jr., Daniel B. Asimow, and Sara J. Eisenberg, Howard Rice Nemerovski Canady Falk & Rabkin PC, San Francisco, California; and Richard S. Busch, King & Ballow, Nashville, Tennessee, for the plaintiffs-appellants.

Glenn D. Pomerantz, Kelly M. Klaus, and Melinda E. Lemoine, Munger, Tolles & Olson LLP, Los Angeles, California, for the defendants-appellees.

OPINION

SILVERMAN, Circuit Judge:

This dispute concerns the percentage of royalties due to Plaintiffs F.B.T. Productions, LLC, and Em2M, LLC, under their contracts with Defendant Aftermath in connection with the recordings of Marshal B. Mathers, III, professionally known as the rap artist Eminem.[1] Specifically, F.B.T. and Aftermath disagree on whether the contracts' "Records Sold" provision or "Masters Licensed" provision sets the royalty rate for sales of Eminem's records in the form of permanent downloads and mastertones. Before trial, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to permanent downloads and mastertones. The district court denied the motion. At the close of evidence, F.B.T. did not move for judgment as a matter of law, and the jury returned a verdict in favor of Aftermath. On appeal, F.B.T. reasserts that the Masters Licensed provision unambiguously applies to permanent downloads and mastertones. We agree that the contracts are unambiguous and that the district court should have granted summary judgment to F.B.T. We therefore reverse the judgment and vacate the district court's order awarding Aftermath its attorneys' fees.

BACKGROUND

F.B.T. signed Eminem in 1995, gaining exclusive rights to his recordings. In 1998, F.B.T. signed an agreement transfer-

[1]This case involves multiple Plaintiffs and Defendants. For ease of reference, we refer to Plaintiffs collectively as F.B.T. and to Defendants collectively as Aftermath.

ring Eminem's exclusive recording services to Aftermath. The "Records Sold" provision of that agreement provides that F.B.T. is to receive between 12% and 20% of the adjusted retail price of all "full price records sold in the United States . . . through normal retail channels." The agreement further provides that "[n]otwithstanding the foregoing," F.B.T. is to receive 50% of Aftermath's net receipts "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses." The parties refer to this provision as the "Masters Licensed" provision. The contract defines "master" as a "recording of sound, without or with visual images, which is used or useful in the recording, production or manufacture of records." The agreement does not contain a definition of the terms "licensed" or "normal retail channels."

In 2002, Aftermath's parent company, Defendant UMG Recordings, Inc., concluded an agreement with Apple Computer, Inc., that enabled UMG's sound recordings, including the Eminem masters, to be sold through Apple's iTunes store as permanent downloads. Permanent downloads are digital copies of recordings that, once downloaded over the Internet, remain on an end-user's computer or other device until deleted. The contract between UMG and Apple is but one example of the many agreements that Aftermath has concluded to sell sound recordings in digital formats since approximately 2001. Since 2003, Aftermath has also concluded contracts with major cellular telephone network carriers to sell sound recordings as mastertones, which are short clips of songs that can be purchased by users to signal incoming calls, popularly known as ringtones.

In 2003, F.B.T. and Aftermath entered into a new agreement that terminated the 1998 agreement. The 2003 agreement increased some royalty rates, but incorporated the wording of the Records Sold and Masters Licensed provisions from the 1998 agreement. In 2004, the parties amended the agreement to provide that "Sales of Albums by way of perma-

nent download shall be treated as [U.S. Normal Retail Channel] Net Sales for the purposes of escalations." Escalations are increases in the royalty rate when total album sales surpass certain targets. The amendment further provides, "Except as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect."

F.B.T. brought suit after a 2006 audit showed that Aftermath had been applying the Records Sold provision to calculate the royalties due to F.B.T. for sales of Eminem's recordings in the form of permanent downloads and mastertones. Before trial, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to those sales. Aftermath cross-moved for summary judgment. It argued, in part, that the 2004 amendment showed that the parties intended the Records Sold provision to apply to permanent downloads.

After provisionally reviewing the undisputed extrinsic evidence, the district court concluded that the agreements were reasonably susceptible to either party's interpretation and denied both motions for summary judgment. At trial, only Aftermath moved for judgment as a matter of law at the close of the evidence. The court denied the motion. The jury returned a verdict in favor of Aftermath, and the district court awarded Aftermath its attorneys' fees of over $2.4 million. F.B.T. timely appealed the district court's final judgment and award of attorneys' fees. We have jurisdiction pursuant to 28 U.S.C. § 1291 and we reverse.

DISCUSSION

I. *F.B.T. Is Not Precluded from Arguing that the Masters Licensed Provision Unambiguously Applies to Permanent Downloads and Mastertones.*

[1] F.B.T. did not file a pre-verdict motion for judgment as a matter of law pursuant to Federal Rule of Civil Procedure

50, so it has not preserved "a challenge to the sufficiency of the evidence to support the verdict" in this case. *Nitco Holding Corp. v. Boujikian*, 491 F.3d 1086, 1089 (9th Cir. 2007). However, F.B.T.'s argument that the contracts are unambiguous raises an issue of law that does not rest on the sufficiency of the evidence to support the jury's verdict. *See Wolf v. Superior Court*, 8 Cal. Rptr. 3d 649, 656 (Ct. App. 2004) ("The trial court's determination of whether an ambiguity exists is a question of law, subject to independent review on appeal."). F.B.T. therefore did not have to present that argument in a motion for judgment as a matter of law. Rather, F.B.T. had to raise the argument at some point before the judge submitted the case to the jury, which it did. *See Cochran v. City of L.A.*, 222 F.3d 1195, 1200 (9th Cir. 2000) (holding that an issue of law that "does not concern the sufficiency of the evidence presented to the jury" need not be raised in a motion for judgment as a matter of law to preserve the issue for appeal); *Landes Constr. Co. v. Royal Bank of Can.*, 833 F.2d 1365, 1370 (9th Cir. 1987) ("As long as a party properly raises an issue of law before the case goes to the jury, it need not include the issue in a motion for a directed verdict in order to preserve the question on appeal.").

F.B.T. argued that the contract was unambiguous in its motion for summary judgment, and the district court denied the motion. A district court's denial of summary judgment is subject to review on appeal, despite full trial on the merits, "where the district court made an error of law that, if not made, would have required the district court to grant the motion." *Banuelos v. Constr. Laborers' Trust Funds for S. Cal.*, 382 F.3d 897, 902 (9th Cir. 2004) (citing *Pavon v. Swift Transp. Co., Inc.*, 192 F.3d 902, 906 (9th Cir. 1999)). For example, in *Wilson Arlington Co. v. Prudential Insurance Co.*, 912 F.2d 366, 370-71 (9th Cir. 1990), we reversed the denial of a summary judgment motion after a jury trial because the contract in question was unambiguous as a matter of law. *Accord King v. PA Consulting Group, Inc.*, 485 F.3d 577, 589 (10th Cir. 2007) (holding that despite the absence of

a motion for judgment as a matter of law, "King adequately preserved the purely legal question of whether the Agreement is ambiguous by raising the matter in his trial brief"); *Chemetall GMBH v. ZR Energy, Inc.*, 320 F.3d 714, 718-20 (7th Cir. 2003) (reviewing a district court's conclusion on summary judgment that a contract was ambiguous despite the absence of a motion for judgment as a matter of law at trial); *White Consol. Indus., Inc. v. McGill Mfg. Co.*, 165 F.3d 1185, 1189-90 (8th Cir. 1999) (same).

Just as in *Wilson*, we may review the district court's determination that the contracts in this case are ambiguous. Under California law, "[t]he language of a contract is to govern its interpretation, if the language is clear and explicit, and does not involve an absurdity." Cal. Civ. Code § 1638. Parol evidence is properly admitted to construe a contract only when its language is ambiguous.

> The decision whether to admit parol evidence involves a two-step process. First, the court provisionally receives (without actually admitting) all credible evidence concerning the parties' intentions to determine "ambiguity," i.e., whether the language is "reasonably susceptible" to the interpretation urged by a party. If in light of the extrinsic evidence the court decides the language is "reasonably susceptible" to the interpretation urged, the extrinsic evidence is then admitted to aid in the second step—interpreting the contract.

Winet v. Price, 6 Cal. Rptr. 2d 554, 557 (Ct. App. 1992). Despite the trial court's provisional review of extrinsic evidence, its determination of whether an ambiguity exists remains "a question of law, subject to independent review on appeal." *Wolf*, 8 Cal. Rptr. at 656; *see also City of Hope Nat'l Med. Ctr. v. Genetech, Inc.*, 181 P.3d 142, 156 (Cal. 2008) (stating that contract interpretation is a question of law for the

court "when it is based on the words of the instrument alone [or] when there is no conflict in the extrinsic evidence").

[2] Here, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to permanent downloads and mastertones. The district court denied F.B.T.'s motion because it determined that the agreements were reasonably susceptible to Aftermath's contrary interpretation that the Records Sold provision applied. That determination was on a "question of law," *Wolf*, 8 Cal. Rptr. 3d at 656, that if decided in F.B.T.'s favor "would have required the district court to grant the [summary judgment] motion," *Banuelos*, 382 F.3d at 902. We may therefore review the district court's denial of summary judgment despite full trial on the merits.

II. *The District Court Erred in Determining that the Contracts Were Ambiguous.*

[3] Turning to the agreements in question, the Records Sold provision contains the royalty rate for "full price records sold in the United States . . . through normal retail channels." On summary judgment, Aftermath argued that the Records Sold provision applied because permanent downloads and mastertones are records, and because iTunes and other digital music providers are normal retail channels in the United States.

[4] However, the agreements also provide that "notwithstanding" the Records Sold provision, F.B.T. is to receive a 50% royalty on "masters licensed by [Aftermath] . . . to others for their manufacture and sale of records or for any other uses." The parties' use of the word "notwithstanding" plainly indicates that even if a transaction arguably falls within the scope of the Records Sold provision, F.B.T. is to receive a 50% royalty if Aftermath licenses an Eminem master to a third party for "any" use. A contractual term is not ambiguous just because it is broad. Here, the Masters Licensed provision

explicitly applies to (1) masters (2) that are licensed to third parties for the manufacture of records "or for any other uses," (3) "notwithstanding" the Record Sold provision. This provision is admittedly broad, but it is not unclear or ambiguous.

[5] Accordingly, to determine whether the Masters Licensed provision applies, we must decide whether Aftermath licensed the Eminem masters to third parties. Aftermath argues that there was no evidence that it or F.B.T. used the term "licensed" in a technical sense. *See* Cal. Civ. Code § 1644 ("The words of a contract are to be understood in their ordinary and popular sense, rather than according to their strict legal meaning; unless used by the parties in a technical sense . . . ."). In the ordinary sense of the word, a license is simply "permission to act." WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE 1304 (2002). Aftermath did not dispute that it entered into agreements that permitted iTunes, cellular phone carriers, and other third parties to use its sound recordings to produce and sell permanent downloads and mastertones. Those agreements therefore qualify as licenses under Aftermath's own proposed construction of the term.

[6] The conclusion that Aftermath licensed the Eminem masters to third parties also comports well with and finds additional support in federal copyright law. When one looks to the Copyright Act, the terms "license" and "sale" have well differentiated meanings, and the differences between the two play an important role in the overall structures and policies that govern artistic rights. For example, under the language of the Act and the Supreme Court's interpretations, a "sale" of a work may either be a transfer in title of an individual copy of a work, or a sale of all exclusive intellectual property rights in a work. *See* 17 U.S.C. § 109 (describing the "first sale" doctrine); *Quality King Distribs. v. L'Anza Research Int'l*, 523 U.S. 135, 145 (1998) (describing the transfer of an individual copy of a work as a sale); *see also* 3-10 NIMMER ON

COPYRIGHT § 10.02 (2009) (describing a transfer of all ownership in a copyright as a sale).

[7] There is no dispute that Aftermath was at all relevant times the owner of the copyrights to the Eminem recordings at issue in this case, having obtained those rights through the recording contracts in exchange for specified royalty payments. Pursuant to its agreements with Apple and other third parties, however, Aftermath did not "sell" anything to the download distributors. The download distributors did not obtain title to the digital files. The ownership of those files remained with Aftermath, Aftermath reserved the right to regain possession of the files at any time, and Aftermath obtained recurring benefits in the form of payments based on the volume of downloads.

Much as Section 109 describes a "sale" under the "first sale" doctrine, various other sections of the Copyright Act illuminate the meaning of the term "license." For example, section 114(f), titled "Licenses for Certain Nonexempt Transmissions," describes the statutory authorization for a third party to exercise public performance rights that otherwise remain the exclusive rights of a copyright holder and defines this authorization as a "license." 17 U.S.C. § 114(f); *see also* 17 U.S.C. §§ 111(a), 114(d)(2). Section 115, titled "Scope of Exclusive Rights in Nondramatic Musical Works: Compulsory License for Making and Distributing Phonorecords," refers directly to the statutory authorization for artists to exercise the copyright owner's right to make and distribute phonorecord "covers" as a license, but again makes it clear that title remains with the copyright owner. 17 U.S.C. § 115.

[8] Under our case law interpreting and applying the Copyright Act, too, it is well settled that where a copyright owner transfers a copy of copyrighted material, retains title, limits the uses to which the material may be put, and is compensated periodically based on the transferee's exploitation of the material, the transaction is a license. *See, e.g.*, *Wall Data Inc.*

v. Los Angeles County Sheriff's Dep't, 447 F.3d 769, 785 (9th Cir. 2006); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993); *United States v. Wise*, 550 F.2d 1180, 1190-91 (9th Cir. 1977); *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir. 1960).

It is easily gleaned from these sources of federal copyright law that a license is an authorization by the copyright owner to enable another party to engage in behavior that would otherwise be the exclusive right of the copyright owner, but without transferring title in those rights. This permission can be granted for the copyright itself, for the physical media containing the copyrighted work, or for both the copyright and the physical media.

[9] When the facts of this case are viewed through the lens of federal copyright law, it is all the more clear that Aftermath's agreements with the third-party download vendors are "licenses" to use the Eminem master recordings for specific purposes authorized thereby—i.e., to create and distribute permanent downloads and mastertones—in exchange for periodic payments based on the volume of downloads, without any transfer in title of Aftermath's copyrights to the recordings. Thus, federal copyright law supports and reinforces our conclusion that Aftermath's agreements permitting third parties to use its sound recordings to produce and sell permanent downloads and mastertones are licenses.

[10] Furthermore, the sound recordings that Aftermath provided to third parties qualify as masters. The contracts define a "master" as a "recording of sound . . . which is used or useful in the recording, production or manufacture of records." Aftermath admitted that permanent downloads and mastertones are records. The sound recordings that Aftermath supplied to third parties were "used or useful" in the production of permanent downloads and mastertones, so those sound recordings were masters. Because Aftermath permitted third parties to use the Eminem masters to produce and sell records,

in the form of permanent downloads and mastertones, F.B.T. is entitled to a 50% royalty under the plain terms of the agreements.

Aftermath argues that the 2004 amendment to the agreements clarified that the Records Sold provision sets the royalty for permanent downloads. However, the 2004 amendment states only that albums sold as permanent downloads are to be counted "for purposes of escalations" under the Records Sold provision, and that "[e]xcept as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect." Read in context, the plain language of the amendment provides that sales of permanent downloads by third parties count towards escalations on the royalty owed when Aftermath itself sells records through normal retail channels. It does not state, and in no way implies, that the royalty rate for the sale of the permanent downloads by third parties is set by the Records Sold provision.

Nor did any of the evidence regarding industry custom or the parties' course of performance support Aftermath's interpretation that the Records Sold provision applies. Aftermath's expert explained that the Masters Licensed provision had in the past been applied "only to compilation records and incorporation into movies, TV shows, and commercials." It was, however, undisputed that permanent downloads and mastertones only came into existence from 2001 to 2003. Consequently, the fact that the Masters Licensed provision had never previously been applied to those forms of licensing is immaterial. There is no indication that the parties intended to confine the contract to the state of the industry in 1998. To the contrary, the contract contemplated advances in technology. It provided that Aftermath had the right to exploit the "masters in any and all forms of media now known and hereinafter developed." Aftermath's evidence of how the Masters Licensed provision had been applied in the past therefore did not cast doubt on its application to permanent downloads and mastertones.

[11] Furthermore, Aftermath renewed its agreement with F.B.T. in 2003, by which time permanent downloads and mastertones were coming into existence. Aftermath argued that subsequent to renewal, F.B.T. had "never objected to Defendants' payment of royalties under the Records Sold provision until the auditor raised the issue in 2006." However, Aftermath provided no evidence that F.B.T. knowingly acquiesced to payment under the Records Sold provision between 2003 and 2006. It showed that F.B.T. had received statements that included royalties for permanent downloads and mastertones, but it was uncontroverted that F.B.T. did not audit those royalty statements until 2006. F.B.T. had no obligation to audit the statements any earlier than it did, and it immediately raised the issue with Aftermath after the audit. Accordingly, Aftermath cannot use F.B.T.'s lack of objection to payments made before 2006 to prove how it interpreted the agreements. *See Barnhart Aircraft, Inc. v. Preston*, 297 P. 20, 22 (Cal. 1931) (holding that a party's acts can be used to construe its interpretation of an agreement only where such acts were "direct, positive and deliberate and . . . done in an attempted compliance with the terms of the contract or agreement"). The undisputed extrinsic evidence provisionally reviewed by the district court therefore did not support Aftermath's interpretation that the Records Sold provision applies.

[12] In sum, the agreements unambiguously provide that "notwithstanding" the Records Sold provision, Aftermath owed F.B.T. a 50% royalty under the Masters Licensed provision for licensing the Eminem masters to third parties for any use. It was undisputed that Aftermath permitted third parties to use the Eminem masters to produce and sell permanent downloads and mastertones. Neither the 2004 amendment nor any of the parole evidence provisionally reviewed by the district court supported Aftermath's interpretation that the Records Sold provision applied. Because the agreements were unambiguous and were not reasonably susceptible to Aftermath's interpretation, the district court erred in denying F.B.T. summary judgment.

The judgment in favor of Aftermath is REVERSED, the district court's order granting Aftermath its attorneys' fees is VACATED, and the case is REMANDED for further proceedings consistent with this opinion.

NO. _____

In the
Supreme Court of the United States

AFTERMATH RECORDS (D/B/A AFTERMATH ENTERTAINMENT), INTERSCOPE RECORDS, UMG RECORDINGS, INC.,

Petitioners,

v.

F.B.T. PRODUCTIONS, LLC, EM2M, LLC,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

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December 2010

QUESTIONS PRESENTED

In *Ortiz v. Jordan*, No. 09-737, this Court granted certiorari and heard oral argument on November 1, 2010 on the following question: "May a party appeal an order denying summary judgment after a full trial on the merits if the party chose not to appeal the order before trial?"

This case presents the same basic questions as *Ortiz*, outside the qualified-immunity context:

1. May a party obtain appellate review after trial of the pretrial denial of summary judgment, or must a party preserve the issues it argued at summary judgment in the ways required by the rules applicable at trial?

2. If appellate review after trial of the denial of summary judgment is ever appropriate, is such review limited to purely legal questions not tied to the evidence, or does it also extend to mixed questions of law and fact that require review of the trial (or summary judgment) evidence?

3. In all events, is summary reversal required where respondents explicitly disavowed in the district court and on appeal the argument that the district court erred by allowing the jury to interpret the contract and did not argue in their opening or reply brief on appeal that they sought review of the denial of summary judgment, and the Ninth Circuit simply ignored those forfeitures without suggesting any legitimate basis to overlook them?

CORPORATE DISCLOSURE STATEMENT

Petitioner UMG Recordings, Inc. ("UMG") is an indirect subsidiary of Vivendi S.A., which is a publicly traded corporation. Petitioner Interscope Records is a California general partnership. The partners in Interscope Records are UMG and PRI Productions, Inc., a Delaware corporation wholly owned by UMG. Petitioner Aftermath Records d/b/a Aftermath Entertainment is a joint venture co-owned by UMG, Interscope Records, and ARY, Inc. ARY, Inc., which was a defendant in the district court but was not a party in the court below, is not a publicly traded company, and no publicly traded company owns 10% or more of its stock.

TABLE OF CONTENTS

APPENDIX

TABLE OF AUTHORITIES

Page(s)

CASES

STATUTES AND RULES

OTHER AUTHORITIES

Aftermath Records, Interscope Records, and UMG Recordings, Inc. respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit.

OPINIONS BELOW

The Ninth Circuit's order and judgment, ___ F.3d ___, 2010 WL 3448098, is at App. 1a. The district court's decision denying respondents' motion for new trial is at App. 16a. The district court's decision denying summary judgment is at App. 34a.

JURISDICTION

The court of appeals issued its opinion on September 3, 2010. Petitioners' timely petition for rehearing was denied on October 21, 2010. App. 53a. This Court has jurisdiction under 28 U.S.C. § 1254.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

U.S. Const., Amend. VII and Fed. R. Civ. P. 50 are set forth at App. 54a.

STATEMENT

This case presents the same basic appealability issue that the Court is considering in *Ortiz v. Jordan*, No. 09-737. This case also underscores two important lessons about the issue in *Ortiz*: 1) The issue is by no means limited to the qualified-immunity context with its unique rules about interlocutory appeals, and 2) anything other than a bright-line approach — either precluding all post-trial appeals of the denial of summary judgment without additional steps to preserve the legal issue

for review, or strictly limiting any exception to purely legal issues that involve no review of the evidentiary record — is hopelessly manipulable. Indeed, this case is Exhibit A for the inherent manipulability of a loose approach allowing appeal of "legal" errors. The Ninth Circuit could find "legal" error here only after an extensive review of the evidentiary record. In particular, the Ninth Circuit reviewed the *trial* record, which underscores that something other than a review of a summary judgment decision (which presumably would focus on the summary judgment record) was afoot. To make matters worse, the Ninth Circuit could reach this "appeal of the denial of summary judgment" only by ignoring respondents' multiple forfeitures. And the Ninth Circuit engaged in all this manipulation not to correct an injustice but to create one and render the jury's careful deliberations for naught.

1. In 1995, Marshall Mathers was an unknown aspiring rapper. Today, he is better known as Eminem — one of the world's most popular recording artists. Eminem's fans purchase millions of dollars' worth of his music in a variety of formats such as CDs and permanent downloads through online music retailers. The suit underlying this petition concerns the appropriate calculation of royalties from those online sales.

Respondents are a small record company that signed Eminem in 1995. Respondents' efforts to sell his music were a commercial failure. Petitioners — also record companies — contracted with respondents to obtain Eminem's recording services. That contract, executed in 1998 and amended several times since, provides respondents with a share of

royalties from the exploitation of Eminem's recordings.

Not content with the millions of dollars they had received under the agreement, respondents sued in 2007, contending that petitioners had calculated royalties for permanent downloads under the wrong provision. The contract did not expressly address such downloads, which were not yet commercially available in 1998. Petitioners have paid respondents royalties on such online record sales under the standard royalty rates (18%-23%) that apply to "records sold in the United States . . . through normal retail channels." *See* App. 58a ¶ 4(a) (the "Records Sold" provision). Respondents claimed that download sales must instead be subject to the agreement's higher (50%) royalty under the "Masters Licensed" provision, which covers "masters licensed by us . . . to others for their manufacture and sale of records or for any other uses . . . of the masters." App. 61a ¶ 4(c)(v).

2. Both sides moved for summary judgment. Under long-settled (albeit idiosyncratic) principles of California law governing contract interpretation, the cross-motions for summary judgment centered on extrinsic evidence.

a. California law requires the trial court to provisionally consider any relevant extrinsic evidence, such as industry custom and usage. *See, e.g.*, *Pac. Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co.*, 69 Cal.2d 33, 39 (1968). This rule applies even where a contract appears unambiguous on its face. If the extrinsic evidence shows that the contract is reasonably susceptible to the parties' competing interpretations, the contract is deemed

ambiguous and summary judgment is inappropriate. The jury then resolves conflicts in the extrinsic evidence and may interpret the contract in its role as fact-finder. *City of Hope Nat'l Med. Ctr. v. Genentech, Inc.*, 43 Cal.4th 375, 395 (Cal. 2008).

b. The language of the Records Sold provision covers permanent downloads: downloaded music files are "records," and online music stores are "normal retail channels" for selling records. App. 63a ¶ 16(e). Indeed, iTunes is now *the* most popular retailer for recorded music. Although commercial downloads did not exist at the time of the agreement, changes in recording formats are common, and the agreement thus gives petitioners the right to exploit the Eminem recordings "in any and all forms of media now known and hereinafter developed." CA9 ER841 ¶ 8. The parties agreed that the Records Sold provision has applied to every other evolutionary configuration for the distribution of records, whether cassette, vinyl, or CD.

Respondents nonetheless claimed that the "Masters Licensed" provision governed because petitioners were providing master recording files to online retailers and the retailers thereafter made copies and distributed them to customers. App. 61a ¶ 4(c)(v). According to respondents, this arrangement necessarily constituted a "license," and extrinsic evidence of industry practice supported applying the Masters Licensed provision to any license. Respondents further argued that the Masters Licensed provision trumped the Records Sold provision because it appears in a section that follows the Records Sold provision and is preceded by the phrase "[n]otwithstanding the foregoing."

Petitioners' extrinsic evidence demonstrated a much different purpose for the Masters Licensed provision: that it was intended to apply only to third-party uses of masters for the third party's *own* purposes, such as compilation albums, movie soundtracks, or video games — not to the sale of petitioners' own records through normal retail channels. A 2000 amendment, for example, described respondents' share of royalties under the Masters Licensed provision with reference to "advances or fees" paid "in connection with any *ancillary* uses of each master recording." App. 66a–67a ¶¶ 6, 7(e) (emphasis added). Additional evidence regarding recording industry custom and practice confirmed that Masters Licensed transactions always have included only those licenses that involve "ancillary uses," not the principal means for distributing the recordings (*i.e.*, sales through normal retail channels).

In addition, a 2004 amendment to the Records Sold provision specifically identified "permanent download" sales and stated that the royalty rate for such sales would increase upon achieving specific sales targets. App. 70a ¶ 2(a). That language was consistent with the parties' pre-dispute performance, during which respondents accepted without objection petitioners' calculation of royalties for download sales under the Records Sold provision.

c. The district court denied both motions for summary judgment. App. 34a. The court found that neither the Records Sold nor Masters Licensed provision expressly covered downloads and that neither side had discussed royalties for downloads (or, indeed, anything about the Masters Licensed provision) during negotiations. App. 43a. The court

therefore "look[ed] to the nature of the contract and the surrounding circumstances to interpret the contractual language." *Id.* The court considered both parties' extrinsic evidence — thousands of pages' worth of declarations and exhibits — and concluded that "neither party has conclusively established that 'custom and practice' mandates a particular interpretation of the Masters Licensed provision. Instead, the parties' conflicting evidence creates a triable issue of fact." App. 47a.

3. The case was tried to a jury. The trial lasted eight court days and included 17 witnesses and hundreds of exhibits. At no time during trial did respondents ask the court to revisit its determination that the extrinsic evidence presented at summary judgment rendered the contracts reasonably susceptible to each side's interpretation. Respondents did not move for judgment as a matter of law ("JMOL") under Fed. R. Civ. P. 50 on the issue of the meaning of the contract or request an instruction interpreting the contract for the jury.

Respondents did not merely forfeit by inaction the argument that the court should construe the contract as a matter of law; respondents affirmatively disavowed it. The district court asked whether respondents wished to request a jury instruction that stated: "It is my job as judge to interpret the meaning of these agreements, and therefore, I will tell you what the recording agreements mean." *See* App. 72a. That pattern instruction explained that it "should only be given if the Court finds that any of the disputed contractual provisions are not 'reasonably susceptible' to the parties' competing interpretations and that there is no conflict in the extrinsic evidence that the jury must resolve." *Id.*

When the district court directly asked whether respondents sought that instruction, respondents stated that it was "not applicable." CA9 ER627.

The court submitted the interpretation of the contract to the jury. The jury found that the Records Sold provision and not the Masters Licensed provision applied to permanent download sales and returned a verdict for petitioners.

4. Respondents moved for a new trial, arguing (for the first time since their summary judgment motion) that the district court should have construed the agreement as a matter of law. Respondents' request for a *new trial* on this ground was incoherent: if respondents were correct that the court should have construed the contract in their favor as a matter of law, there would have been nothing to try. The court was not fooled and held that respondents had forfeited such relief by failing to move for JMOL under Rule 50(a) or to request an appropriate charge instructing the jury as to the contract's meaning. App. 22a–25a.

Respondents contended that they had preserved the argument because they had made their position clear at summary judgment and it would have been futile to raise the issue again at trial. The district court disagreed, explaining that respondents "never disputed the propriety of the Court's ruling on summary judgment, sought reconsideration of that decision, informed the Court that they believed it

was error to submit the issue to the jury, or objected to the jury instructions." App. 24a.[1]

5. Respondents appealed the district court's final judgment. In their opening and reply briefs, respondents did not argue that the Ninth Circuit should review the denial of their summary judgment motion. Instead, respondents argued that the Ninth Circuit should review *the jury's* interpretation of the contract *de novo*. Resp. CA9 Br. 25 (first argument heading: "The jury's erroneous interpretation of the recording agreements cannot stand") (capitalization omitted); Resp. CA9 Reply Br. 23 ("the jury's contract interpretation is reviewed *de novo* by this Court even though no JMOL motion was made"). In keeping with their challenge to the jury's interpretation, respondents relied on the trial record, not the summary judgment record.

Petitioners countered that respondents had forfeited the argument that the contract must be interpreted as a matter of law to bear respondents' claimed meaning. First, because respondents did not move for JMOL, they could not seek that relief on appeal. Second, because respondents had disavowed a jury instruction interpreting the contract, they could not challenge the court's decision to allow the jury to interpret the contract. In addition to arguing that their forfeitures were excused because it would have been futile to object to allowing the jury to

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[1] The district court also held that respondents' argument was meritless because the parties had presented conflicting expert testimony about the relevant custom and the jury had to resolve that dispute. App. 26a ("both versions of the accepted recording industry practice could not be true").

interpret the contract, respondents protested that they were "*not* arguing that the judgment must be reversed and the case remanded for a new trial because the District Court erroneously submitted the contract interpretation question to the jury." Resp. CA9 Reply Br. 23.

6. a. On July 6, 2010 — just six days before oral argument — respondents filed a letter under Fed. R. App. P. 28(j). That letter cited seven cases that respondents said supported their contention that the Ninth Circuit could review the jury's construction of the contract despite respondents' failure to seek JMOL. App. 56a–57a. Respondents also stated, for the first time, that the issue of contract interpretation "is also reviewable as an appeal from the denial of summary judgment on that legal issue." *Id.* None of those seven cases post-dated the appellate briefing. Respondents' letter offered no justification for proffering old authority to make a new argument on the eve of oral argument.

b. At oral argument, respondents confessed that they were "really appealing from the denial of summary judgment." Oral Argument Recording 14:00 (July 12, 2010), *available at* http://www.ca9.uscourts.gov/media/view_subpage.php?pk_id=0000005791. Petitioners objected that respondents had never sought review of the denial of summary judgment in their briefs and that oral argument was far too late to raise a new argument. At oral argument, as in their letter, respondents offered no justification for their belated attempt to raise a new argument.

c. Nine days after oral argument, petitioners filed a Motion to Defer Submission. Petitioners first

argued that respondents' belated request for review of the denial of summary judgment was forfeited. Petitioners cited clear Ninth Circuit precedent holding that "we do not entertain contentions made for the first time at oral argument." Mot. at 3 (quoting *United Ass'n of Journeymen v. Valley Eng'rs.*, 975 F.2d 611, 614 n.5 (9th Cir. 1992)). In the alternative, petitioners explained that this Court had granted certiorari in *Ortiz* and would soon clarify whether a party may appeal the denial of summary judgment after trial. Petitioners thus argued that if the Ninth Circuit was inclined to consider respondents' belated request for review of the denial of summary judgment, the court should defer submission pending this Court's decision in *Ortiz*. *Id.* at 5-7. Respondents' opposition, yet again, made no attempt to justify their belated request.

The court of appeals denied petitioners' motion without comment on August 2, 2010. App. 52a.

7. In an opinion filed September 3, 2010, the court of appeals reversed the district court's judgment on the jury's verdict.

a. The Ninth Circuit entirely ignored respondents' appellate forfeiture. It did not mention respondents' Rule 28(j) letter, petitioners' objection to it at oral argument, or petitioners' Motion to Defer Submission, or otherwise address in any way respondents' untimeliness in requesting reversal of the denial of summary judgment.

b. The Ninth Circuit held that respondents' contention that the contract was unambiguous and required judgment in their favor could be considered as an appeal of the denial of their motion for summary judgment. The court held that a Rule

50(a) motion was not required because respondents' "argument that the contracts are unambiguous raises an issue of law that does not rest on the sufficiency of the evidence to support the jury's verdict." App. 5a. Relying on cases cited in respondents' Rule 28(j) letter, the Ninth Circuit held that the "denial of summary judgment is subject to review on appeal, despite full trial on the merits, 'where the district court made an error of law that, if not made, would have required the district court to grant the motion [for summary judgment].'" App. 6a (quoting *Banuelos v. Constr. Laborers' Trust Funds for S. Cal.*, 382 F.3d 897, 902 (9th Cir. 2004)).

c. After discussing some of the evidence from the *trial record*, the court of appeals held that the district court should have granted *summary judgment*. The Ninth Circuit found that none of "the evidence regarding industry custom or the parties' course of performance" supported petitioners' interpretation and that the Masters Licensed provision unambiguously covers royalties on download sales. App. 13a. The court did not address the summary judgment record.

d. The Ninth Circuit did not address respondents' statement to the district judge that a jury instruction interpreting the contract for the jury as a matter of law was "not applicable." Nor did the Ninth Circuit address respondents' protests in their appellate briefs that they were challenging the jury's interpretation of the contract, rather than the district court's decision to send the contract's interpretation to the jury.

REASONS FOR GRANTING THE PETITION

I. *Ortiz v. Jordan* presents an important and recurring question on which the circuits are divided: May the losing party at trial appeal the pretrial denial of its summary judgment motion without taking additional steps like a Rule 50 motion to preserve the underlying issue? The circuits' decisions and the briefing and oral argument in *Ortiz* suggest three possible answers: (1) no, additional steps are always necessary; (2) no, unless the issue is "purely legal"; or (3) yes, if the issue is "legal" in any sense, even if it requires review of the evidentiary record.

If this Court adopts a bright-line approach and answers this question "no" in *Ortiz*, the Ninth Circuit's decision here plainly will fall along with the Sixth Circuit's decision. But even if this Court decides that a "purely legal" summary judgment argument may be raised on appeal after trial absent additional steps to preserve the legal issue, the Ninth Circuit's decision may still need to be reversed, depending on what the Court means by "purely legal." The court below held that it could review the extensive extrinsic evidence presented by both sides at trial to determine whether, in light of that evidence, the contract was reasonably susceptible to both sides' interpretations. Surely a decision that depends on such a review of the evidence should not count as "purely legal." And the decision below presents a cautionary tale about the inherent malleability of any exception, other than one that strictly limits purely legal issues to those that involve *no* consideration of evidence. In all events, because the Court's answer to this basic question in *Ortiz* will almost certainly inform

whether the decision below can stand, this Court should hold this petition pending its decision in *Ortiz*.

This case also underscores that the question in *Ortiz* is not in any way limited to the qualified-immunity context, just as the circuit split detailed in *Ortiz* is not tied to that doctrine. Petitioners thus submit that there is no reason why this Court should resolve *Ortiz* on grounds specific to the qualified-immunity context. If, however, the Court does not resolve this question in *Ortiz* or ties its decision to the unique rules that allow interlocutory appeals for a subset of decisions denying immunity at the summary judgment stage, the Court should grant this petition to resolve the broader underlying issue, which recurs outside the qualified-immunity context.

II. If the Court does not hold or grant this petition, summary reversal is warranted. The court of appeals grossly overreached by ignoring multiple forfeitures for which respondents offered no excuse. Respondents did not merely fail to move for JMOL on the ground that the contract had to be interpreted in their favor as a matter of law. They also explicitly disavowed an instruction that would have had the district court interpret the contract for the jury. Then, on appeal, they reaffirmed that they were not challenging the district court's decision to send the contract interpretation issue to the jury. And they first expressed an intent to appeal the denial of summary judgment on the eve of oral argument, in a Rule 28(j) letter that cited no new authority and offered no excuse for the sandbagging.

Despite all this, the Ninth Circuit inexplicably looked the other way in its zeal to overturn a jury

verdict. Countless decisions of that court declare that an issue not raised in a party's opening brief will not be considered. Declining to enforce that rule in this case without even acknowledging the issue, let alone offering a valid justification, is the height of arbitrariness, especially given the nature of the parties and issue here. This is not remotely a case of a *pro se* litigant who needs the court's help, or even of a temptation to ignore procedural defaults to avoid a manifest injustice. Respondents were well-represented; they have received millions of dollars in royalties even under petitioners' interpretation of the contract; and the Ninth Circuit's effort ignored the jury verdict to create — not to remedy — an injustice.

I. THIS PETITION PRESENTS THE SAME IMPORTANT ISSUE AS *ORTIZ*.

A. The Court Should Hold This Petition Pending Resolution Of *Ortiz*.

This Court granted certiorari in *Ortiz* to address an important issue on which courts are divided: "May a party appeal an order denying summary judgment after a full trial on the merits if the party chose not to appeal the order before trial?" The briefs and oral argument in *Ortiz* make clear that this Court's resolution of this question in *Ortiz* will likely govern the present case.

1. The substantive issue in *Ortiz* is whether the respondents enjoy qualified immunity, and the formulation of the question presented there could be understood to suggest that the answer could turn on the fact that an interlocutory appeal is permitted under some circumstances when immunity is denied at the summary-judgment stage. The briefs and oral

argument, however, make clear that Ortiz is *not* contending that the reviewability of the denial of summary judgment after trial turns on the defendants' "cho[ic]e not to appeal the order" denying summary judgment immediately. *Ortiz* Pet. i.

Ortiz's reply brief makes explicit that an official who unsuccessfully claims qualified immunity at summary judgment is free to choose not to take an immediate appeal and to claim immunity at trial instead. *Ortiz* Reply Br. 8-9. The choice to forgo an immediate appeal in no way affects the substantive immunity from liability or prevents the official from raising issues related to immunity on appeal. Rather, like any other defendant who goes to trial, the official must preserve the immunity defense for appeal by raising it at trial, such as by proposing appropriate jury instructions (or objecting to inappropriate ones) or moving for JMOL on all or part of the claim. *See id.*

In short, the question in *Ortiz* is whether the denial of summary judgment is appealable *vel non* after trial; the choice not to take an immediate appeal uniquely available in the immunity context does not affect the answer to that question. As such, the Court's decision in *Ortiz* will apply equally to cases like this one where there is no right to an interlocutory appeal.

2. The proceedings in *Ortiz* point to three potential outcomes: a denial of summary judgment is reviewable after trial without taking additional steps to preserve the issue (1) never; (2) only where the summary judgment argument raises a "purely legal" question; or (3) whenever the summary

judgment argument has a "legal" component, even if it requires review of the trial record.

Ortiz's primary submission is that the denial of summary judgment itself is never appealable after trial. *Ortiz* Tr. of Oral Arg. 52; *Ortiz* Reply Br. 11. Ortiz's secondary submission is that any exception to such a bright-line rule should be limited to "pure" questions of law, *i.e.*, legal questions "as to which the facts are not merely undisputed *but immaterial*." *Ortiz* Reply Br. 12 (quotation omitted). In contrast to such pure legal issues not tied to the trial record, "mixed" questions of law and fact depend on the record, even when evidence is undisputed, in that the court has to apply the law to that evidentiary record. *Id*. at 13-14.

The respondents' position in *Ortiz* is harder to pin down. At times, they appear to endorse Ortiz's secondary submission that only pure issues of law from the denial of summary judgment may be considered on appeal after trial. *See Ortiz* Resp. Br. 11 ("Critical to each of these decisions is the purely legal nature of the claim under review."); *id*. at 32. At other times, however, they suggest a far broader scope for post-trial summary judgment appeals. Although they stop short of saying so in clear terms, their position appears to be that any issue with a legal component suffices, even if — as is concededly true for their immunity defense — the issue requires the court to review the trial record and apply the law to the evidence. *See* Tr. of Oral Arg. 40 (respondents: "qualified immunity is always going to be an application of clearly established law through fact").

The reality is that the respondents in *Ortiz* need the Court to adopt a broad and malleable concept of

"legal" error to prevail. The issue the Sixth Circuit resolved in their favor was at most a mixed question of law and fact in that it required the court to review the evidence to determine whether a reasonable jury could have found that the respondents committed a violation of Ortiz's constitutional rights that was clearly established in the circumstances. But an "exception" so capacious as to embrace every issue with any legal content would swallow the rule.[2]

The Ninth Circuit's approach below bears a striking resemblance to the Sixth Circuit's decision and the respondents' position in *Ortiz*. Like the Sixth Circuit, the Ninth Circuit openly relied on the denial of respondents' summary judgment motion as the hook to ignore the jury verdict and to decide that the dispute should never have gone to the jury. That was the only potential hook, given that respondents failed to seek JMOL or request an appropriate instruction. The Ninth Circuit did not claim that whether the contract unambiguously dictated judgment for respondents was the kind of pure question of law that does not require review of the

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[2] To the extent respondents would borrow the test from *Johnson v. Jones*, 515 U.S. 304 (1995), for the appealability of denials of summary judgment on immunity grounds, that approach is doubly problematic. First, *Johnson* has proven difficult to apply in the qualified-immunity context. *See Ortiz* Tr. of Oral Arg. 30 (Justice Scalia describing "the *Johnson* line" as "a mess"). Second, this case demonstrates that the appealability issue extends beyond the immunity context, and outside that limited context the *Johnson* test plays no role. Judicial experience with the *Johnson* test even in the context for which it was designed has hardly been so satisfying that it should be exported to other contexts for an entirely different purpose.

evidence. No such claim would be remotely tenable under California law. Instead, much as the Sixth Circuit did in *Ortiz*, the Ninth Circuit reviewed the evidence (the trial, not the summary judgment, record) to determine whether there were factual disputes bearing on the interpretation of the contract.

Because of this close similarity, this Court's decision in *Ortiz* will likely govern the disposition of this case. First, if this Court holds that the denial of summary judgment may not be reviewed after trial, the Ninth Circuit's decision will obviously be invalidated. Second, if this Court recognizes only a narrow exception for pure issues of law that do not require review of the evidentiary record, the Ninth Circuit's decision likewise could not stand. Finally, if this Court adopts a broader exception, the fate of the decision below will depend on the specific guidance this Court offers in its opinion. This Court thus should hold this petition pending its decision in *Ortiz*.

B. This Case Demonstrates The Need For A Bright-Line Rule In *Ortiz*.

This case presents the same fundamental issue as *Ortiz* and confirms the importance of adopting a bright-line rule. Many courts have noted the malleability of a "legal" exception to the rule that the denial of summary judgment may not be appealed after trial. Members of this Court similarly articulated the concerns with such an approach at oral argument in *Ortiz*. The Ninth Circuit's decision here should eliminate any remaining doubt about the wisdom of adopting anything other than a bright-line approach precluding appellate review of denials of

summary judgment or limiting any exception to a narrow category of purely legal errors that require no review of the evidentiary record. The decision below provides a clear example of the inherent manipulability of any other approach.

1. Courts have emphasized the elusiveness of the distinction between "factual" and "legal" issues or decisions in this context. Most fundamentally, "[a]ll summary judgment[] [decisions] are rulings of law in the sense that they may not rest on the resolution of disputed facts." *Black v. J.I. Case Co.*, 22 F.3d 568, 571 n.5 (5th Cir. 1994) (declining to "craft a new jurisprudence based on a series of dubious distinctions between law and fact"); *see also, e.g., Metro. Life Ins. Co. v. Golden Triangle*, 121 F.3d 351, 355-56 (8th Cir. 1997); *Chesapeake Paper Prods. Co. v. Stone & Webster Eng'g Corp.*, 51 F.3d 1229, 1235 (4th Cir. 1995).

This Court similarly has "noted the vexing nature of the distinction between questions of fact and questions of law" and could not identify any "rule or principle that will unerringly distinguish a factual finding from a legal conclusion." *Pullman-Standard v. Swint*, 456 U.S. 273, 288 (1982) (citation omitted). This Court has made similar observations in many contexts. *See, e.g.*, *id.* (Title VII); *Thompson v. Keohane*, 516 U.S. 99, 110-11 (1995) (habeas corpus); *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 401 (1990) (Rule 11 sanctions). Members of this Court made the same point at oral argument in *Ortiz*. *See, e.g.*, Tr. 29-30 (The Chief Justice: distinguishing between legal and factual issues "just creates an awful lot of difficulty that we don't need to buy into"). Indeed, even the *respondents* in *Ortiz* agreed that a distinction between "purely legal" and

"mixed" claims was "fairly slippery and would be difficult to apply." *Id*. at 39.

For the sake of all litigants, as well as courts themselves, rules governing preservation must be clear. There is no justification for building a rule of procedure on a distinction that provides no clear guidance and whose malleability practically invites capricious application. It is not difficult to preserve an issue for appeal by raising it at trial, *see* 9B Wright & Miller, Fed. Practice and Procedure § 2533 (3d ed. 2008), and there is no reason for this Court to craft an atextual and highly problematic appealability doctrine to rescue litigants who fail to do so.[3]

2. The failings of an amorphous "legal exception" are on full display in this case.

a. Although some States may treat contract interpretation as at least presumptively an issue of law for the court to resolve based on the four corners of the contract, California has taken a markedly different approach that routinely requires consideration of extrinsic evidence and requires juries to play a significant role. *See, e.g., City of*

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[3] A Rule 50 motion provides a convenient vehicle to ensure that legal errors are preserved for appeal. But a party may not always need to move for JMOL to preserve for appeal an argument that it was entitled to have an issue resolved in its favor as a matter of law. As Justice Kennedy noted at oral argument in *Ortiz*, there may be "cases in which the failure of the court to give a requested [jury] instruction preserves the issue, and perhaps [a Rule] 50(b) [motion] is not required there." Tr. 32. Respondents, however, affirmatively disavowed a jury instruction that would have had the court construe the contract for the jury. *See supra* at 7.

Hope, 43 Cal.4th at 395. California credits extrinsic evidence of custom and practice to such an extent that a contractual reference to "The United Kingdom" could include the independent Irish Free State if that is how the relevant industry used the term. *Ermolieff v. R.K.O. Radio Pictures*, 19 Cal.2d 543, 546, 549-50 (1942). The Ninth Circuit itself has recognized that, under California law, "the interpretation of contract terms . . . is typically a question of fact for the jury." *Orion Tire Corp. v. Goodyear Tire & Rubber Co.*, 268 F.3d 1133, 1138 (9th Cir. 2001).

The court of appeals nonetheless justified its review of the denial of summary judgment on the ground that contract interpretation is a *legal* issue. App. 5a–8a. If that is true, it is true only in the trivial sense that whether the evidence presented at trial allows a reasonable fact-finder to find for a party is a "legal" issue. The Ninth Circuit had to review the competing evidence, including expert testimony on recording industry custom and practice, before it could conclude that there was a mistake of law. An unadorned challenge to the sufficiency of the evidence could equally be classified as a "legal" issue on the Ninth Circuit's approach. As this case demonstrates, the Ninth Circuit's test is infinitely malleable.

b. It is undeniable that the "legal" error found by the Ninth Circuit required an extensive review of the evidentiary record. If during that review the Ninth Circuit had found conflicts as to relevant industry custom and practice (as the district court did), the Ninth Circuit would have found no legal error in submitting the question to the jury. It is passing strange to classify an appellant's argument

as a "legal" one only if the court of appeals agrees with the appellant's view of the evidence. And making preservation turn on whether the court agrees with the merits of the argument in question hopelessly conflates preservation and the merits.

The extent of the court of appeals' overreaching in treating interpretation of the contract as a "legal" issue is demonstrated by the cases it relied on. The court cited *Wilson Arlington Co. v. Prudential Insurance Co.*, 912 F.2d 366, 371 (9th Cir. 1990), as an example of a case in which "we reversed the denial of a summary judgment motion after a jury trial because the contract in question was unambiguous as a matter of law." App. 6a. But *Wilson Arlington* was governed by *Virginia* law, which strictly excludes parol evidence. *See* 912 F.2d at 370. Indeed, the disparity between Virginia and California law was the theme of Judge Kozinski's opinion. The court lamented that California "permit[s] the introduction of extrinsic evidence to demonstrate the existence of an ambiguity even when the language of a contract is perfectly clear." *Id.* And the court went out of its way to note that if California law had applied, what was a question of law for the court under Virginia law would become an issue of disputed fact for the jury. *Id.*[4]

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[4] The court below also entirely misunderstood *Wolf v. Superior Court*, 114 Cal. App.4th 1343 (2004). The Ninth Circuit cited *Wolf* for the proposition that "whether an ambiguity exists is a question of law," App. 5a, but the court missed *Wolf*'s extended discussion about the relevance of industry custom, *id.* at 1354-59, and its holding that a summary judgment had to be reversed because the plaintiff's expert evidence "expose[d] the latent ambiguity in the contract language regarding the

In the Ninth Circuit's hands, therefore, the purported distinction between "law-based" and "fact-based" issues, *see Ortiz* Resp. Br. 18, proved to be no constraint at all. Even under the Ninth Circuit's mistaken view of California law, the court still reviewed the trial evidence before declaring that, under its view of the evidence, the interpretation of the contract was a question of law. *See* App. 7a (reviewing evidence to determine whether, "in light of the extrinsic evidence," contract was "reasonably susceptible" to petitioners' interpretation) (quotation omitted). Contrary to the *Ortiz* respondents' breezy claim that "at least seven circuits have shown no difficulty managing [such a distinction] in this context," Br. 15, the decision below is Exhibit A for the need for a clear rule.

c. The Ninth Circuit's mixing-and-matching of the summary judgment arguments and the trial record also confirms the danger of not adopting either a bright-line rule precluding appeals of summary judgment denials or a narrow exception for purely legal issues that do not require review of the evidentiary record. The court below ended up reviewing the denial of *summary judgment* based on the *trial record*. That is both incoherent and an inherent temptation created by the Ninth Circuit's rule. It is incoherent because if courts are truly evaluating the denial of summary judgment, only the summary judgment record should matter. The district court cannot be said to have erred by denying summary judgment based on evidence that was not

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industry's customary usage of the term" in dispute and the interpretation of the contract thus was for the jury. *Id.* at 1357.

before it. It is a temptation because it seems artificial to consider whether there is a material factual dispute on appeal after a full trial without considering the evidence adduced at trial. Apparently, the Sixth Circuit yielded to the same temptation in *Ortiz*. *See Ortiz* Tr. of Oral Arg. 6-10, 27-28. A clear preservation rule would eliminate that confusion by forcing parties to take proper steps to preserve legal issues at trial.

It is no answer to say that the trial record is "consistent" with the summary judgment record. Resp. CA9 Opp. to Mot. to Defer Submission 8 n.1. Even where the two records are not inconsistent, they almost certainly will be different. Summary judgment motions are decided on a paper record, without live testimony under cross-examination in court. When witnesses take the stand at trial, credibility takes on a much larger role. Even absent a direct contradiction between what witnesses said in declarations or depositions at summary judgment and what the witnesses say on the stand at trial, it is unrealistic to think that the records will be simply interchangeable. *See, e.g., Chesapeake Paper*, 51 F.3d at 1236. The standards for evaluating post-trial motions take these key differences into account by giving deference to the fact-finder.

As Justice Ginsburg observed at argument in *Ortiz*, even though Rule 56, Rule 50(a), and Rule 50(b) "all ask the same question," each rule "ask[s] it on the basis of a different record." Tr. 34. The arguments offered to justify appellate review of issues raised at summary judgment ignore that appellate courts do not review "issues" in the abstract, but rather *decisions* of lower courts. Each reviewable decision is a function of the legal

standard applicable at the procedural juncture at which it was made, as well as the arguments and evidence before the court at that time. This is elementary, but the mixing-and-matching approach of the Ninth Circuit and the Sixth Circuit makes clear that a permissive rule for the appeal of summary judgment denials invites confusion that can only result in an insufficient respect for the fact-finder's judgments.

If petitioners had moved to dismiss under Rule 12(b)(6), the "legal issue" would have been whether respondents' complaint stated a well-pleaded, plausible claim that the contract should be interpreted in their favor. A decision that respondents pleaded a valid claim would not have purported to address the interpretation of the contract through the prism of evidence under the summary judgment standard. Because the "record" and legal standards are different at the pleading and summary judgment stages, petitioners' Rule 12(b)(6) motion could not have preserved their Rule 56 argument.

Likewise, respondents' argument based on the summary judgment record could not preserve the distinct argument that respondents were entitled to JMOL based on the evidence presented at trial. The latter argument did not exist yet and so could be neither preserved nor ruled upon until the trial record itself was created. At least as to issues that depend on the evidentiary record, trial supersedes the denial of summary judgment by creating new decisions and a new record against which those decisions are to be judged. In keeping with the differing standards, parties also present evidence with different aims in opposing summary judgment

and at trial. At summary judgment the goal is to show the judge that there are genuine issues in dispute; at trial the goal is to persuade the jury that the party's position is correct. By definition, respondents' potential trial-stage argument — which they forfeited — would not merely have duplicated their unsuccessful summary judgment-stage argument.[5]

3. For these reasons, the most logical and workable rule is that a denial of summary judgment is not appealable after trial, even though arguments raised at summary judgment of course may be raised at trial and thus preserved for appeal. If this Court does not adopt that bright-line rule, it should adopt only a narrow exception for summary judgment arguments that are "purely legal" in the sense that they do not require any review of the evidentiary record. This is the approach that Justice Kennedy suggested at oral argument in *Ortiz*. Tr. 39-40 ("One way to make the formulation work is to say whether or not the issue depends on an assessment of the record.").

Some of the cases adopting a "legal" exception involved this kind of pure legal issue raised at summary judgment that had nothing to do with the evidence. *See, e.g., Banuelos*, 382 F.3d at 903 (permissibility of considering materials outside administrative record); *Gramercy Mills, Inc. v.*

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[5] The respondents in *Ortiz* deal with this problem by evading it with unexplained assertions that the Sixth Circuit reviewed the "issue" or "defense" of qualified immunity, as if that issue exists and is reviewable in the abstract, rather than through the prism of the record, arguments, and decision at a given stage where that issue was raised. *See Ortiz* Resp. Br. *passim*.

Wolens, 63 F.3d 569, 572 (7th Cir. 1995) (choice of law); *Rekhi v. Wildwood Indus., Inc.*, 61 F.3d 1313, 1318 (7th Cir. 1995) (res judicata in light of prior administrative proceeding, which would be dispositive "no matter how much evidence Rekhi had").

An exception for legal errors, if not strictly cabined, risks being expanded to include run-of-the-mill mixed questions requiring review of the trial evidence. Accordingly, if this Court stops short of a bright-line rule that summary judgment denials are never appealable after trial, it is critical for the Court to limit any exception to issues that are purely legal in the sense of not requiring review of the evidence (at summary judgment or at trial).

C. In The Alternative, This Court Should Grant This Petition To Consider The Question Presented In *Ortiz*.

If this Court does not reach the question presented in *Ortiz* or answers that question on grounds specific to *Ortiz* or the qualified-immunity context, then the Court should grant this petition to address the fundamental question whether a party may appeal the denial of summary judgment following a trial on the merits.

The respondents in *Ortiz* suggested that the Sixth Circuit did not actually review a denial of summary judgment but instead considered the denial of (an unmade post-trial motion for) JMOL. *See* Tr. of Oral Arg. 27, 49. The respondents there moved for JMOL under Rule 50(a) but did not renew their motion under Rule 50(b) as required under *Unitherm Food System, Inc. v. Swift-Eckrich, Inc.*, 546 U.S. 394 (2006). They argued, however, that

Ortiz forfeited a forfeiture argument based on *Unitherm* by failing to raise it in the Sixth Circuit. At oral argument, the question was raised whether *Ortiz* actually presents the summary-judgment appeal question on which certiorari was granted. *See* Tr. 6-8 (Alito, J.). Petitioners submit that *Ortiz* does present the fundamental question that this case raises. If the Court concludes otherwise, however, it should grant this petition.

By granting certiorari in *Ortiz*, this Court has already recognized the importance of the question and the lower courts' need for guidance. This petition does not suffer from any potential vehicle problems. The Ninth Circuit indisputably reviewed the denial of summary judgment; it explicitly acknowledged that respondents had not moved for JMOL and held that they did not have to do so. App. 5a. The Ninth Circuit's summary-judgment review was thus far from a mere "slip of the pen." *Ortiz* Tr. of Oral Arg. 6-8 (Alito, J.). In addition, petitioners clearly raised respondents' failure to move for JMOL, so there is no forfeiture-of-the-forfeiture issue here.

As explained above, the issue in *Ortiz* is hardly limited to the qualified-immunity context. If, however, the Court chooses to decide *Ortiz* on grounds specific to that context, the deep split and pervasive confusion on the more fundamental question will remain. Accordingly, if this Court's decision in *Ortiz* does not resolve the broader question presented by this case, this Court should grant this petition.

II. THIS COURT SHOULD SUMMARILY REVERSE THE NINTH CIRCUIT'S UNJUSTIFIED AND UNEXPLAINED OVERLOOKING OF RESPONDENTS' MULTIPLE FORFEITURES.

In the alternative, and even apart from *Ortiz*, the decision below warrants summary reversal. To interpret the contract in respondents' favor as a matter of law, the court below had to excuse multiple forfeitures. Worse, the court did so without even acknowledging those forfeitures, let alone offering a persuasive justification for departing from the rules that it routinely enforces. And the court did all this to invalidate a jury verdict and to reach an anomalous result.

1. The court of appeals never should have reviewed the denial of summary judgment because respondents did not request that relief in their appellate briefing. Respondents did not even hint at such a request until *six days* before oral argument in a Rule 28(j) letter. App. 56a. That letter was remarkable. It cited no new authority post-dating the briefing and offered no excuse for the sandbagging. Indeed, even that letter tiptoed around the issue rather than clearly stating that respondents sought to appeal the denial of summary judgment. Respondents did not openly confess that intent until oral argument itself. *See supra* at 9-10.

It is hard to imagine a clearer example of appellate forfeiture. Hundreds of litigants have sought to raise arguments belatedly only to see the Ninth Circuit enforce the usual forfeiture rules against them. One among countless representative examples is the Ninth Circuit's very recent decision

in *Christian Legal Society v. Wu*, 2010 WL 4629597 (Nov. 17, 2010), on remand from this Court. The court stated clearly that "[w]e review only issues [that] are argued specifically and distinctly in a party's opening brief," and refused to consider a belated argument. *Id.* at *1 (quotation omitted); *see also id.* at *3 (citing multiple Ninth Circuit cases).

Remarkably, the court here did not even mention the timing of respondents' request for review of the denial of summary judgment. After respondents made that request at oral argument, petitioners filed a Motion to Defer Submission in light of *Ortiz* that cited the Ninth Circuit's forfeiture precedent and argued that respondents' request was untimely. Respondents' opposition failed to offer any excuse for their delinquency. The court did not see fit to mention respondents' Rule 28(j) letter, petitioners' Motion to Defer Submission, or the extensive body of precedent declaring that arguments not raised squarely in a party's opening brief will not be considered. It is bad enough that the Ninth Circuit sanctioned respondents' sandbagging. It is far worse that the court did so by sweeping the forfeiture issue under the rug. If the court wished to depart from its forfeiture precedent, it at least owed the parties and the public an explanation.

2. Respondents' *appellate* forfeiture of their request for review of the denial of summary judgment is only the tip of the iceberg. Respondents also affirmatively waived the argument that the court should interpret the contract in their favor as a matter of law by explicitly disavowing an instruction interpreting the contract for the jury. And respondents reaffirmed that disavowal when they

told the Ninth Circuit as late as their reply brief that they were "*not* arguing that the judgment must be reversed and the case remanded for a new trial because the District Court erroneously submitted the contract interpretation question to the jury." Resp. CA9 Reply Br. 23.

Respondents could have requested a jury instruction that stated: "It is my job as judge to interpret the meaning of these agreements, and therefore, I will tell you what the recording agreements mean." App. 72a. The district court directly asked respondents' counsel whether that instruction was applicable. CA9 ER627. Respondents' counsel stated: "we believe 25A is not applicable." *Id.*

Despite explicitly disavowing that instruction, respondents sought a new trial on the ground that the court improperly submitted the contract's interpretation to the jury. The district court held that respondents had waived that argument by declining the instruction. App. 23a. Respondents contended that they had made their position clear at summary judgment and that it would have been futile to request the instruction given the court's prior rulings. App. 24a. As the district court concluded, however, respondents "never disputed the propriety of the Court's ruling on summary judgment, sought reconsideration of that decision, informed the Court that they believed it was error to submit the issue to the jury, or objected to the jury instructions." *Id.*

Given respondents' acquiescence to submitting the contract's interpretation to the jury — and respondents' reaffirmation of that acquiescence on

appeal — the Ninth Circuit should not have entertained their argument that the district court erred by refusing to interpret the contract in their favor as a matter of law at summary judgment. The district court is plainly in the best position to judge whether an argument was raised in substance at trial or whether it would have been otherwise improper or unnecessary to raise the argument at trial in light of earlier rulings. Whatever discretion district courts may have to take a flexible view of the requirement for a Rule 50 motion or a request for a jury instruction, where the district court explains that the argument was not before it at trial, the court of appeals is in a very poor position to second-guess the district court's on-the-ground view. Here, the Ninth Circuit did not deign even to mention the explanation the district court gave in denying respondents' motion for new trial, let alone provide a justification for overriding it.[6]

3. The Ninth Circuit's unwillingness to adhere to well-settled procedural rules is even more

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[6] Respondents' argument that it would have been futile to ask for an instruction interpreting the contract (or to move for JMOL) because the district court had definitively ruled, in denying both sides' summary judgment motions, that the jury would interpret the contract, *see* Resp. CA9 Br. 41-43, does not withstand scrutiny. Immediately after respondents disavowed this instruction, petitioners explained that whether the instruction would be applicable would depend on the outcome of their planned Rule 50(a) motion: "I think we are — it's our intention to make a motion at the close of the plaintiffs' case but — and pending — reserving our rights with respect to that motion, we would include it in the joint set." CA9 ER627. The district court understood and agreed to be "nimble" so that this instruction could be "add[ed] on the fly" if appropriate. *Id.*

egregious in light of the parties and nature of this case. This is the opposite end of the spectrum from a case involving a *pro se* litigant who needs the court's help or a manifest injustice that creates a temptation to overlook procedural defaults. Respondents are companies that have received millions of dollars under the contract in dispute. They were represented by a prominent law firm. They had no conceivable claim on the court's special indulgence. Yet the court gave respondents a special exception from the rules in order to reach a result that is, at best, anomalous.

When the parties entered into the disputed contract in 1998, iTunes and similar online distributors of music were beyond the horizon. Online retailers, however, are the heirs to brick-and-mortar record stores, and downloads are simply the latest configuration for "records." For that reason, the parties agreed that online distributors are "normal retail channels" that sell "records." *See* Resp. CA9 Reply Br. 4. Those undisputed facts would naturally bring downloads within the "Records Sold" provision, which has applied through multiple format changes over the years and is the central, basic provision for the calculation of royalties for recordings sold through "normal retail channels."

By contrast, the parties strongly disputed whether the "Masters Licensed" provision had any application to a record company's sale of its own records, whether in download format or otherwise. The text of that provision concerns third-party uses, and a subsequent amendment to the contract clarified that the provision applied only to those types of "ancillary uses." App. 66a–68a. In denying respondents' new trial motion, the district court

summed up the disputed evidence of industry custom. According to the court, respondents' expert testified that the Masters Licensed provision customarily applied "to every transaction involving a license, and that the presence of 'indicia' of a license was the end of the inquiry." App. 26a. Petitioners' expert testified, in contrast, that the "provision customarily applies only when recordings are incorporated into a third party's products." *Id.* The court concluded that those differing views presented a material evidentiary dispute because "both versions of the accepted recording industry practice could not be true." App. 26a.

On summary judgment or in evaluating even a preserved challenge to the verdict on appeal, petitioners' evidence concerning industry practice had to be taken as true. Yet the court of appeals disregarded the Records Sold provision as immaterial, despite agreement that its language comfortably covered permanent downloads, and concluded that the Masters Licensed provision unambiguously applied — despite contrary evidence of industry practice, the parties' own course of dealing, and amendments that identified permanent downloads with the Records Sold provision while confirming the ancillary, specialized nature of the Masters Licensed provision.

At the very least, it is an odd conclusion that the parties agreed to buck industry practice by treating ordinary sales through normal retail channels in one configuration under a different royalty provision from that applied to sales in all other configurations. Even if the jury could have credited respondents' interpretation, that interpretation is plainly not so obviously correct that a court should have been

tempted to ignore all manner of procedural defaults in order to reach it.

CONCLUSION

The petition for certiorari should be granted or held pending resolution of *Ortiz v. Jordan*, No. 09-737. In the alternative, this Court should summarily reverse the Ninth Circuit's judgment.

Respectfully submitted,

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December 2010

APPENDIX

APPENDIX

TABLE OF CONTENTS

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 09-55817, 09-56069

F.B.T. PRODUCTIONS, LLC; EM2M, LLC,

Plaintiffs-Appellants,

v.

AFTERMATH RECORDS, DBA AFTERMATH ENTERTAINMENT; INTERSCOPE RECORDS; UMG RECORDING, INC.; ARY, INC.,

Defendants-Appellees.

Argued & Submitted July 12, 2010
Pasadena, California
Filed September 3, 2010

Before: Jerome FARRIS, Cynthia Holcomb HALL and Barry G. SILVERMAN,*Circuit Judges*.

OPINION

SILVERMAN, *Circuit Judge*:

This dispute concerns the percentage of royalties due to Plaintiffs F.B.T. Productions, LLC, and Em2M, LLC, under their contracts with Defendant Aftermath in connection with the recordings of

Marshal B. Mathers, III, professionally known as the rap artist Eminem.[1] Specifically, F.B.T. and Aftermath disagree on whether the contracts' "Records Sold" provision or "Masters Licensed" provision sets the royalty rate for sales of Eminem's records in the form of permanent downloads and mastertones. Before trial, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to permanent downloads and mastertones. The district court denied the motion. At the close of evidence, F.B.T. did not move for judgment as a matter of law, and the jury returned a verdict in favor of Aftermath. On appeal, F.B.T. reasserts that the Masters Licensed provision unambiguously applies to permanent downloads and mastertones. We agree that the contracts are unambiguous and that the district court should have granted summary judgment to F.B.T. We therefore reverse the judgment and vacate the district court's order awarding Aftermath its attorneys' fees.

BACKGROUND

F.B.T. signed Eminem in 1995, gaining exclusive rights to his recordings. In 1998, F.B.T. signed an agreement transferring Eminem's exclusive recording services to Aftermath. The "Records Sold" provision of that agreement provides that F.B.T. is to receive between 12% and 20% of the adjusted retail price of all "full price records sold in the United States . . . through normal retail channels." The

[1] This case involves multiple Plaintiffs and Defendants. For ease of reference, we refer to Plaintiffs collectively as F.B.T. and to Defendants collectively as Aftermath.

agreement further provides that "[n]otwithstanding the foregoing," F.B.T. is to receive 50% of Aftermath's net receipts "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses." The parties refer to this provision as the "Masters Licensed" provision. The contract defines "master" as a "recording of sound, without or with visual images, which is used or useful in the recording, production or manufacture of records." The agreement does not contain a definition of the terms "licensed" or "normal retail channels."

In 2002, Aftermath's parent company, Defendant UMG Recordings, Inc., concluded an agreement with Apple Computer, Inc., that enabled UMG's sound recordings, including the Eminem masters, to be sold through Apple's iTunes store as permanent downloads. Permanent downloads are digital copies of recordings that, once downloaded over the Internet, remain on an end-user's computer or other device until deleted. The contract between UMG and Apple is but one example of the many agreements that Aftermath has concluded to sell sound recordings in digital formats since approximately 2001. Since 2003, Aftermath has also concluded contracts with major cellular telephone network carriers to sell sound recordings as mastertones, which are short clips of songs that can be purchased by users to signal incoming calls, popularly known as ringtones.

In 2003, F.B.T. and Aftermath entered into a new agreement that terminated the 1998 agreement. The 2003 agreement increased some royalty rates, but incorporated the wording of the Records Sold and

Masters Licensed provisions from the 1998 agreement. In 2004, the parties amended the agreement to provide that "Sales of Albums by way of permanent download shall be treated as [U.S. Normal Retail Channel] Net Sales for the purposes of escalations." Escalations are increases in the royalty rate when total album sales surpass certain targets. The amendment further provides, "Except as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect."

F.B.T. brought suit after a 2006 audit showed that Aftermath had been applying the Records Sold provision to calculate the royalties due to F.B.T. for sales of Eminem's recordings in the form of permanent downloads and mastertones. Before trial, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to those sales. Aftermath cross-moved for summary judgment. It argued, in part, that the 2004 amendment showed that the parties intended the Records Sold provision to apply to permanent downloads.

After provisionally reviewing the undisputed extrinsic evidence, the district court concluded that the agreements were reasonably susceptible to either party's interpretation and denied both motions for summary judgment. At trial, only Aftermath moved for judgment as a matter of law at the close of the evidence. The court denied the motion. The jury returned a verdict in favor of Aftermath, and the district court awarded Aftermath its attorneys' fees of over $2.4 million. F.B.T. timely appealed the district court's final judgment and award of

attorneys' fees. We have jurisdiction pursuant to 28 U.S.C. § 1291 and we reverse.

DISCUSSION

I. F.B.T. Is Not Precluded from Arguing that the Masters Licensed Provision Unambiguously Applies to Permanent Downloads and Mastertones.

[1] F.B.T. did not file a pre-verdict motion for judgment as a matter of law pursuant to Federal Rule of Civil Procedure 50, so it has not preserved "a challenge to the sufficiency of the evidence to support the verdict" in this case. *Nitco Holding Corp. v. Boujikian*, 491 F.3d 1086, 1089 (9th Cir. 2007). However, F.B.T.'s argument that the contracts are unambiguous raises an issue of law that does not rest on the sufficiency of the evidence to support the jury's verdict. *See Wolf v. Superior Court*, 8 Cal. Rptr. 3d 649, 656 (Ct. App. 2004) ("The trial court's determination of whether an ambiguity exists is a question of law, subject to independent review on appeal."). F.B.T. therefore did not have to present that argument in a motion for judgment as a matter of law. Rather, F.B.T. had to raise the argument at some point before the judge submitted the case to the jury, which it did. *See Cochran v. City of L.A.*, 222 F.3d 1195, 1200 (9th Cir. 2000) (holding that an issue of law that "does not concern the sufficiency of the evidence presented to the jury" need not be raised in a motion for judgment as a matter of law to preserve the issue for appeal); *Landes Constr. Co. v. Royal Bank of Can.*, 833 F.2d 1365, 1370 (9th Cir. 1987) ("As long as a party properly raises an issue of law before the case goes to the jury, it need not

include the issue in a motion for a directed verdict in order to preserve the question on appeal.”).

F.B.T. argued that the contract was unambiguous in its motion for summary judgment, and the district court denied the motion. A district court’s denial of summary judgment is subject to review on appeal, despite full trial on the merits, “where the district court made an error of law that, if not made, would have required the district court to grant the motion.” *Banuelos v. Constr. Laborers’ Trust Funds for S. Cal.,* 382 F.3d 897, 902 (9th Cir. 2004) (citing *Pavon v. Swift Transp. Co., Inc.*, 192 F.3d 902, 906 (9th Cir. 1999)). For example, in *Wilson Arlington Co. v. Prudential Insurance Co.*, 912 F.2d 366, 370-71 (9th Cir. 1990), we reversed the denial of a summary judgment motion after a jury trial because the contract in question was unambiguous as a matter of law. *Accord King v. PA Consulting Group, Inc.*, 485 F.3d 577, 589 (10th Cir. 2007) (holding that despite the absence of a motion for judgment as a matter of law, “King adequately preserved the purely legal question of whether the Agreement is ambiguous by raising the matter in his trial brief”); *Chemetall GMBH v. ZR Energy, Inc.*, 320 F.3d 714, 718-20 (7th Cir. 2003) (reviewing a district court’s conclusion on summary judgment that a contract was ambiguous despite the absence of a motion for judgment as a matter of law at trial); *White Consol. Indus., Inc. v. McGill Mfg. Co.*, 165 F.3d 1185, 1189-90 (8th Cir. 1999) (same).

Just as in *Wilson*, we may review the district court’s determination that the contracts in this case are ambiguous. Under California law, “[t]he language of a contract is to govern its interpretation,

if the language is clear and explicit, and does not involve an absurdity." Cal. Civ. Code § 1638. Parol evidence is properly admitted to construe a contract only when its language is ambiguous.

> The decision whether to admit parol evidence involves a two-step process. First, the court provisionally receives (without actually admitting) all credible evidence concerning the parties' intentions to determine "ambiguity," i.e., whether the language is "reasonably susceptible" to the interpretation urged by a party. If in light of the extrinsic evidence the court decides the language is "reasonably susceptible" to the interpretation urged, the extrinsic evidence is then admitted to aid in the second step—interpreting the contract.

Winet v. Price, 6 Cal. Rptr. 2d 554, 557 (Ct. App. 1992). Despite the trial court's provisional review of extrinsic evidence, its determination of whether an ambiguity exists remains "a question of law, subject to independent review on appeal." *Wolf*, 8 Cal. Rptr. at 656; *see also City of Hope Nat'l Med. Ctr. v. Genetech, Inc.*, 181 P.3d 142, 156 (Cal. 2008) (stating that contract interpretation is a question of law for the court "when it is based on the words of the instrument alone [or] when there is no conflict in the extrinsic evidence").

[2] Here, F.B.T. moved for summary judgment that the Masters Licensed provision unambiguously applied to permanent downloads and mastertones. The district court denied F.B.T.'s motion because it determined that the agreements were reasonably susceptible to Aftermath's contrary interpretation

that the Records Sold provision applied. That determination was on a "question of law," *Wolf*, 8 Cal. Rptr. 3d at 656, that if decided in F.B.T.'s favor "would have required the district court to grant the [summary judgment] motion," *Banuelos*, 382 F.3d at 902. We may therefore review the district court's denial of summary judgment despite full trial on the merits.

II. The District Court Erred in Determining that the Contracts Were Ambiguous.

[3] Turning to the agreements in question, the Records Sold provision contains the royalty rate for "full price records sold in the United States . . . through normal retail channels." On summary judgment, Aftermath argued that the Records Sold provision applied because permanent downloads and mastertones are records, and because iTunes and other digital music providers are normal retail channels in the United States.

[4] However, the agreements also provide that "notwithstanding" the Records Sold provision, F.B.T. is to receive a 50% royalty on "masters licensed by [Aftermath] . . . to others for their manufacture and sale of records or for any other uses." The parties' use of the word "notwithstanding" plainly indicates that even if a transaction arguably falls within the scope of the Records Sold provision, F.B.T. is to receive a 50% royalty if Aftermath licenses an Eminem master to a third party for "any" use. A contractual term is not ambiguous just because it is broad. Here, the Masters Licensed provision explicitly applies to (1) masters (2) that are licensed to third parties for the manufacture of records "or for any other uses,"

(3) "notwithstanding" the Record Sold provision. This provision is admittedly broad, but it is not unclear or ambiguous.

[5] Accordingly, to determine whether the Masters Licensed provision applies, we must decide whether Aftermath licensed the Eminem masters to third parties. Aftermath argues that there was no evidence that it or F.B.T. used the term "licensed" in a technical sense. *See* Cal. Civ. Code § 1644 ("The words of a contract are to be understood in their ordinary and popular sense, rather than according to their strict legal meaning; unless used by the parties in a technical sense . . . ."). In the ordinary sense of the word, a license is simply "permission to act." WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE 1304 (2002). Aftermath did not dispute that it entered into agreements that permitted iTunes, cellular phone carriers, and other third parties to use its sound recordings to produce and sell permanent downloads and mastertones. Those agreements therefore qualify as licenses under Aftermath's own proposed construction of the term.

[6] The conclusion that Aftermath licensed the Eminem masters to third parties also comports well with and finds additional support in federal copyright law. When one looks to the Copyright Act, the terms "license" and "sale" have well differentiated meanings, and the differences between the two play an important role in the overall structures and policies that govern artistic rights. For example, under the language of the Act and the Supreme Court's interpretations, a "sale" of a work may either be a transfer in title of an individual copy of a work, or a sale of all exclusive intellectual

property rights in a work. *See* 17 U.S.C. § 109 (describing the "first sale" doctrine); *Quality King Distribs. v. L'Anza Research Int'l*, 523 U.S. 135, 145 (1998) (describing the transfer of an individual copy of a work as a sale); *see also* 3-10 NIMMER ON COPYRIGHT § 10.02 (2009) (describing a transfer of all ownership in a copyright as a sale).

[7] There is no dispute that Aftermath was at all relevant times the owner of the copyrights to the Eminem recordings at issue in this case, having obtained those rights through the recording contracts in exchange for specified royalty payments. Pursuant to its agreements with Apple and other third parties, however, Aftermath did not "sell" anything to the download distributors. The download distributors did not obtain title to the digital files. The ownership of those files remained with Aftermath, Aftermath reserved the right to regain possession of the files at any time, and Aftermath obtained recurring benefits in the form of payments based on the volume of downloads.

Much as Section 109 describes a "sale" under the "first sale" doctrine, various other sections of the Copyright Act illuminate the meaning of the term "license." For example, section 114(f), titled "Licenses for Certain Nonexempt Transmissions," describes the statutory authorization for a third party to exercise public performance rights that otherwise remain the exclusive rights of a copyright holder and defines this authorization as a "license." 17 U.S.C. § 114(f); *see also* 17 U.S.C. §§ 111(a), 114(d)(2). Section 115, titled "Scope of Exclusive Rights in Nondramatic Musical Works: Compulsory License for Making and Distributing Phonorecords," refers directly to the

statutory authorization for artists to exercise the copyright owner's right to make and distribute phonorecord "covers" as a license, but again makes it clear that title remains with the copyright owner. 17 U.S.C. § 115.

[8] Under our case law interpreting and applying the Copyright Act, too, it is well settled that where a copyright owner transfers a copy of copyrighted material, retains title, limits the uses to which the material may be put, and is compensated periodically based on the transferee's exploitation of the material, the transaction is a license. *See, e.g., Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 785 (9th Cir. 2006); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993); *United States v. Wise*, 550 F.2d 1180, 1190-91 (9th Cir. 1977); *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir. 1960).

It is easily gleaned from these sources of federal copyright law that a license is an authorization by the copyright owner to enable another party to engage in behavior that would otherwise be the exclusive right of the copyright owner, but without transferring title in those rights. This permission can be granted for the copyright itself, for the physical media containing the copyrighted work, or for both the copyright and the physical media.

[9] When the facts of this case are viewed through the lens of federal copyright law, it is all the more clear that Aftermath's agreements with the third-party download vendors are "licenses" to use the Eminem master recordings for specific purposes authorized thereby—i.e., to create and distribute

permanent downloads and mastertones—in exchange for periodic payments based on the volume of downloads, without any transfer in title of Aftermath's copyrights to the recordings. Thus, federal copyright law supports and reinforces our conclusion that Aftermath's agreements permitting third parties to use its sound recordings to produce and sell permanent downloads and mastertones are licenses.

[10] Furthermore, the sound recordings that Aftermath provided to third parties qualify as masters. The contracts define a "master" as a "recording of sound . . . which is used or useful in the recording, production or manufacture of records." Aftermath admitted that permanent downloads and mastertones are records. The sound recordings that Aftermath supplied to third parties were "used or useful" in the production of permanent downloads and mastertones, so those sound recordings were masters. Because Aftermath permitted third parties to use the Eminem masters to produce and sell records, in the form of permanent downloads and mastertones, F.B.T. is entitled to a 50% royalty under the plain terms of the agreements.

Aftermath argues that the 2004 amendment to the agreements clarified that the Records Sold provision sets the royalty for permanent downloads. However, the 2004 amendment states only that albums sold as permanent downloads are to be counted "for purposes of escalations" under the Records Sold provision, and that "[e]xcept as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect." Read in context, the plain language of the amendment

provides that sales of permanent downloads by third parties count towards escalations on the royalty owed when Aftermath itself sells records through normal retail channels. It does not state, and in no way implies, that the royalty rate for the sale of the permanent downloads by third parties is set by the Records Sold provision.

Nor did any of the evidence regarding industry custom or the parties' course of performance support Aftermath's interpretation that the Records Sold provision applies. Aftermath's expert explained that the Masters Licensed provision had in the past been applied "only to compilation records and incorporation into movies, TV shows, and commercials." It was, however, undisputed that permanent downloads and mastertones only came into existence from 2001 to 2003. Consequently, the fact that the Masters Licensed provision had never previously been applied to those forms of licensing is immaterial. There is no indication that the parties intended to confine the contract to the state of the industry in 1998. To the contrary, the contract contemplated advances in technology. It provided that Aftermath had the right to exploit the "masters in any and all forms of media now known and hereinafter developed." Aftermath's evidence of how the Masters Licensed provision had been applied in the past therefore did not cast doubt on its application to permanent downloads and mastertones.

[11] Furthermore, Aftermath renewed its agreement with F.B.T. in 2003, by which time permanent downloads and mastertones were coming into existence. Aftermath argued that subsequent to

renewal, F.B.T. had "never objected to Defendants' payment of royalties under the Records Sold provision until the auditor raised the issue in 2006." However, Aftermath provided no evidence that F.B.T. knowingly acquiesced to payment under the Records Sold provision between 2003 and 2006. It showed that F.B.T. had received statements that included royalties for permanent downloads and mastertones, but it was uncontroverted that F.B.T. did not audit those royalty statements until 2006. F.B.T. had no obligation to audit the statements any earlier than it did, and it immediately raised the issue with Aftermath after the audit. Accordingly, Aftermath cannot use F.B.T.'s lack of objection to payments made before 2006 to prove how it interpreted the agreements. *See Barnhart Aircraft, Inc. v. Preston*, 297 P. 20, 22 (Cal. 1931) (holding that a party's acts can be used to construe its interpretation of an agreement only where such acts were "direct, positive and deliberate and . . . done in an attempted compliance with the terms of the contract or agreement"). The undisputed extrinsic evidence provisionally reviewed by the district court therefore did not support Aftermath's interpretation that the Records Sold provision applies.

[12] In sum, the agreements unambiguously provide that "notwithstanding" the Records Sold provision, Aftermath owed F.B.T. a 50% royalty under the Masters Licensed provision for licensing the Eminem masters to third parties for any use. It was undisputed that Aftermath permitted third parties to use the Eminem masters to produce and sell permanent downloads and mastertones. Neither the 2004 amendment nor any of the parole evidence

provisionally reviewed by the district court supported Aftermath's interpretation that the Records Sold provision applied. Because the agreements were unambiguous and were not reasonably susceptible to Aftermath's interpretation, the district court erred in denying F.B.T. summary judgment.

The judgment in favor of Aftermath is REVERSED, the district court's order granting Aftermath its attorneys' fees is VACATED, and the case is REMANDED for further proceedings consistent with this opinion.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 07-3314 PSG (MANx)

F.B.T. PRODUCTIONS, LLC, ET AL.,

Plaintiffs,

v.

AFTERMATH RECORDS, ET AL.,

Defendants.

Filed May 12, 2009

Before: The Honorable Philip S. GUTIERREZ, United States District Judge; Wendy K. Hernandez, Deputy Clerk

CIVIL MINUTES - GENERAL

PROCEEDINGS: (In Chambers) Order Denying Plaintiffs' Motion for New Trial

Before the Court is Plaintiffs' motion for a new trial and relief from judgment on Counts 1 and 3. After considering the moving and opposing papers, as well as oral argument heard on May 11, 2009, the Court DENIES the motion.

I. Background

Plaintiffs F.B.T. Productions, LLC ("FBT") and Em2M, LLC are entities that receive royalties payable for the use and exploitation of master recordings by Marshall B. Mathers III, better known as the rapper Eminem. Defendants are Aftermath Records ("Aftermath"), a joint venture, and its owners, Interscope Records, UMG Recordings, Inc., and Ary, Inc. The primary question presented by this case is what royalty is due Plaintiffs when a consumer downloads an Eminem song to her computer or purchases an Eminem ringtone for her mobile phone.

A. The Eminem Agreements

In approximately 1995, Jeff and Mark Bass signed Eminem to an exclusive record deal with FBT, their production company. On March 9, 1998, FBT entered into an agreement ("the 1998 Agreement") to furnish Eminem's recordings to Aftermath. The 1998 Recording Agreement contains two royalty provisions. First, paragraph 4(a) sets a royalty for "full-price records sold in the United States" that varies between 12 and 20% (the "Records Sold" provision).[1] "Records" are defined as "all forms of reproductions, whether embodying sound alone or sound together with visual images, manufactured or distributed primarily for home use."

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[1] According to Defendants, the artist's basic royalty rate varies with the artist's popularity. The 1998 Agreement provides for "escalations," meaning that the royalty rate increases as certain sales targets are met.

Second, paragraph 4(c)(v) of the 1998 Agreement states that "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses, your royalty shall be an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from other uses of the masters" ("the Masters Licensed" provision). A "master" is defined as "a recording of a sound, without or with visual images, which is used or useful in the recording, production or manufacture of records." In 2000, the parties to the 1998 Agreement entered into a novation that established a direct contractual relationship between Eminem and Aftermath ("the 2000 Novation"). The 2000 Novation transferred the obligation to provide Aftermath with Eminem's recording services from FBT directly to Eminem. FBT became a "passive income participant," retaining a right to royalty income from Eminem's recordings. Aftermath agreed to render separate accountings to FBT and Eminem, and the 2000 Novation specified the royalty share of each.

In 2003, Aftermath and Eminem entered into a new recording contract, which terminated the 1998 Agreement ("the 2003 Agreement"). Plaintiffs retained the right to receive royalties on Eminem's recordings under the 2003 Agreement. The structure of the 2003 Agreement was similar to the 1998 Agreement, but included an increased advance and higher royalties reflecting Eminem's rise to stardom. Like the 1998 Agreement, the 2003 Agreement set forth two royalty rates, one for "records sold," and one for "masters licensed . . . to others for their manufacture and sale of records or for any other uses."

In November 2004, the parties entered into the "2004 Amendment," which altered the 2003 Agreement to increase the advance for an upcoming LP, the fraction of FBT's passive income participation, and certain royalty rates.

B. UMG's Agreements with Third Party Digital Media Providers

Since approximately 2001, UMG has entered into agreements with various third parties granting those entities rights to distribute music to consumers over the internet in various forms, including permanent downloads. Permanent downloads are digital copies of recordings that, once downloaded, remain permanently on an end-user's computer, iPod, or other hardware device.[2] Apple's iTunes music store, which launched in 2003, quickly became the largest source of legal permanent downloads.

In approximately 2003, UMG began entering into contracts with major cellular telephone network carriers, including Sprint, Nextel, Cingular, and T-Mobile, to provide UMG recordings for use on mobile phones as mastertones. "Mastertones" is a term that refers to more than one type of digital media; most

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[2] In contrast, the "streaming" of music allows a user to listen to a song online, but no copy is created on her local machine. A consumer can only listen to a streamed song contemporaneously with its transmission; it is not possible to listen to the song again without reconnecting to the provider. "Conditional downloads" are a form of download restricted such that a user must maintain a subscription to a given service in order to continue to listen to the downloaded songs.

commonly, mastertones are short clips of a song that play on a cellular phone to signal an incoming call. Typically, the user permanently downloads the mastertone onto her mobile device.

In 2005, FBT and Eminem hired an accounting firm to audit Defendants' accounting records for the period beginning January 1, 2002 and ending June 30, 2005. The audit revealed that UMG was paying Plaintiffs royalties for permanent downloads and mastertones based on the rate set forth in the "Records Sold" provision of the Eminem Agreements. Based on Plaintiffs' belief that royalties on permanent downloads and mastertones should be paid at the higher rate set forth in the "Masters Licensed" provision, the auditor calculated that Defendants had underpaid Plaintiffs by at least $650,000. Defendants responded to the audit report in a letter dated May 8, 2007, contesting the determination that certain royalties had been underpaid.

C. Procedural History

On May 21, 2007, Plaintiffs filed a complaint for breach of contract and declaratory judgment based on Defendants' alleged underpayment of royalties for digital uses of Eminem's recordings. On March 6, 2008, Plaintiffs filed a second lawsuit for breach of contract and declaratory judgment, also claiming that Defendants had failed to properly account and pay royalties due to Plaintiffs. *See F.B.T. Productions, LLC, et al. v. Aftermath Records, et al.*, No. CV 08-1563 PSG (CWx). The Court consolidated the two actions on May 19, 2008 and ordered Plaintiffs to file an amended complaint. Plaintiffs did

so and later filed a second amended complaint ("SAC"), which asserted two counts for breach of contract and a third count for declaratory relief. On January 20, 2009, the Court denied the parties' cross-motions for summary judgment.

D. Jury Trial

Trial commenced on February 20, 2009, and the case was submitted to the jury on March 5, 2009. The jury returned a verdict in favor of Defendants on Counts 1 and 3 and in favor of Plaintiffs on Count 2. The Court entered final judgment on March 17. Plaintiffs now move for a new trial on Counts 1 and 3 on several grounds.

II. Legal Standard

After a jury trial, the court may grant a new trial "for any reason for which a new trial has heretofore been granted in an action at law in federal court." Fed. R. Civ. P. 59(a)(1)(A). Such a motion may be granted if the jury's verdict is against the clear weight of the evidence. *Molski v. M.J. Cable, Inc.*, 481 F.3d 724, 729 (9th Cir. 2007). There is no clear formulaic test for determining whether this standard has been met. However, the Ninth Circuit has explained that a judge should not set aside a jury verdict absent a "definite and firm conviction that a mistake has been committed by the jury." *Landes Constr. Co., Inc. v. Royal Bank of Canada*, 833 F.2d 1365, 1372 (9th Cir. 1987).

Additionally, a new trial is warranted if an erroneous evidentiary ruling substantially prejudiced a party. *Ruvalcaba v. City of Los Angeles*, 64 F.3d

1323, 1328 (9th Cir. 1995). Erroneous jury instructions and the failure to give adequate instructions are also grounds for a new trial, unless the error was harmless. *Murphy v. City of Long Beach*, 914 F.2d 183, 1990 (9th Cir. 1990); Robert E. Jones, et al., Federal Civil Trials & Evidence § 20:242 (The Rutter Group 2008).

III. Discussion

Plaintiffs argue that several grounds entitle them to a new trial: (1) the Court improperly submitted the task of interpreting the Eminem Agreements to the jury; (2) the Court should have determined, as a matter of law, that the third-party agreements are licenses, or, at a minimum, instructed the jury on this issue; (3) the jury's verdict was against the clear weight of the evidence; and (4) several evidentiary errors severely prejudiced Plaintiffs. The Court will address each argument in turn.

A. Submission of Contract Interpretation to the Jury

Plaintiffs first argue that the Court should have interpreted the Eminem Agreements as a matter of law. According to Plaintiffs, the Court erred in submitting this issue to the jury because there were no material extrinsic facts in dispute.

Plaintiffs waived this argument by failing to raise it prior to submission of the case to the jury. Before trial, the parties submitted a jury instruction entitled, "NO CONFLICT IN EXTRINSIC EVIDENCE - COURT INTERPRETS CONTRACT." The instruction, No. 25A, required the Court to tell

the jury what the recording agreements meant. The parties included a note, stating that the agreement was only to be given if the Court found that any of the disputed contractual provisions were not "reasonably susceptible" to the parties' competing interpretations. Before the final day of testimony, the Court held a conference with the parties to finalize the jury instructions. At that time, in response to the Court's question, "Is 25A not applicable?," Plaintiffs' counsel stated, "[W]e believe 25A is not applicable." 3/2/09 Transcript (Docket No. 500) 14:6-16. Because Plaintiffs failed to object to the jury instructions, they waived any claim that the Court erred by failing to interpret the contracts as a matter of law. *See McClaran v. Plastic Indus., Inc.*, 97 F.3d 347, 360 (9th Cir. 1996); *Beech Aircraft Corp. v. United States*, 51 F.3d 834, 841 (9th Cir. 1995) (Plaintiffs waived argument that district court erred in allocating burden of proof by failing to raise it until post-trial motion); *Porterco, Inc. v. Igloo Prods. Corp.*, 955 F.2d 1164, 1173 (8th Cir. 1992) ("Once the District Court had expressed its intention to send the issues . . . to the jury, it was incumbent upon Igloo to call the court's attention to any incipient error.").

Plaintiffs argue that a formal objection was not required because the Court previously denied their motion for summary judgment. The Court recognizes that "the failure to object to an instruction may be disregarded if the party's position previously has been made clear to the trial judge and it is plain that a further objection would be unavailing." 9C C. Wright, et al., *Federal Practice and Procedure* § 2553 (2008). Plaintiffs also point to *Medtronic, Inc. v. White*, 526 F.3d 487, 495 (9th Cir. 2008). In

Medtronic, the Ninth Circuit held that a party had not waived its challenge to jury instructions where counsel stated, "I think that's fine" after the trial court read the disputed instructions because the court was aware of the party's objections and a further objection would have been futile. *Id.* at 495-96.

Here, however, Plaintiffs never disputed the propriety of the Court's ruling on summary judgment, sought reconsideration of that decision, informed the Court that they believed it was error to submit the issue to the jury, or objected to the jury instructions. Plaintiffs suggest that simply because the Court declined to grant summary judgment, any further objection would have been futile. However, Plaintiffs have cited no authority to support this proposition. Further, the fact that the Court dealt with No. 25A by asking the parties a question—rather than definitively ruling that it would not give the instruction—undermines Plaintiffs' assumption that objection would have been futile. As a matter of fairness, Plaintiffs cannot remain silent during trial and claim error only in the face of an unfavorable verdict. Rather, parties ought "to bring possible errors to light while there is still time to correct them without entailing the cost, delay and expenditure of judicial resources occasioned by retrials." *Monsma v. Cent. Mut. Ins. Co.*, 392 F.2d 49, 52 (9th Cir. 1968) (citation omitted) (discussing failure to object to jury instruction); *see also Beech Aircraft*, 51 F.3d at 841.

Furthermore, while Plaintiffs have cast their motion as one for a new trial, their briefs repeatedly assert that the Court should interpret the Eminem Agreements, as a matter of law, in Plaintiffs' favor.

This is, in essence, a request for judgment as a matter of law. However, Plaintiffs did not move for JMOL at the close of evidence. Accordingly, the relief that Plaintiffs seek is not available. *See, e.g., Janes v. Wal-Mart Stores Inc.*, 279 F.3d 883, 886-888 (9th Cir. 2002). Under Ninth Circuit precedent, Plaintiffs' motion for summary judgment and trial brief do not satisfy the requirement that they bring a preverdict motion for JMOL. *Id.* at 886-87.

Next, assuming that Plaintiffs did not waive this argument, the Court did not err when it submitted the issue to the jury. Under California law, when the intent of the parties "depends upon the credibility of extrinsic evidence, that credibility determination and the interpretation of the contract are questions of fact that may properly be resolved by the jury." *City of Hope Nat'l Med. Ctr. v. Genetech, Inc.*, 43 Cal. 4th 375, 395, 75 Cal. Rptr. 3d 333 (2008). Plaintiffs contend that it is only the province of the jury to resolve conflicts in "foundational extrinsic evidence" or historic facts. A recent case, *Wolf v. Sup. Ct.*, 114 Cal. App. 4th 1343, 8 Cal. Rptr. 3d 649 (2004), which the Court cited in its order on the parties' motions for summary judgment, is strikingly similar to the case at bar and confutes Plaintiffs' unduly narrow conception of the jury's role. *Wolf* involved a dispute over the meaning of the contractual term "gross receipts." Neither side presented any direct evidence of the negotiating parties' understanding of the term at the time they entered into the contract. *Id.* at 1359-60. The parties offered extrinsic evidence of industry custom and usage, which revealed that "gross receipts" was reasonably susceptible to more than one possible meaning. *Id.* at 1350, 1353-1355.

The Court of Appeal vacated the trial court's entry of summary judgment, holding that conflicting expert testimony regarding industry custom and usage raised a triable issue of fact. *Id.* at 1354-55.

Similarly, in the instant case, there was no direct evidence of the parties' expressed intent at the time of contractual negotiations. Accordingly, the Court had to look to extrinsic evidence. As explained in the Court's order denying summary judgment, Plaintiffs failed to establish that industry custom and practice mandated a particular interpretation of the Masters Licensed provision. Instead, the parties' conflicting evidence created a triable issue of fact.

At trial, the parties presented conflicting expert testimony, and it was the task of the jury to resolve the factual conflict by assessing the credibility of the witnesses. For instance, David Berman, Plaintiffs' expert, testified that the custom and practice in the recording industry was to apply the "masters licensed" provision to every transaction involving a license, and that the presence of "indicia" of a license was the end of the inquiry. In contrast, Jeffrey Harleston, Defendants' expert, testified that the "masters licensed" provision customarily applies only when recordings are incorporated into a third party's products. Although Plaintiffs maintain that no material extrinsic evidence was disputed, both versions of the accepted recording industry practice could not be true.[3]

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[3] Indeed, Plaintiffs implicitly acknowledge the existence of conflicting expert testimony and the significance of credibility

(Continued…)

In sum, conflicting extrinsic evidence precluded the Court from interpreting the Eminem Agreements as a matter of law. *See Wolf*, 114 Cal. App. 4th at 1359; *City of Hope*, 43 Cal. 4th at 394-95. The Court did not err when it entrusted the jury to weigh the credibility of the parties' experts, resolve the factual disputes, and interpret the contract accordingly. *City of Hope*, 43 Cal. 4th at 394-95.

B. Interpretation of the Third-Party Agreements

As an alternate basis for a new trial, Plaintiffs argue that the Court erred by not ruling as a matter of law that the agreements between UMG and third-party providers of digital content were "licenses." However, Plaintiffs waived any claim that the Court should have ruled as a matter of law that the third-party agreements were licenses because they never sought such a ruling prior to the submission of the issue to the jury. *See discussion* pp. 6-8, *supra*.

Plaintiffs further contend that as a minimum, the Court should have instructed the jury on as to the proper legal standard for determining whether the third-party agreements were licenses. Plaintiffs submitted an instruction, based on *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008), that outlined factors indicative of whether a transaction is a sale or a license under copyright law.

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issues when they argue that they were severely prejudiced by the exclusion of the March 24, 2004 letter because, *inter alia*, Mr. Berman could not use it to support his custom and practice position.

See Docket No. 378. The Court refused to give that instruction.

Plaintiffs have failed to show why this supposed error entitles them to a new trial. Plaintiffs argue that "no other instruction gave the jury any basis to determine whether Defendant's [third-party] agreements were 'licenses' or 'sales.'" The issue for the jury, however, was not what a license is as a matter of copyright law, but rather what the parties intended when they agreed to the "records sold" and "masters licensed" provisions in the Eminem Agreements. Accordingly, the Court did not err when it declined to instruct the jury on what a "license" is in copyright law.

C. Clear Weight of the Evidence

Next, Plaintiffs maintain that a new trial is required because the jury's verdict was against the clear weight of the evidence. The judge may not grant a new trial simply because he would have arrived at a different verdict; rather, he must have a firm conviction that the jury has made a mistake. *Wallace v. City of San Diego*, 479 F.3d 616, 630-31 (9th Cir. 2007); *Landes*, 833 F.2d at 1372. Having sat through the trial and after reviewing the record, the Court finds that the jury's verdict was not against the clear weight of the evidence.

D. Evidentiary Rulings

Finally, Plaintiffs contend that several of the Court's evidentiary rulings were erroneous and substantially prejudiced Plaintiffs.

(1) Exclusion of the March 24, 2004 Letter

First, Plaintiffs argue that the Court should have admitted a March 24, 2004 letter bearing the signature of 27 self-described "music industry attorneys" to the heads of five major record companies. The letter argued that record companies should account for permanent downloads as "licenses" rather than "records sold." One of the 27 signatories was Mr. Paterno, who represented Aftermath in negotiations over the 1998 Eminem Agreement. According to Plaintiffs, the letter "constitutes a direct admission by the adverse party—through its attorney—concerning the parties' intent."

Plaintiffs' argument is flawed. The letter postdates the 1998 and 2003 Eminem Agreements by several years, and there is no evidence that Mr. Paterno signed the letter on behalf of Aftermath.[4] Therefore, the letter is not admissible under *Heston v. Farmers Ins. Group*, 160 Cal. App. 3d 402, 413-415, 206 Cal. Rptr. 585 (1984); it is not relevant to show Defendants' intent at the time they entered into the contracts.

Plaintiffs also contend that it was error to preclude them from using the letter for impeachment. However, Plaintiffs fail to explain how Mr. Paterno's signature on the letter was inconsistent with his testimony at trial.

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[4] Mr. Paterno was not even involved in the negotiation of the 2003 Agreement.

Furthermore, because the letter was irrelevant to task of contractual interpretation, to allow Plaintiffs to question Mr. Paterno about it would have confused the jury. The Court properly excluded the letter under Fed. R. Evid. 402 and 403.

(2) Exclusion of Prelitigation Statements by Universal and Apple Employees

Second, Plaintiffs contend that the Court erred when it excluded: (1) a 2007 essay by Steve Jobs, CEO of Apple, entitled "Thoughts on Music"; (2) a written statement to the Copyright Board from Eddy Cue, Vice President of iTunes; (3) 2006 testimony of Lawrence Kenswil, Executive Vice President of Business Strategy for Universal Music Group and former head of Universal eLabs, before the Copyright Royalty Board; and (4) a 2005 magazine interview with Jimmy Iovine, Chairman of Interscope Records. The Court excluded this evidence on the ground that its probative value, if any, was outweighed by the danger of unfair prejudice to Defendants. Plaintiffs argued that these statements demonstrated Defendants' understanding of the nature of their agreements with third-party digital download providers and demonstrated Apple's understanding of its agreements with Defendants. However, these stray uses of the word "license" were made by individuals who were not parties to and did not negotiate the Eminem Agreements. Furthermore, none of the statements explicitly or implicitly referenced the contracts at issue in this case. The Court properly excluded this evidence because it was not relevant to what Defendants meant when they used the phrase "masters licensed" in the contracts. Introduction of these random uses of the word

"license" by individuals unconnected to the Eminem Agreements would have wasted time and would likely have confused and mislead the jury.

Finally, even assuming this evidentiary ruling was error, Plaintiffs have not demonstrated that it was so prejudicial that it more likely than not tainted the verdict, thus warranting a new trial. *See Gribben v. United Parcel Serv., Inc.*, 528 F.3d 1166, 1172 (9th Cir. 2008).

(3) Exclusion of Testimony of Peter Menell

Plaintiffs' next contention is that the Court erroneously excluded testimony from Plaintiffs' proffered expert, Professor Peter Menell. Although Plaintiffs attempted to characterize Mr. Menell as a "custom and usage" expert, the bulk of his expert report was devoted to establishing legal opinions as to the meaning of the provisions of the Eminem Agreements at issue—not to providing evidence of common practice in the recording industry. For instance, in his report, Mr. Menell described his assignment and summarized his conclusions as follows:

> FBT, through its counsel, has asked me to provide my opinion as to whether the allocation of revenue that Aftermath Entertainment ("Aftermath") has received and continues to receive from third parties (such as Apple, Sprint PCS, T-Mobile, Nextel, and Cingular Wireless) for permanent digital downloads (including master tones) of sound records governed by the 1998 and 2003

> Aftermath-FBT agreements are governed by the standard royalty provision . . . , the masters license provision . . . , or some other clause. As set forth below, I conclude based on the contracts at issue, the contractual provisions and economic realities of the UMG-third party relationships, and a functional analysis of the recording industry that the permanent digital download (including master tones) revenues at issue in this case should be governed by the masters license provision.

It is well-settled that an expert witness may not offer, as her opinion, a legal conclusion. *E.g., Nationwide Transp. Fin. v. Cass Info. Sys., Inc.*, 523 F.3d 1051, 1058 (9th Cir. 2008). Thus, an expert may testify to industry custom and usage with respect to particular contract terms, but he or she may not give an opinion on the ultimate contract interpretation issue. *Morrow v. Los Angeles Unified Sch. Dist.*, 149 Cal. App. 4th 1424, 1444-45, 57 Cal. Rptr. 3d 885 (2007). Here, Mr. Menell reached legal conclusions based on his construction of the Eminem Agreements, as opposed to providing his opinion as to how "masters licensed" provisions are typically used in the recording industry. The Court properly excluded Mr. Menell's legal opinion testimony. To the extent that Plaintiffs proffered Mr. Menell to testify to "the evolution of economic functions in the recording industry," his opinions lacked a proper foundation.

(4) Argument that Plaintiffs Were "Lucky"

Finally, Plaintiffs argue that the Court erred in denying their motion to preclude Defendants from referring to Plaintiffs as "lucky" or characterizing Plaintiffs' royalties as a windfall. However, Plaintiffs have pointed to no occasion where Defendants improperly referred to Plaintiffs' luck in meeting Eminem or argued that Plaintiffs' contractual entitlements should not be honored. And while Plaintiffs complain that Defendants stated at trial that Plaintiffs "got rich" and "made millions" off the Eminem Agreements, Plaintiffs' counsel also questioned Defendants' witnesses as to how many millions of dollars Defendants had "made on Eminem." Plaintiffs have not shown that they were substantially prejudiced by these comments.

IV. Conclusion

For the foregoing reasons, the motion for a new trial is DENIED.

IT IS SO ORDERED.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 07-3314 PSG (MANx)

F.B.T. PRODUCTIONS, LLC, ET AL.,

Plaintiffs,

v.

AFTERMATH RECORDS, ET AL.,

Defendants.

Filed January 20, 2009

Before: The Honorable Philip S. GUTIERREZ, United States District Judge; Wendy K. Hernandez, Deputy Clerk

CIVIL MINUTES - GENERAL

PROCEEDINGS: (In Chambers) Order Denying Plaintiffs' Motion for Summary Judgment and Defendants' Motion for partial Summary Judgment

Before the Court are Plaintiffs' Motion for Summary Judgment and Defendants' Motion for Partial Summary Judgment. The Court finds the matters appropriate for decision without oral argument. Fed. R. Civ. P. 78; Local R. 7-15. After

considering the moving and opposing papers, the Court hereby DENIES the motions.

I. Background

Plaintiffs F.B.T. Productions, LLC ("FBT") and Em2M, LLC ("Em2M") are entities that receive royalties payable for the use and exploitation of master recordings by Marshall B. Mathers III, better known as the rapper Eminem. Defendants are Aftermath Records ("Aftermath"), a joint venture, and its owners, Interscope Records ("Interscope"), UMG Recordings, Inc. ("UMG"), and Ary, Inc. ("Ary"). The primary question presented by this case is what royalty is due Plaintiffs when a consumer downloads an Eminem song to her computer or purchases an Eminem ringtone for her mobile phone.

A. The Eminem Agreements

In approximately 1995, Jeff and Mark Bass signed Eminem to an exclusive record deal with FBT, their production company. On March 9, 1998, FBT entered into an agreement ("the 1998 Agreement") to furnish Eminem's recordings to Aftermath. The 1998 Recording Agreement contains two royalty provisions. First, paragraph 4(a) sets a royalty for "full-price records sold in the United States" that varies between 12 and 20% (the "Records Sold" provision).[1] *Hoffman Decl.* Ex. A ¶ 4(a)(i). "Records"

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[1] According to Defendants, the artist's basic royalty rate varies with the artist's popularity. *Hoffman Decl.* ¶ 4. The 1998 (Continued…)

are defined as "all forms of reproductions, whether embodying sound alone or sound together with visual images, manufactured or distributed primarily for home use." *Id.* at ¶ 16(e).

Second, paragraph 4(c)(v) of the 1998 Agreement states that "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses, your royalty shall be an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from other uses of the masters" ("the Masters Licensed" provision). *Id.* at ¶ 4(c)(v). A "master" is defined as "a recording of a sound, without or with visual images, which is used or useful in the recording, production or manufacture of records." *Id.* at ¶ 16(d).

In 2000, the parties to the 1998 Agreement entered into a novation that established a direct contractual relationship between Eminem and Aftermath ("the 2000 Novation"). *Plfs' UF* ¶ 28. The 2000 Novation transferred the obligation to provide Aftermath with Eminem's recording services from FBT directly to Eminem. FBT became a "passive income participant," retaining a right to royalty income from Eminem's recordings. *Plfs' UF* ¶ 29; *Dfts' UF* ¶ 2. Aftermath agreed to render separate accountings to FBT and Eminem, and the 2000 Novation specified the royalty share of each. *Plfs' UF* ¶ 30.

Agreement provides for "escalations," meaning that the royalty rate increases as certain sales targets are met. *Id.; see also Hoffman Decl.* Ex. A 4(a)(i).

In 2003, Aftermath and Eminem entered into a new recording contract, which terminated the 1998 Agreement ("the 2003 Agreement"). *Plfs' UF* ¶ 37. Plaintiffs retained the right to royalties from Eminem's recordings under the 2003 Agreement. *Plfs' UF* ¶ 41. The structure of the 2003 Agreement was similar to the 1998 Agreement, but included an increased advance and higher royalties reflecting Eminem's rise to stardom. *Plfs' UF* ¶¶ 38-39. Like the 1998 Agreement, the 2003 Agreement set forth two royalty rates, one for "records sold," *Hoffman Decl.* Ex. D ¶ 5(a)(i), and one for "masters licensed . . . to others for their manufacture and sale of records or for any other uses," *Id.* at ¶ 5(c)(v).

In November 2004, the parties entered into the "2004 Amendment," which altered the 2003 Agreement to increase the advance for an upcoming LP, the fraction of FBT's passive income participation, and certain royalty rates. *Plfs' UF* ¶¶ 56, 58.

B. UMG's Agreements with Third Party Digital Media Providers

Since approximately 2001, UMG has entered into agreements with various third parties granting those entities rights to distribute music to consumers over the internet in various forms, including permanent downloads. *Plfs' UF* ¶ 86. Permanent downloads are digital copies of recordings that, once downloaded, remain permanently on an end-user's computer,

iPod, or other hardware device. *Plfs' UF* ¶ 73.[2] Apple's iTunes music store, which launched in 2003, quickly became the largest source of legal permanent downloads. *Plfs' UF* ¶¶ 69-70.

In approximately 2003, UMG began entering into contracts with major cellular telephone network carriers, including Sprint, Nextel, Cingular, and T-Mobile, to provide UMG recordings for use on mobile phones as mastertones. *Plfs' UF* ¶¶ 120-21. "Mastertones" is a term that refers to more than one type of digital media; most commonly, mastertones are short clips of a song that play on a cellular phone to signal an incoming call. *Plfs' UF* ¶ 82. Typically, the user permanently downloads the mastertone onto her mobile device. *Plfs' UF* ¶ 83. Another form ofmastertones play for a third party who calls the purchaser; they are stored on a central server and "streamed" to the caller. *Plfs' UF* ¶ 84.

In 2005, FBT and Eminem hired an accounting firm to audit Defendants' accounting records for the period beginning January 1, 2002 and ending June 30, 2005. *Plfs' UF* ¶ 191. The audit revealed that UMG was paying Plaintiffs royalties for permanent

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[2] In contrast, the "streaming" of music allows a user to listen to a song online, but no copy is created on her local machine. *Plfs' UF* ¶¶ 76, 78. A consumer can only listen to a streamed song contemporaneously with its transmission; it is not possible to listen to the song again without reconnecting to the provider. *Plfs' UF* ¶ 79. "Conditional downloads" are a form of download restricted such that a user must maintain a subscription to a given service in order to continue to listen to the downloaded songs. *Plfs' UF* ¶ 80.

downloads and mastertones based on the rate set forth in the "Records Sold" provision of the Eminem Agreements. *Plfs' UF* ¶ 192. Based on Plaintiffs' belief that royalties on permanent downloads and mastertones should be paid at the higher rate set forth in the "Masters Licensed" provision, the auditor calculated that Defendants had underpaid Plaintiffs by at least $650,000. *Plfs' UF* ¶ 192-93. Defendants responded to the audit report in a letter dated May 8, 2007, contesting the determination that certain royalties had been underpaid. *Plfs' UF* ¶ 196; *Dfts' SGI* ¶ 196.

On May 21, 2007, Plaintiffs filed a complaint for breach of contract and declaratory judgment based on Defendants' alleged underpayment of royalties for digital uses of Eminem's recordings. On March 6, 2008, Plaintiffs filed a second lawsuit for breach of contract and declaratory judgment, also claiming that Defendants had failed to properly account and pay royalties due to Plaintiffs. *See F.B.T. Productions, LLC, et al. v. Aftermath Records, et al.,* No. CV 08-1563 PSG (CWx) (Docket No. 1). The Court consolidated the two actions on May 19, 2008 and ordered Plaintiffs to file an amended complaint. Plaintiffs did so and later filed a second amended complaint ("SAC"), which asserted two counts for breach of contract and a third count for declaratory relief.

Plaintiffs now move for summary judgment on all claims. Defendants move for partial summary judgment on the first and third causes of action.

II. Legal Standard

Federal Rule of Civil Procedure 56(c) establishes that summary judgment is proper only when "the pleadings, the discovery and disclosure materials on file, and any affidavits show that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). The moving party has the burden of demonstrating the absence of a genuine issue of fact for trial. *See Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 256, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). If the moving party satisfies the burden, the party opposing the motion must set forth specific facts showing that there remains a genuine issue for trial. See id. at 257.

A non-moving party who bears the burden of proving at trial an element essential to its case must sufficiently establish a genuine dispute of fact with respect to that element or face summary judgment. *See Celotex Corp. v. Catrett,* 477 U.S. 317, 322-23, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986). Such an issue of fact is a genuine issue if it reasonably can be resolved in favor of either party. *See Anderson*, 477 U.S. at 250-51. If the moving party seeks summary judgment on a claim or defense for which it bears the burden of proof at trial, the moving party must use affirmative, admissible evidence. Admissible declarations or affidavits must be based on personal knowledge, must set forth facts that would be admissible evidence at trial, and must show that the declarant or affiant is competent to testify as to the facts at issue. *See* Fed. R. Civ. P. 56(e).

III. Discussion

A. Royalties Due on Permanent Downloads and Mastertones (Counts 1 and 3)

Plaintiffs' first cause of action seeks damages resulting from Defendants' alleged breach of contract with respect to the payment of royalties due on permanent downloads and mastertones of Eminem's recordings. *SAC* ¶ 38. Plaintiffs' third cause of action seeks a declaration that Defendants are obligated to pay royalties equal to fifty percent (50%) of Defendants' net receipts "from the licensing by Defendants or Defendants' Licensees of the Eminem Masters to Music Download Providers and Mastertone Providers." *SAC* ¶¶ 54-56. Because both counts necessitate a determination of the royalty due on these digital uses, the Court will treat the first and third causes of action together for the purpose of summary judgment.

Two provisions in the Eminem Agreements are central to the instant dispute. First, the "Records Sold" provision in the 1998 and 2003 Agreements sets a royalty for "full-price records sold in the United States" that varies between 12 and 20%. *Hoffman Decl.* Exs. A ¶ 4(a) and D ¶ 5(a). Second, the "Masters Licensed" provision provides that "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses, your royalty shall be an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from other uses of the masters." *Hoffman Decl.* Exs. A ¶ 4(a)(v) and D ¶ 5(c)(v). To date, Aftermath has paid Plaintiffs royalties for permanent downloads and mastertones of Eminem

recordings under the Records Sold provision. Plaintiffs contend that they are entitled to summary judgment because the Eminem Agreements unambiguously require Defendants to account for royalties on permanent downloads and mastertones under the "Masters Licensed" provision. Defendants argue that Plaintiffs' proffered construction is not a reasonable reading of the contract language and that summary judgment should be granted for Defendants on this basis.

Under California law, when the meaning of the words in a contract is disputed, the Court must provisionally consider all extrinsic evidence that is relevant to show whether the contractual language is reasonably susceptible to either of the competing interpretations advanced by the parties. *Pac. Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co.*, 69 Cal. 2d 33, 39, 69 Cal Rptr. 561 (1968); *Wolf v. Sup. Ct.*, 114 Cal. App. 4th 1343, 1351, 8 Cal. Rptr. 3d 649 (2004). This is the case even if the contract appears unambiguous on its face, because "the fact that the terms of an instrument appear clear to a judge does not preclude the possibility that the parties chose the language of the instrument to express different terms." *Pac. Gas,* 69 Cal. 2d at 39. "Extrinsic evidence can include the surrounding circumstances under which the parties negotiated or entered into the contract; the object, nature and subject matter of the contract; and the subsequent conduct of the parties." *Cedars-Sinai Med. Ctr. v. Shewry*, 137 Cal. App. 4th 964, 980-81 (2006). Whether a contract is ambiguous is a matter of law. *Maffei v. Northern Ins. Co.,* 12 F.3d 892, 898 (9th Cir. 1993). If the Court determines that the contractual provision in question

is ambiguous, summary judgment is inappropriate because the differing views of the parties' intent will raise genuine issues of material fact. *Id.* Summary judgment is appropriate only if the contract is unambiguous. *Nat'l Union Fire Ins. Co. v. Argonaut Ins. Co.,* 701 F.2d 95, 97 (9th Cir. 1983).

The Eminem Agreements do not expressly state whether royalties on permanent downloads and mastertones are to be calculated under the Records Sold provision or the Masters Licensed Provision. Furthermore, neither Plaintiffs nor Defendants have submitted evidence of the negotiating parties' discussions, drafts, or other contemporaneous expressions of intent as to how permanent downloads and mastertones were to be treated under the Agreements.[3] Accordingly, the Court must look to the nature of the contract and the surrounding circumstances to interpret the contractual language. *Wolf,* 114 Cal. App. 4th at 1357; *Gen. Motors Corp. v. Sup Ct.,* 12 Cal. App. 4th 435, 442, 15 Cal. Rptr. 2d 622 (1993).

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[3] Plaintiffs and Defendants have submitted deposition testimony of various individuals who offer their understanding of which provision of the Eminem Agreements applies to permanent downloads and mastertones. However, the parties have not shown that (1) each of those individuals was involved in negotiating or drafting the Agreements and (2) that the individual's understanding was expressed during negotiations. Indeed, it is undisputed that the parties did not discuss the treatment of digital uses during the negotiation of the 2003 Agreement. *Plfs' UF* ¶ 50. The parties' undisclosed intent or understanding is irrelevant to contract interpretation. *Cedars-Sinai*, 137 Cal. App. 4th at 980 (citation omitted).

Plaintiffs argue that the plain language of the Masters Licensed provision, which states: "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses, your royalty shall be an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from other uses of the masters," applies to *all* "licenses" of Eminem recordings to third parties. Plaintiffs maintain that the relationship between UMG and third-party permanent download and mastertone providers are "licenses" within the legal meaning of that term. Therefore, according to Plaintiffs, the Eminem contracts entitle them to a 50% royalty on these digital uses.

Plaintiffs have submitted evidence which would support a finding that at least some of the agreements between Defendants and third-party permanent download providers are licenses. "The distributor of a copyrighted product's intent to regain possession is strong evidence that the produce was licensed, not sold, to the recipient." *UMG Recordings, Inc. v. Augusto,* 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008). For example, Plaintiffs have submitted an agreement between UMG and Apple Computer, Inc. *Busch Decl.* Ex. 20. The agreement indicates that UMG may withdraw any of its sound recordings from the iTunes online music store, *id.* at ¶ 1(b), which is indicative of a license, not a sale. The iTunes agreement provides recurring benefits for UMG, the copyright holder, which also suggests that the agreement constitutes a license. *See id.* at 1061 ("Generally, licenses provide recurring benefits for the copyright owner."). For each song or album sold,

Apple agrees to pay a certain amount to UMG. *Busch Decl.* Ex. 20 ¶ 2(a). Thus, under the 2002 iTunes agreement, Apple appears to lack many of the critical rights of ownership, such as the right to perpetual possession and freedom from obligations to UMG. This suggests that the agreement was a license. *See UMG Recordings,* 558 F. Supp. 2d at 1062.

Plaintiffs state that Defendants have produced approximately 80 such agreements, which are "similar in terms of the rights granted to the third parties and their general structure." *Plfs' Opp.* 8:25-26. Defendants contest this assertion, however, arguing that they have produced over 500 third-party agreements that vary and cannot be generalized as to their grant of rights. *Dfts' SGI* ¶¶ 86-87.[4] Therefore, the Court cannot conclude that all of the permanent download agreements are licenses.

Furthermore, Defendants dispute that the parties intended the term "license" in the Eminem Agreements to have a copyright law definition. Under California law, "[t]he words of a contract are to be understood in their ordinary and popular sense, rather than according to their strict legal meaning;

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[4] Plaintiffs also argue that by 2003, UMG had entered into agreements with Apple and other digital providers, so it knew that the Masters Licensed provision would apply to permanent downloads. However, Defendants correctly point out that there is no evidence that the negotiators of the Eminem contracts had read or were aware of the relevant third party digital provider contracts.

unless used by the parties in a technical sense, or unless a special meaning is given to them by the usage, in which case the latter must be followed." Cal. Civ. Code § 1644. According to Defendants, the parties intended for the Masters Licensed provision to apply only to "ancillary uses" of the master recordings. Defendants define "ancillary uses" as transactions ancillary to the record company's main business of selling records, such as licensing an Eminem song for use in a movie or for inclusion in a compilation album. *Dfts' Opp.* 4:10-15. However, there is no limiting provision in the Masters Licensed Provision or elsewhere in the Eminem Agreements that indicates that the Masters Licensed provision only applies to "ancillary" uses or income. Defendants point to a sentence in the 2000 Novation which states:

> [I]t is agreed that the foregoing fractions of the applicable royalty rate shall also be applied to any advances or fees payable to Artist in connection with any ancillary uses of each master recording recorded by Artist pursuant to the Agreement after the Delivery of LP 2 and prior to the Delivery of LP 7 . . . .

Hoffman Decl. Ex. C ¶ 7(e). Based on the record before it, it is not clear to the Court that this sentence is modifying, limiting, or referring to the Masters Licensed Provision. Defendants insist that the reference to royalties on "ancillary uses" must refer to the Masters Licensed provision; however, this reference is not clear from the plain language of the contract, and Defendants have not convinced the Court that this section of the Novation must refer to the Masters Licensed Provision.

Next, both parties argue that industry custom supports their interpretation of the Eminem Agreements. Plaintiffs assert that the "purpose" of a "masters licensed" provision is "to provide for a higher royalty rate when the record company licences the master recordings to third parties because in such situations the record company does not incur the expensive incremental cost associated with manufacturing, packaging and distributing the physical records associated with a release by a third party." *Plfs' UF* ¶ 23. Plaintiffs also maintain that this type of language in a recording contract usually serves as a "catch all" provision intended to apply to all licensed uses of the master recordings not specifically provided for in the contract. *Plfs' UF* ¶ 24. Defendants fervently dispute this assertion, contending that provisions such as the Masters Licensed section typically apply only to compilation records and incorporation into movies, TV shows, and commercials. *Dfts' SGI* ¶¶ 23-24. The Court finds that neither party has conclusively established that "custom and practice" mandates a particular interpretation of the Masters Licensed provision. Instead, the parties' conflicting evidence creates a triable issue of fact.[5]

---

[5] The Court notes that much of Plaintiffs' expert testimony appears to be inadmissible, as it sets forth an opinion on the proper interpretation of the Eminem Agreements. *See generally Menell Decl.* An expert may testify to industry custom and usage with respect to particular contract terms, but may not offer an opinion on the ultimate contract interpretation issue. *Morrow v. Los Angeles Unified Sch. Dist.*, 149 Cal. App. 4th 1424, 1444-45, 57 Cal. Rptr. 3d 885 (2007).

Defendants also contend that Plaintiffs' proffered understanding of the Eminem Agreements ignores a key provision of the 2004 Amendment. This provision states: "Sales of Albums by way of permanent download shall be treated as USNRC Net Sales for the purpose of escalations, provided that the sales price concerned falls within a top line sales price category applicable to such method of sale." *Hoffman Decl.* Ex. E. ¶ 2(a). Plaintiffs argue that the 2004 Amendment's treatment of downloads is only relevant for the purpose of calculating units toward escalation targets. However, Defendants point out that referring to downloads as "sales of albums" would be nonsensical if, as Plaintiffs contend, downloads are never "sold" but merely licensed. Plaintiffs' response is that the Masters Licensed provision explicitly references "the manufacture and sale of records" by third parties. Therefore, the 2004 Amendment's provision does not conclusively resolve the ambiguity.[6]

Defendants maintain that the "Records Sold" provision unambiguously applies to permanent downloads and mastertones because these are forms of "records." It is undisputed that the 1998 and 2003 Agreements define a "record" as "all forms of reproductions, whether embodying sound alone or sound together with visual images, manufactured and distributed primarily for home use." *Dfts' UF* ¶ 4. Furthermore, the Agreements give Aftermath the right to sell "records" "in any [or] all forms of

[6] Additionally, the Court notes that this provision does not address mastertones.

media now known and hereinafter developed." *Hoffman Decl.* Ex. A 8 at ¶ 40. Thus, Defendants maintain that their interpretation is more consistent with the contracts' expansive grant of rights to Defendants to distribute "records" embodying the Eminem master recordings.

Finally, Defendants also point to the fact that Plaintiffs never objected to Defendants' payment of royalties under the Records Sold provision until the auditor raised the issue in 2006. Construction given to a contract by acts and conduct of parties with knowledge of the contract terms and before a controversy arises is relevant to contract interpretation. *S. Pac. Trans. Co. v. Sante Fe Pac. Pipelines, Inc.,* 74 Cal. App. 4th 1232, 1242, 88 Cal. Rptr. 2d 777 (1999). Therefore, this evidence of Plaintiffs' conduct is also relevant to show their intent.

"The purpose of the law of contracts is to protect the reasonable expectations of the parties." *ASP Props. Group v. Fard, Inc.,* 133 Cal. App. 4th 1257, 1268, 35 Cal. Rptr. 3d 343 (2005) (citation omitted). Here, there is no direct evidence of objective manifestations of the parties' intent at the time the Eminem Agreements were negotiated, and the Agreements do not explicitly indicate under which royalty provision permanent downloads and mastertones are to be treated. Indeed, it is undisputed that parties did *not* discuss the treatment of downloads and mastertones while negotiating the most recent version of the contract. *Plfs' UF* ¶ 50. Based on the conflicting extrinsic evidence before the Court, the contracts are reasonably susceptible to more than one

interpretation. Therefore, Plaintiffs' and Defendants' reasonable expectations regarding royalties due on permanent downloads and mastertones when they entered into the Eminem Agreements remain triable issues of material fact. *See Wolf,* 114 Cal. App. 4th at 1359-60. Accordingly, the motions for summary judgment must be DENIED.

B. Underpayment due to Misallocation of Costs (Count 2)

Plaintiffs' remaining cause of action alleges that Defendants have underpaid royalties due Plaintiffs in the amount of $159,332. *SAC* ¶¶ 45-47. Plaintiffs claim that they are entitled to summary judgment on this claim because Defendants admitted this underpayment in writing on May 8, 2007. *SAC* ¶ 47.

Defendants correctly point out that Plaintiffs have not fully explained the basis for this claim. Plaintiffs' Statement of Uncontroverted Facts in support of their motion for summary judgment claims that in a letter dated May 8, 2007, Defendants "admitted an underpayment to F.B.T. of $159,332 stemming from incorrect allocation of costs as between Eminem and Plaintiffs." *Plfs' UF* ¶¶ 196, 2. However, in that letter, Defendants disputed the auditor's determination that Defendants had misallocated producer royalties, expressly maintaining that no adjustment was necessary under this provision of the Eminem Agreements. *Dfts' SGI* ¶ 2; *See Busch Decl.* Ex. 33 ¶ 16. According to Defendants, the $159,332 figure represents an "interim net figure calculated as part of Aftermath's audit response, which netted Plaintiffs' claim against some, but not all, of Defendants' counterclaims

seeking recovery of certain overpayments." *Dfts' SGI* ¶ 2; *see also Busch Decl.* Ex. 33, p.5-6.; Ex. 41 (Hu Dep.) 29:16-30:20.

Furthermore, as Defendants correctly argue, it is unclear whether $159,332 is the entirety of Plaintiffs' second cause of action. The SAC introduces the second claim for breach of contract with the statement, "*For example and without limitation,* Defendants have violated the terms of the Agreements as set forth in the following paragraphs." *SAC* ¶ 45 (emphasis added). The following paragraphs describe Defendants' alleged misallocation of producer royalties as between Plaintiffs and Eminem. *Id.* ¶¶ 46-49. However, because Plaintiffs did not limit their second cause of action to this specific breach, Plaintiffs may be improperly moving for summary judgment as to part of a claim without notice to Defendants.

In summary, Plaintiffs have failed to show that there is no genuine issue of material fact for trial on their second cause of action. Therefore, the motion for summary judgment as to the second claim is DENIED.

IV. Conclusion

For the foregoing reasons, Plaintiffs' motion for summary judgment and Defendants' motion for partial summary judgment are DENIED.

IT IS SO ORDERED.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 09-55817, 09-56069

F.B.T. PRODUCTIONS, LLC; EM2M, LLC,

Plaintiffs-Appellants,

v.

AFTERMATH RECORDS, DBA AFTERMATH ENTERTAINMENT; ET AL.,

Defendants-Appellees.

Filed August 2, 2010

Before: FARRIS, HALL and SILVERMAN, Circuit Judges

ORDER

Appellees' motion to defer submission is DENIED.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 09-55817, 09-56069

F.B.T. PRODUCTIONS, LLC; EM2M, LLC,

Plaintiffs-Appellants,

v.

AFTERMATH RECORDS, DBA AFTERMATH ENTERTAINMENT; ET AL.,

Defendants-Appellees.

Filed October 21, 2010

Before: FARRIS, HALL and SILVERMAN, Circuit Judges

ORDER

The panel has voted to deny appellees' petition for rehearing. Judge Silverman has voted to reject the petition for rehearing en banc and Judges Farris and Hall so recommend.

The full court has been advised of the petition for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing is denied and the petition for rehearing en banc is rejected.

U.S. Const., Amend. VII

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law.

Fed. R. Civ. P. 50.

Judgment as a Matter of Law in a Jury Trial; Related Motion for a New Trial; Conditional Ruling

(a) Judgment as a Matter of Law.

(1) In General. If a party has been fully heard on an issue during a jury trial and the court finds that a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue, the court may:

(A) resolve the issue against the party; and

(B) grant a motion for judgment as a matter of law against the party on a claim or defense that, under the controlling law, can be maintained or defeated only with a favorable finding on that issue.

(2) Motion. A motion for judgment as a matter of law may be made at any time before the case is submitted to the jury. The motion must

specify the judgment sought and the law and facts that entitle the movant to the judgment.

(b) Renewing the Motion After Trial; Alternative Motion for a New Trial. If the court does not grant a motion for judgment as a matter of law made under Rule 50(a), the court is considered to have submitted the action to the jury subject to the court's later deciding the legal questions raised by the motion. No later than 28 days after the entry of judgment--or if the motion addresses a jury issue not decided by a verdict, no later than 28 days after the jury was discharged--the movant may file a renewed motion for judgment as a matter of law and may include an alternative or joint request for a new trial under Rule 59. In ruling on the renewed motion, the court may:

(1) allow judgment on the verdict, if the jury returned a verdict;

(2) order a new trial; or

(3) direct the entry of judgment as a matter of law.

* * *

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July 6, 2010

Clerk of the Court
U.S. Court of Appeals for the Ninth Circuit
P.O. Box 193939
95 Seventh Street
San Francisco, CA 94103-1526

Re: F.B.T. Productions, LLC v. Aftermath Records (CA No. 09-55817 (argument scheduled in Pasadena on July 12, 2010) (before Judges Farris, Hall and Silverman)

Dear Sir or Madam:

I am writing to provide citations to additional authority not cited in the briefs to which I will make reference during the argument scheduled for Monday, July 12, 2010. These cases support the contention at Reply Brf. 23-27 that the failure to make a JMOL on the issue of contract interpretation does not waive the right to present that issue on appeal from the judgment (which is also reviewable as an appeal from the denial of summary judgment on that legal issue):

- *Estate of Blume v. Marian Health Ctr.*, 516 F.3d 705, 707 (8th Cir. 2008)
- *Wilson Arlington Co. v. Prudential Ins. Co. of Am.*, 912 F.2d 366, 370-72 (9th Cir. 1990)
- *Banuelos v. Constr. Laborers' Trust Funds*, 382 F.3d 897, 902-03 (9th Cir. 2004), *cert. denied*, 545 U.S. 1127 (2005)
- *Howell v. Polk*, 532 F.3d 1025, 1027 n.3 (9th Cir. 2008)
- *U.S. ex rel. A+ Homecare, Inc. v. Medshares Mgmt. Group, Inc.*, 400 F.3d 428, 441 (6th Cir.), *cert. denied*, 546 U.S. 1063 (2005)
- *Chemetall GMBH v. ZR Energy, Inc.*, 320 F.3d 714, 718-20 (7th Cir. 2003)
- *White Consol. Indus., Inc. v. McGill Mfg. Co.*, 165 F.3d 1185, 1190 (8th Cir. 1999)

Respectfully,

/s/ Jerome B. Falk, Jr.

JEROME B. FALK, JR.

JBF/pmm

Excerpts from Trial Exhibit 5 (March 9, 1998 Agreement), CA9 ER 837-846:

* * *

4.(a) Your royalty rate (which is inclusive of all third parties, such as producers, artists, vocalists, and other persons entitled to royalties in connection with the Masters), payable in respect of one hundred percent (100%) of U.S. Net Sales, computed at the applicable percentage, indicated below, of the Royalty Base Price, will be the following:

On full-price records sold in the United States:

(i)(A) LPs 1, 2 and 3: eighteen percent (18%) for the first five hundred thousand (500,000) net sales through normal retail channels in the United States ("USNRC Sales"), eighteen and one-half percent (18.5%) for USNRC Sales in excess of five hundred thousand (500,000) but not in excess of one million (1,000,000), and nineteen percent (19%) for USNRC Sales in excess of one million (1,000,000), computed prospectively on an LP-by-LP basis.

(B) LPs 4, 5, 6 and 7: nineteen percent (19%) for the first five hundred thousand (500,000) USNRC Sales, nineteen and one-half percent (19.5%) for USNRC Sales in excess of five hundred thousand (500,000) but not in excess of one million (1,000,000), and twenty percent (20%) for USNRC Sales in excess of one million (1,000,000), computed prospectively on an LP-by-LP basis.

(i) Twelve percent (12%) for records other than LPs.

(b)(i) On records sold in Canada, your royalty rate will be eighty-five percent (85%) of the United States rate (without regard to escalations).

(ii) On records sold in the Major Territories, (i.e. United Kingdom, Germany, France, Italy, Spain, Belgium, Luxembourg, The Netherlands, Denmark, Japan, Australia) the royalty rate will be seventy-five percent (75%) of the United States rate (without regard to escalations).

(iii) On records sold outside the United States and those countries referred to in subparagraphs (i) and (ii) above, the royalty rate will be sixty percent (60%) of the United States rate (without regard to escalations).

(c) Notwithstanding the foregoing:

(i)(A) On records sold through a direct mail or mail order distribution method (including, without limitation, through "record clubs") or through any combination of the foregoing, the royalty rate will be fifty percent (50%) of the net receipts from the sale of those records.

(B) On records sold through retail stores outside the United States in connection with bona-fide, specific special radio or television advertisements (sometimes referred to as "key outlet marketing") ("Key Outlet Campaign") whether alone or in combination with any

direct mail or mail order distribution method, the royalty rate will be one half (1/2) of the otherwise applicable royalty rate for sales occurring during the semi-annual accounting period immediately preceding the semiannual accounting period in which the Key Outlet Campaign commences, all semi-annual accounting periods in which the Key Outlet Campaign is running, and the semi-annual accounting period immediately following the semi-annual accounting period in which the Key Outlet Campaign ends. In no event, however, will your royalty in respect of those sales exceed an amount equal to fifty percent (50%) of our net receipts from the sale of those records.

(ii) On Mid-price records the royalty rate will be two-thirds (2/3) of the otherwise applicable royalty rate; and on Budget records the royalty rate will be one-half (1/2) of the otherwise applicable royalty rate.

(iii) On records sold to the United States Government, its subdivisions, departments or agencies (including records sold for resale through military facilities) or to educational institutions or libraries, the royalty rate will be one-half (1/2) of the otherwise applicable royalty rate.

(iv) On multiple albums, the royalty rate will be the lesser of (A) the otherwise applicable royalty rate and (B) the otherwise applicable royalty rate multiplied by a fraction, the numerator of which is the SRLP of the

multiple album and the denominator of which is the product of the SRLP of a top-line single-disc record and the number of discs contained in the multiple album.

(v) On masters licensed by us or our NRS Licensees to others for their manufacture and sale of records or for any other uses, your royalty shall be an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from those other uses of the masters.

(e) Notwithstanding the foregoing:

(i) No royalties or mechanical royalties will be payable on records furnished as free or bonus records to members, applicants, or other participants in any record club or other direct mail distribution method; on records distributed for promotional purposes to radio stations, television stations or networks, record reviewers, or other customary recipients of promotional records; on so-called "promotional sampler" records; on records sold as scrap or as "cut-outs"; or on records sold at less than fifty percent (50%) of their regular wholesale price to distributors, subdistributors, dealers, or others, whether or not the recipients thereof are affiliated with us. Furthermore, no royalties or mechanical royalties will be payable on records (whether or not intended for sale by the recipient) furnished on a no-charge or free basis (such as, but not limited to, records commonly described in the record industry as "free

goods" or "freebies" whether so-called "standard free goods" [standard free goods are currently fifteen percent (15%) of LPs]) or pursuant to a special sales program of limited duration (sometimes referred to below as a "Special Program" [with respect to LPs, not to exceed an additional ten percent (10%)].

(ii) Royalties on records sold at a discount (including standard free goods and Special Program free goods) to distributors, subdistributors, dealers, or others, whether or not affiliated with us [except for records sold at less than fifty percent (50%) of their regular wholesale price, for which no royalties are payable hereunder] will be reduced in the same proportion as the regular wholesale price of those records is reduced on those sales. The number of records equal to the percentage discount multiplied by the number of records sold at such discount will be deemed to be free goods.

(iii) For purposes of computing royalties, there will be deducted from the SRLP (or other applicable price, if any, upon which royalties are calculated) of records hereunder an amount equal to twelve and one-half percent (12 1/2%) for all records in the form of single-fold vinyl discs; an amount equal to fifteen percent (15%) for all records in the form of double-fold vinyl discs; an amount equal to twenty percent (20%) for all records in the form of analog non-vinyl discs (except for vinyl-disc singles packaged in colorless sleeves and without any special elements, for which

there will be no deduction from the SRLP under this subparagraph); twenty percent (20%) thereof for all other records in the form of analog cassette tapes; and twenty-five percent (25%) thereof for records in the form of digital records (including, without limitation, Compact Discs), and for all records in any other form now known or hereafter devised.

(iv) The royalty payable to you hereunder on a record or other device embodying masters together with other master recordings will be computed by multiplying the otherwise applicable royalty rate by a fraction, the numerator of which will be the number of selections contained on the masters embodied in that record or other device and the denominator of which shall be the total number of selections recorded in all royalty-bearing recordings (including the masters) embodied in that record or other device.

(f) The royalty payable to you for Compact Discs shall be ninety percent (90%) of the otherwise applicable royalty rate.

* * *

16.(e) "record" means all forms of reproductions, whether embodying sound alone or sound together with visual images, manufactured or distributed primarily for home use.

* * *

(h) “new medium” records means: records (other than audiovisual records) in any software medium (including, without limitation, digital audio tape," "digital compact disc," "and mini-disc" and transmission directly into the home) in which recorded music is not in general commercial distribution in the United States as of January 1, 1997.

* * *

Excerpts from Trial Exhibit 9 (September 27, 2000 Novation), CA9 ER 879-883:

* * *

6. Commencing with the accounting period ending 12/31/00 Aftermath shall cause its distributor to render separate accountings to FBT and Artist. Interscope hereby acknowledges that as long as it is the distributor of records released under the Agreement it shall send separate accounting statements together with the respective payments directly to Artist and FBT. Aftermath agrees to cause any succeeding distributor of records released hereunder to agree in writing the foregoing insofar as they are concerned. Aftermath shall cause its distributor to provide FBT with a copy of all of the Artist accounting statements and Artist with a copy of all of the FBT accounting statements. Interscope hereby acknowledges it will send copies of all of the Artist's accounting statements with FBT's accounting statements for the same accounting period to FBT and it will send copies of all of FBT's accounting statements with Artist's accounting statements for the same accounting period to Artist. Aftermath agrees to cause any succeeding distributor of records released hereunder to agree in writing the foregoing. (Aftermath or its distributor's inadvertent failure to send copies of the Artist's and FBT's accounting statements to FBT and Artist respectively shall not be deemed a breach hereof provided such statements are provided to FBT &/or Artist as applicable within a reasonable time following receipt of notice of such failure). The accounting and audit provisions set forth in paragraph 14 of the Agreement shall be deemed

applicable to FBT for FBT's portion of royalties and to Artist for Artist's portion of royalties payable respectively in connection with sales under the Agreement. In connection with LPs 1 & 2 (and each master recording recorded by Artist pursuant to the Agreement prior to the Delivery of LP 2 whether embodied thereon or not) the royalties shall be payable 8/18 of the applicable royalty rate to FBT and 10/18 of the applicable royalty rate to Artist after deducting the applicable producers' share and all other third party royalty obligations "off the top". Attached hereto is "Schedule A" which sets forth how the royalties are payable for such LPs (and each master recording recorded by Artist pursuant to the Agreement prior to the Delivery of LP 2). Furthermore, it is agreed that the foregoing fractions of the applicable royalty rate shall also be applied to any advances or fees payable to Artist in connection with any ancillary uses of each master recording recorded by Artist pursuant to the Agreement prior to the delivery of LP2 (after the applicable "off the top" deductions as otherwise set forth herein). The parties acknowledge that all recoupable costs incurred during the Pre-assignment Term shall be recouped against FBT and Artist and paid in accordance with the terms of the Agreement (but as between FBT and Artist, such recoupment shall be at the proportionate rates set forth on Schedule A for the first unit of the LP concerned). Aftermath agrees to assume FBT's third party royalty obligations (and credit obligations provided Aftermath's failure shall not be deemed a breach hereof) arising for the accounting period ending December 31, 2000 and thereafter in accordance with the terms of the applicable third party agreements to the extent (i)

FBT has furnished same to Aftermath on or before January 19, 2001; (ii) provided that the financial terms are as set forth on the attached Schedule A; and (iii) provided that the other terms, such as frequency of accounting, are consistent with standard record industry practices.

* * *

7.(e) In connection with LPs 3-7 and each master recording recorded by Artist pursuant to the Agreement after the Delivery of LP2 and prior to the Delivery of LP 7 whether embodied on a Commitment LP or not (the following shall also be applicable to ancillary uses of all master recordings recorded after the Delivery of LP 2 and prior to the delivery of LP7) the royalties shall be payable, on the first unit sold, 8/20 to FBT and 12/20 to Artist of the royalty payable after deducting the applicable producers' share and all other third party royalty obligations (provided the terms of the third party royalty obligations shall be bona fide and customary considering all of the relevant facts and circumstances) "off the top", provided to the extent an applicable producer is hired at a royalty rate in excess of such producer's current "quote", such excess shall solely reduce Artist's share and further to the extent a producer's current quote is a royalty rate in excess of 6% pro-rated such excess shall solely reduce Artist's share. Furthermore, it is agreed that the foregoing fractions of the applicable royalty rate shall also be applied to any advances or fees payable to Artist in connection with any ancillary uses of each master recording recorded by Artist pursuant to the Agreement after the Delivery of LP 2 and prior to the Delivery of LP 7 (after the applicable "off the top"

deductions as otherwise set forth herein). If Artist is a producer of master recordings hereunder, then for the purposes of calculating Artist's share and FBT's share a royalty attributable to his production may be deducted "off the top" as if he were a third party producer but (i) such royalty shall be "capped" at 3% and pro-rated to the extent Artist is not the sole producer of the applicable master recording by multiplying Artist's producer royalty rate by a fraction the numerator being equal to one and the denominator being equal to the number of producers or co-producers rendering services in connection therewith; and (ii) Aftermath shall not be obligated to pay Artist a separate royalty stream for producing master recordings featuring Artist as the lead artist as if Artist was a third party producer. The royalty escalations based on sales set forth above shall be credited entirely to the Artist's royalty account.

* * *

Excerpt from Trial Exhibit 17 (November 1, 2004), CA9 ER 1011:

AFTERMATH RECORDS
c/o Interscope Records
2220 Colorado Avenue
Santa Monica, CA 90404

As of November 1, 2004

Marshall B. Mathers III
c/o Paul Rosenberg
270 Lafayette Street
Suite 805
New York, NY 10012

Dear Mr. Mathers:

The following, when signed by you and by us ("Aftermath"), will amend, modify and form a part of the agreement between you and Aftermath and dated as of July 2, 2003, as amended (the "Agreement"). Unless specifically provided to the contrary herein, all terms defined in the Agreement will have the same meaning herein.

1. Paragraph 4(b) is hereby modified by deleting [redacted] as the Advance for LP1 and inserting [redacted] in its place. Notwithstanding anything to the contrary contained in the Agreement, Aftermath will pay such sum to you promptly following the later of your delivery of LP 1 and the complete execution hereof. For the avoidance of doubt, no recording costs will be

deducted from such Advance and the Advance is not recoupable from the FBT share of record royalties.

2.(a) Subparagraph 5(a)(i) of the Agreement is hereby modified by increasing the royalty rate on full-price records sold in the United States to twenty-two percent (22%) for the first five million (5,000,000) net sales units through normal retail channels in the United States ("USNRC Net Sales"), and escalating to twenty-three percent (23%) for USNRC Net Sales units in excess of five million (5,000,000), computed prospectively on an LP-by-LP basis. Sales of Albums by way of permanent download shall be treated as USNRC Net Sales for the purposes of escalations, provided that the sales price concerned falls within a top-line sales price category applicable to such method of sale.

(b) Subparagraph 5(a)(ii) of the Agreement is hereby modified increasing the royalty rate for single records from twelve percent (12%) to (14%).

(c)(i) Subparagraph 12(c) is hereby modified to change the percentage and fraction of F.B.T.s' passive income participation. In all places that F.B.T. was entitled to receive "8/20ths" such amount shall be replaced with "8/22nds" provided in all places that F.B.T. was entitled to receive 35% such amount shall not change. In all places where it states Artist's share as "12/20ths" such amount shall be replaced with "14/22nds".

(ii) Notwithstanding the foregoing, for the purposes of Paragraph 12A, FBT's fractional interest shall be deemed to remain at 8/20ths of the applicable Basic

Rate (calculated after giving effect to a 90% compact disc royalty rate for F.B.T.).

* * *

Instruction No. 25 (A), CA9 ER 422:

NO CONFLICT IN EXTRINSIC EVIDENCE – COURT INTERPRETS CONTRACT

The recording agreements and amendments admitted in evidence as Exhibits _____ govern the rights and duties of the parties. It is my job as judge to interpret the meaning of these agreements, and therefore, I will tell you what the recording agreements mean. Under the recording agreements:

1. Plaintiff had a duty to _____ [*describe plaintiffs' duty*]; and

2. Defendant had a duty to _____ [*describe defendants' duty*].

Authority: (Matthew Bender) *Cal. Forms of Jury Inst.*, MB § 300B.01 at 3B3.

Modification: None

Note: This instruction should only be given if the Court finds that any of the disputed contractual provisions are not "reasonably susceptible" to the parties' competing interpretations and that there is no conflict in the extrinsic evidence that the jury must resolve. In that event, the instruction should be appropriately modified to reflect the Court's findings.

United States District Court,
N.D. California.
Penelope HOUSTON, et al., Plaintiffs,
v.
David FERGUSON, et al., Defendants.
No. C 10-01881 JSW.

Oct. 29, 2010.

Alan Michael Korn, Law Office of Alan Korn, Berkeley, CA, for Plaintiffs.

ORDER GRANTING, IN PART, AND DENYING, IN PART, DEFENDANT'S MOTION TO DISMISS PLAINTIFFS' CLAIMS SIX, SEVEN, EIGHT, FIFTEEN, AND SEVENTEEN.

JEFFREY S. WHITE, District Judge.

Now before the Court is the **motion to dismiss filed by defendant David Ferguson** ("Ferguson"). Having considered the parties' papers, the relevant legal authority, and the record in this case, this Court GRANTS IN PART and DENIES IN PART Ferguson's motion to dismiss.

BACKGROUND

Plaintiffs Penelope Houston ("Houston"), Greg Ingraham ("Ingraham"), Daniel O'Brien ("O'Brien"), and James Wilsey ("Wilsey") (collectively "Plaintiffs") were members in the '70s punk rock band "The Avengers." Plaintiffs allege that Ferguson has violated their copyrights in several of their recorded performances.[FN1]

> FN1. Although the complaint alleges multiple copyright violations against multiple defendants, all other defendants have been dismissed. Thus, this motion only concerns the claims against Ferguson.

A. The *Pink Album* License Agreements (Claim Six).

Plaintiffs allege that between 1983 and 1985 they each entered individual non-exclusive licensing agreements with Ferguson, through his companies Go! Records and CD Presents, Ltd., (hereinafter "*Pink Album* Agreements") regarding their interests in fourteen master recordings (hereinafter "*Pink Album* Masters"). (Compl.¶¶ 22, 27-29, 32-34, 37.) Plaintiffs allege that, pursuant to the *Pink Album* Agreements, Ferguson had the right to publish a fourteen-track compilation album in the form of phonorecords only. (*Id.*)

From 1982 through the 1990s, Ferguson allegedly manufactured and sold over 100,000 copies of the *Pink Album* Masters. (*Id.* ¶ 40.) However, Ferguson did not pay the Plaintiffs royalties due under the *Pink Album* Agreements. (*Id.*) Thus, on August 5, 1999, Plaintiffs sent Ferguson a

letter rescinding the *Pink Album* Agreements. (*Id.* ¶¶ 47-48.) Plaintiffs further allege that Ferguson resumed selling and licensing the *Pink Album* Masters in 2008 or 2009. (*Id.* ¶ 49.)

According to Plaintiffs, in 2008, they again notified Ferguson that he did not have the right to exploit the *Pink Album* Masters. However, Plaintiffs allege that, in 2008 or 2009, Ferguson entered into agreements with third parties to allow reproduction and distribution of the *Pink Album* Masters. (*Id.* ¶¶ 62, 63(b).) Plaintiffs also allege that Ferguson's agreements with these third parties to reproduce and distribute the *Pink Album* Masters infringed their copyrights in said works. (*Id.* ¶¶ 71-76.)

B. The Houston and Ingraham Co-Publishing Agreements (Claim Seven).

On or about March 21, 1984, and March 5, 1985, Ingraham and Houston, respectively, entered into separate co-publishing agreements (hereinafter "Ingraham/Houston Co-Publishing Agreements") with Ferguson's company CD Presents, Ltd. (*Id.* ¶¶ 35, 38.) In the Ingraham/Houston Co-Publishing Agreements, both Houston and Ingraham agreed that CD Presents, Ltd. would own an undivided 50% interest in Houston's and Ingraham's respective copyright interests in fourteen Avengers compositions.[FN2] (*Id.*)

> FN2. The jointly owned compositions included: *We are The One, Car Crash, I Believe in Me, The American In Me, Corpus Christi, Uh Oh, White Nigger, Open Your Eyes, Desperation, Thin White Line, No Martyr, Fuck You, Cheap Tragedies* and *Second to None.* Houston and Ingraham originally each owned a 25% interest in the fourteen compositions.

Houston and Ingraham allege that they each terminated their co-publishing agreements by letter on or about August 5, 1999. (*Id.* ¶ 48.) Plaintiffs allege that notwithstanding Houston's and Ingraham's termination of these agreements, Ferguson continues to exploit The Avengers' compositions transferred by the Ingraham/Houston Co-Publishing Agreements. (*Id.* ¶¶ 65-89.)

C. The Live at Winterland Masters (Claim Eight).

In 1978, Plaintiffs performed as the opening act for the Sex Pistols at the Winterland auditorium (hereinafter "Winterland Performance"). (*Id.* ¶ 106.) Plaintiffs allege that Houston transferred her 25% interest in recordings made by Ferguson of the Winterland Performance to Ferguson (hereinafter "Winterland Agreement"). (*Id.* ¶ 109.) Ferguson allegedly has entered into digital distribution agreements with third parties regarding the Winterland Performance. (*Id.* ¶ 111.) Plaintiffs dispute Ferguson's right to income from those recordings and his right to distribute third-party recordings of the Winterland Performance under the Winterland Agreement. (*Id.* ¶ 112.)

D. Fraud and Conversion (Claims Fifteen and Seventeen).

Plaintiffs claim that sometime in 2008 or 2009, Ferguson made representations to third parties that Ferguson, on behalf of the Plaintiffs, had the right to exclusively administer music publishing rights and collect music publishing income. Plaintiffs allege Ferguson made these

representations despite the fact that they terminated the Ingraham/Houston Co-Publishing Agreements in 1999. (*Id.* ¶¶ 149, 151.)

Plaintiffs also allege that Ferguson filed false registration certificates with the Copyright Office, which intentionally omit reference to Wilsey and O'Brien; filed false recordation documents with the Copyright Office, which purport to transfer Wilsey's and O'Brien's copyright interests to Ferguson; and filed other false documents, which purport to transfer copyright interests in other of Plaintiffs' recordings. (*Id.* ¶ 152, Exs. Q, R, S.) They further allege that Ferguson knew his representations were false, the representations were intended to deceive Plaintiffs, and Ferguson unjustly deprived them of income to which they are entitled. (*Id.* ¶¶ 153-54.)

Plaintiffs also allege that Ferguson collected profits from the exploitation of their copyrighted works, including approximately $3,000 from Rhino Records. (*Id.* ¶¶ 63(f), 168.) They also allege that they have a right to all the income derived from their recordings, they demanded Ferguson give them their money, but he refused and continues to hold their money. (*Id.* ¶¶ 167, 169.)

Based on these and other allegations, Plaintiffs assert claims for copyright infringement (claims one through five), declaratory relief (claims six through eight), fraud (claim fifteen), and conversion (claim seventeen) as well as several other claims not germane to this motion. Ferguson only moves to dismiss claims six, seven, eight, fifteen, and seventeen. (Def. Mot. to Dismiss at 2-3.)

ANALYSIS

A. Legal Standard on a Motion to Dismiss.

A motion to dismiss is proper under Federal Rule of Civil Procedure 12(b)(6) where the pleadings fail to state a claim upon which relief can be granted. The Court's "inquiry is limited to the allegations in the complaint, which are accepted as true and construed in the light most favorable to the plaintiff." *Lazy Y Ranch LTD. v. Behrens,* 546 F.3d 580, 588 (9th Cir.2008). Even under the liberal pleading standard of Federal Rule of Civil Procedure 8(a)(2), "a plaintiff's obligation to provide the 'grounds' of his 'entitle [ment] to relief' requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do." *Bell Atl. Corp. v. Twombly,* 550 U.S. 544, 555, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007) (citing *Papasan v. Allain,* 478 U.S. 265, 286, 106 S.Ct. 2932, 92 L.Ed.2d 209 (1986)).

Pursuant to *Twombly,* a plaintiff must not merely allege conduct that is conceivable but must instead allege "enough facts to state a claim to relief that is plausible on its face." *Id.* at 570. "A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Ashcroft v. Iqbal,* 556 U.S. ----, 129 S.Ct. 1937, 1949, 173 L.Ed.2d 868 (2009) (citing *Twombly,* 550 U.S. at 556). If the allegations are insufficient to state a claim, a court should grant leave to amend, unless amendment would be futile. *See, e.g., Reddy v. Litton Indus., Inc.,* 912 F.2d 291, 296 (9th Cir.1990); *Cook, Perkiss & Liehe, Inc. v. N. Cal. Collection Serv., Inc.,* 911 F.2d 242, 246-47 (9th Cir.1990).

B. Defendant's Motion is Granted in Part.

Ferguson moves to dismiss (1) claims six through eight as both preempted by the Copyright Act and duplicative of Plaintiffs' copyright claims; (2) claim fifteen for failure to state a cause of action for fraud; and (3) claim seventeen for failure to state a claim for conversion.

1. Defendant's Motion to Dismiss Plaintiffs' Requests For Declaratory Relief is Granted in Part and Denied in Part (Claims Six, Seven, and Eight).

In claims six, seven, and eight, Plaintiffs request a declaration from this Court regarding the parties' respective ownership of the recordings at issue. Ferguson argues that the claims are preempted by the Copyright Act and, even if not preempted, should be dismissed because they are duplicative of claims one through five, in which Plaintiffs specifically allege copyright infringement.

a. This Court declines jurisdiction over claims six and seven, but shall exercise jurisdiction over claim eight.

This Court first addresses Ferguson's argument that claims six through eight are duplicative of claims one through five. The Declaratory Judgment Act allows a district court "upon appropriate pleading, [to] declare the rights and other legal relations of any interested party seeking such declaration...." 28 U.S.C. § 2201. However, in doing so, a district court should avoid duplicative litigation. *See Principal Life Ins. Co. v. Petula Assocs.,* 394 F.3d 665, 669 (9th Cir.2005). "A claim for declaratory relief is unnecessary where an adequate remedy exists under some other cause of action." *Permpoon v. Wells Fargo Bank Nat'l Ass'n,* No. 09-CV-01140-H, at 14-15 (S.D.Cal. Sept. 29, 2009) (quoting *Manown v. Cal-Western Reconveyance Corp.,* 2009 U.S. Dist. LEXIS 68392, at 17-18 (S.D.Cal. Aug. 4, 2009)).

Claims six and seven are duplicative of claims one through five. Claims one through five allege that Ferguson infringed Plaintiffs' copyrights when he licensed and distributed: (1) *The American In Me,* (2) a remastered version of *The Pink Album,* (3) *I Believe In Me,* (4) the cover album *Tribute to the Avengers,* and (5) *We Are The One* respectively. (Compl.¶¶ 65-95.) In claims six and seven, Plaintiffs seek a declaration that they own all rights to the copyrights that are the subject matter of claims one through five. Plaintiffs dispute Ferguson's right, under the Ingraham/Houston Co-Publishing Agreements, to license or distribute the copyrighted works. Plaintiffs claim that disputes exist about the the scope of the agreements and whether the agreements are valid. However, a in order to resolve an infringement claim, a court must decide the scope and validity of an agreement that transfers or licenses the copyrights that a plaintiff claims a defendant infringed. *See Topolos v. Caldewey,* 698 F.2d 991, 994 (9th Cir.1983). Thus, Plaintiffs' claims six and seven are duplicative. Therefore, this Court GRANTS Ferguson's motion to dismiss claims six and seven.

In contrast, in claim eight, Plaintiffs request declaratory relief regarding an agreement between Houston and Ferguson that granted Ferguson the right to distribute certain recordings of the Winterland Performance. Plaintiffs do not allege that Ferguson infringed their copyrights in the Winterland Performance. Thus, this Court will not be required to decide copyright ownership in

the Winterland Performance recordings without the relief requested. Therefore, this Court DENIES Ferguson's motion to dismiss claim eight as duplicative.

b. Claim eight also is not preempted by the Copyright Act.

Ferguson also argues that Plaintiffs' request for declaratory relief is preempted by the Copyright Act. However, this argument misconstrues the nature of preemption under the Copyright Act. The Copyright Act does not occupy the field of all claims that potentially involve or touch upon copyrights. *See Foad Consulting Group v. Azzalino,* 270 F.3d 821, 827 (9th Cir.2001). "Thus, where the Copyright Act does not address an issue, we turn to state law to resolve the matter, so long as state law does not otherwise conflict with the Copyright Act." *Id.* A district court will interpret state contract law when determining copyright ownership and transferred rights in copyright infringement cases. *Topolos,* 698 F.2d at 994.

In claim eight, Plaintiffs request this Court to declare the parties' rights, under the Winterland Agreement, to copyrighted works. (Compl.¶¶ 96-114.) Plaintiffs allege that some of these works were transferred by agreement to Ferguson; however, the parties dispute which works were transferred. The Copyright Act does not prevent a district court from declaring whether a contract was formed or revoked, or declaring its contents. *See Topolos,* 698 F.2d at 994. Thus, because claim eight requests a declaration of Plaintiffs' rights under an agreement governed by contract law, the claim is not preempted by the Copyright Act. Therefore, this Court DENIES, IN PART, Ferguson's motion to dismiss on this basis.

2. Plaintiffs Fail to State a Claim for Fraud (Claim Fifteen).

Plaintiffs allege that they were defrauded by Ferguson when he intentionally and knowingly misrepresented to third parties that he owned the copyrights to Plaintiffs' music and profited from distributing that music. The elements for a cause of action for fraud are: (1) a misrepresentation to the plaintiff by the defendant, (2) knowledge of the falsity by the defendant, (3) intent to induce reliance by the plaintiff on the misrepresentation, (4) justifiable reliance by the plaintiff, and (5) damages. *Lovejoy v. AT & T Corp.,* 92 Cal.App.4th 85, 93, 111 Cal.Rptr.2d 711 (2001) (citing *Lazar v. Superior Court,* 12 Cal.4th 631, 49 Cal.Rptr.2d 377, 909 P.2d 981 (Cal.1996)). Ferguson argues that Plaintiffs do not adequately allege facts to support a claim for fraud because they do not allege he made misrepresentations to them. Therefore, Ferguson argues, they did not rely on the alleged misrepresentations to their detriment.

Actual reliance is an essential part of any fraud claim. A plaintiff actually relies on a defendant's misrepresentation where the plaintiff would not have acted but for the misrepresentation. *Id.* at 94, 111 Cal.Rptr.2d 711. In *Lovejoy,* AT & T allegedly misrepresented to Lovejoy's 800-number carrier that Lovejoy wanted his number transferred to AT & T's service. Lovejoy did not allege that he received this communication. The court found that Lovejoy did not state claim for fraud based on a direct communication theory, because AT & T did not communicate with either the plaintiff or the plaintiff's agent regarding the 800-number. Thus, Lovejoy could not have relied on the statement when acting. Here, as in *Lovejoy,* the Plaintiffs do not allege facts indicating that they relied on Ferguson's alleged misrepresentations. In fact, other than the bald assertion that Plaintiffs relied on Ferguson's misrepresentations, the complaint contains no facts indicating

that Ferguson misrepresented anything to the Plaintiffs, or their agents. As such, Plaintiffs fail to state a claim for fraud. *See Twombly,* 550 U.S. at 555.

Plaintiffs argue that even if Ferguson did not directly misrepresent facts, he actively concealed facts in order to mislead them. (Pl. Opp. at 8-9.)

> The elements of an action for fraud and deceit based on concealment are: (1) the defendant must have concealed or suppressed a material fact, (2) the defendant must have been under a duty to disclose the fact to the plaintiff, (3) the defendant must have intentionally concealed or suppressed the fact with the intent to defraud the plaintiff, (4) the plaintiff must have been unaware of the fact and would not have acted as he did if he had known of the concealed or suppressed fact, and (5) as a result of the concealment or suppression of the fact, the plaintiff must have sustained damage.

Lovejoy, 92 Cal.App.4th at 96, 111 Cal.Rptr.2d 711.

Fraud under an active concealment theory requires just that-active concealment, or "willful suppression of material fact." *Id.* For example, in *Lovejoy,* the court applied an active concealment theory where the defendant had a duty to disclose the fact that it transferred Lovejoy's 800-number but instead hid the transfer and related charges deep in Lovejoy's long distance bill. Thus, AT & T committed fraud by concealing from Lovejoy the fact that the switch occurred, not by making misrepresentations to Lovejoy's former 800-number carrier. *Id.* In this case, Plaintiffs have neither alleged facts demonstrating that Ferguson had a duty to disclose nor any facts demonstrating that Ferguson affirmatively concealed the copyright transactions. On the contrary, Plaintiffs only allege that Ferguson misrepresented his ownership interest in their copyrights to third parties.

Thus, Plaintiffs do not allege facts stating a claim for direct fraud or for active concealment. They have not alleged that they relied on Ferguson's misrepresentations, and they have not alleged facts showing that Ferguson concealed anything from them or had a duty to disclose anything to them. Therefore, the Court GRANTS Ferguson's motion to dismiss Claim 15. However, because the Court cannot say it would be futile to grant leave to amend, the Court GRANTS Plaintiffs leave to amend this claim.

3. Plaintiffs Fail to State a Claim for Conversion (Claim Seventeen).

Plaintiffs allege that Ferguson has converted the profits he received from unlawfully exploiting their copyrights by not turning the profits over to Plaintiffs. "The elements of a conversion claim are: (1) the plaintiff's ownership or right to possession of the property; (2) the defendant's conversion by a wrongful act or disposition of property rights; and (3) damages." *Burlesci v. Petersen,* 68 Cal.App.4th 1062, 1066, 80 Cal.Rptr.2d 704 (1998). When a plaintiff alleges the defendant converted money, the plaintiff must specifically identify the sum of money converted, and allege that he had a right to possess it when the defendant converted it. *See Haigler v. Donnelly,* 18 Cal.2d 674, 117 P.2d 331, 335 (Cal.1941); *Baxter v. King,* 81 Cal.App. 192, 253 P. 172, 172 (Cal.1927). General claims for damages do not sufficiently allege conversion of a specifically identifiable sum of money. *See Farmers Insur. Exchange v. Zerin,* 53 Cal.App.4th

445, 452, 61 Cal.Rptr.2d 707 (1997) (hereinafter *"Farmers Insurance"*); *see also Baxter*, 253 P. at 172.

Plaintiffs allege that Ferguson wrongfully received money when he infringed their copyrights, that that money was rightfully theirs, and that he converted it by not turning it over to Plaintiffs when they demanded it in 2009. Ferguson argues that Plaintiffs have not sufficiently identified a sum of money and, therefore, have not adequately alleged facts to state a claim for conversion. (Def. Mot. to Dismiss at 9; Def. Reply at 7.) The Court agrees that Plaintiffs have not alleged a cause of action for conversion, because they fail to allege that Ferguson converted an identifiable sum of money.

Rather, Plaintiffs allege that Ferguson converted the profits he received from unlawfully exploiting their copyrights. This is a general claim for damages for copyright infringement. *See* 17 U.S .C. § 504(a). Although Plaintiffs allege that Ferguson converted individual payments that third parties made to Ferguson, and although Plaintiffs estimate the amount of one such payment, these allegations do no more than couch Plaintiffs' estimated damages for copyright infringement in the guise of a specific sum. If identifying an estimated amount of alleged damages was sufficient, then every disputed claim involving money, including a breach of contract, could be recast as a claim for conversion. That is not the law. *See, e.g., Farmers Insurance*, 53 Cal.App.4th at 452, 61 Cal.Rptr.2d 707. To be sufficiently identifiable, a sum must be more than just damages from a disputed cause of action. *See id.; Baxter*, 253 P. at 172. Thus, Plaintiffs have not sufficiently identified a sum of money capable of being converted. Therefore, the Court GRANTS Ferguson's motion to dismiss Claim 17. However, because the Court cannot say it would be futile to grant leave to amend, this Court also GRANTS Plaintiffs leave to amend this claim.[FN3]

> FN3. Plaintiffs should note that a claim for conversion may be preempted by the Copyright Act. *See Zito v. Steeplechase Films, Inc.*, 267 F.Supp.2d 1022, 1027 (N.D.Cal.2003). Thus, Plaintiffs should be mindful of their obligations under Federal Rule of Civil Procedure 11.

CONCLUSION.

The Court GRANTS, IN PART, and DENIES, IN PART, the defendant's motion to dismiss for the foregoing reasons, and GRANTS Plaintiffs leave to file an amended complaint. Plaintiffs shall file an amended complaint no later than November 19, 2010.

United States District Court,
S.D. New York.
COLUMBIA ARTISTS MANAGEMENT, LLC, Plaintiff,
v.
Marcelo ALVAREZ, Richard Margison, and Ramon Vargas, Defendants.

No. 08 Civ. 11254(LBS).
Dec. 23, 2010.

MEMORANDUM & ORDER
SAND, District Judge.

Plaintiff Columbia Artists Management, LLC ("CAMI"), which provides management services for performing artists, brings this breach of contract action against Defendants Marcelo Alvarez, Richard Margison, and Ramon Vargas, former clients. Jurisdiction is alleged by virtue of diversity of citizenship pursuant to 28 U.S.C. § 1332(a)(2). Plaintiff alleges that Defendants are required to pay commissions for performances Plaintiff arranged before the management agreements were terminated in February 2005, even if the performances occurred after that termination. Before the Court is Plaintiffs motion for summary judgment.

For the reasons stated herein, Plaintiffs motion for summary judgment is denied.

I. BACKGROUND

The following facts are not in dispute. Plaintiff CAMI is a New York limited liability company with a sole member, Columbia Artists Management, Inc. ("CAMI Inc."), a New York corporation, both of which have their principal places of business in New York. CAMI provides a variety of management services to performing artists, including the booking, scheduling, and servicing of performances and advice and counsel for career development. Pl. 56.1 ¶ 1. Defendant Marcelo Alvarez is a citizen of Argentina and/or Italy with his primary residence in Tortona, Italy. Defendant Richard Margison is a citizen of Canada with his primary residence in Toronto. Defendant Ramon Vargas is a citizen of Mexico and/or Switzerland with his primary residence in Luzern, Switzerland. All three Defendants are opera singers who were managed by CAMI Inc. until February 2005.

In 1989, CAMI Inc. entered into an oral agreement with Defendant Margison to provide bookings and management services. Defendants Alvarez and Vargas entered into such agreements with CAMI Inc. in or around 1996. Pl. 56.1 ¶¶ 2-3; Def 56.1 ¶¶ 2-3; Segal Dec. Exs. A-B. These agreements appointed CAMI Inc. as the sole and exclusive North American manager and representative for Defendants, with additional representation in other territories. Segal Dec. ¶ 6, Exs. A-B. Pursuant to these agreements, the Defendants agreed to pay CAMI Inc. 10% of the compensation they received for opera performances, plus other fees, and commissions for other non-operatic performances ranging from 5% to 20%, depending on their type and location. Pl. 56.1 ¶¶ 5-6; Def. 56.1 ¶¶ 5-6. Each agreement was terminable at will by either party. Pl. 56.1 ¶ 8 Def. 56.1 ¶ 8. CAMI Inc. assigned the three agreements to CAMI in January 2003. Pl. 56.1 ¶ 9; Def. 56.1 ¶ 9.

In February 2005, two CAMI managers, Bruce Zemsky and Alan Green, ceased working as employees of Plaintiff and started their own management company, Zemsky/Green Artists Management, Inc. ("Zemsky/Green"). Segal Dec. ¶ 3. Many of the artists who had worked with them left Plaintiff and followed them to Zemsky/Green, including Defendants. *Id.* ¶ 3-4. Defendants refused to pay any fees outstanding or due thereafter for performances already secured by Plaintiff but occurring after termination of the agreements. Pl. 56.1 ¶ 17; Def. 56.1 ¶ 17. Before termination, CAMI secured performances for Defendants that they performed from 2004 through 2007. Pl. 56.1 ¶¶ 18, 21, 24; Def. 56.1 ¶ ¶ 18, 21, 24.

Plaintiff filed its complaint on December 30, 2008 alleging two counts against each Defendant of liability for (1) breach of contract and (2) *quantum meruit.* Defendant Vargas filed a Motion to Dismiss or Stay on February 27, 2009, arguing that the abstention doctrine in *Colorado River Water Conservation District v. United States,* 424 U.S. 800 (1976), required that the case be stayed pending an action brought in state court. The Court denied this motion on May 6, 2009. Defendants filed an answer to the Complaint on July 13, 2009. They asserted affirmative defenses and a counterclaim alleging that Plaintiff was not licensed with the New York Department of Consumer Affairs pursuant to New York General Business Law § 170 from 1996 until May 20, 2004; that because of this failure Plaintiff was not permitted to charge or collect any commissions or fees for procuring employment or engagements for Defendants; and that therefore Plaintiff was required to disgorge and return to Defendants all commissions collected during that period. Defendant Margison also argued that because his agreement was oral, CAMI's claims against him were barred by the Statute of Frauds. Plaintiff filed a motion to dismiss Defendants' counterclaim and strike their affirmative defenses, and the Court granted this motion in its entirety on December 1, 2009. Plaintiff filed this motion for summary judgment on October 14, 2010.

II. DISCUSSION

A. Legal Standard

Summary judgment is warranted "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c). A material fact is one that might affect the outcome of a suit under governing law. *Kinsella v. Rumsfeld,* 320 F.3d 309, 311 (2d Cir.2003). A "genuine" issue exists when "the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 248 (1986).

The moving party bears the initial burden of showing that no genuine issue of material fact exists, *Adickes v. S.H. Kress & Co.,* 398 U.S. 144, 157(1970); *Williams v. Smith,* 781 F.2d 319, 323 (2d Cir.1986), and a court must "View the evidence in the light most favorable to the party against whom summary judgment is sought and must draw all reasonable inferences in his favor." *L.B. Foster Co. v. Am. Piles, Inc.,* 138 F.3d 81, 87 (2d Cir.1998) (*citing Matsushita Elec. Indus. Co. v. Zenith Radio Corp.,* 475 U.S. 574, 587 (1986)). A moving defendant can meet this burden by "setting forth specific facts denying [plaintiff's] claims." *Jermosen v. Coughlin,* 877 F.Supp. 864 (S.D.N.Y.1995) (*citing Williams,* 781 F.2d at 323).

Once the moving party has met its initial burden, the burden switches to the non-moving party to offer admissible evidence showing that he can support his claims. *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23 (1986). "The non-moving party may not rely on conclusory allegations or unsubstantiated speculation," *Scott v. Almenas*, 143 F.3d 105, 114 (2d Cir.1998) (citation omitted), but must present "significant probative evidence tending to support the complaint." *Smith v. Menifee*, 00 Civ. 2521(DC), 2002 WL 461514, at 3 (S.D.N.Y. Mar. 25, 2002) (*citing First Nat'l Bank of Ariz. v. Cities Servs. Co.*, 391 U.S. 253, 290 (1968)); *see also* Fed.R.Civ.P. 56(e). If the evidence is merely colorable, or is not significantly probative, summary judgment may be granted." *Anderson*, 477 U.S. at 249-50 (internal citations omitted).

B. The Express Terms of the Alvarez and Vargas Agreements

"The elements of a breach of contract claim under New York law are: (1) the existence of a contract; (2) due performance of the contract by the plaintiff; (3) breach of contract by the defendant; and (4) damages resulting from the breach." [FN1] *Marks v. New York University*, 61 F.Supp.2d 81, 88 (S.D.N.Y.1999) (internal quotation marks omitted). The parties do not dispute that Plaintiff and Defendants Alvarez and Vargas entered into agreements in 1996, and that Defendant Margison entered into an agreement with Plaintiff in 1989. Nor do they dispute that Plaintiff booked the performances at issue. The central dispute is whether Defendants are obligated under the contract to pay commissions for performances that were arranged before Plaintiff was terminated as manager but took place after termination.

FN1. The parties do not dispute that New York law governs this diversity action.

Plaintiff argues that each of the agreements explicitly obliged Defendants to pay Plaintiff such post-termination commissions. The Alvarez and Vargas agreements contain the following language:

> This Agreement may be canceled by either party upon three months notice. In the event of such cancellation, you agree to pay CAMI the rates of compensation mentioned above for all engagements we secure, whether contracted or not, which occur subsequent to the termination of this agreement, which you perform and for which you are paid.

Segal Dec. Exs. A-B. Defendants contend that the clause calling for three months notice of termination is a condition precedent to payment of commissions after termination. They also cite testimony from Zemsky and Green, who allege that they drafted the agreements and inserted the language requiring post-termination payments to protect themselves, not Plaintiff, in the event that the Defendants cancelled the agreement. Zemsky and Green Aff. ¶¶ 10-12, 19-22. In other words, the payments provision allegedly applied only if Defendants left Zemsky and Green, not Plaintiff. Plaintiff does not challenge Zemsky and Green's assertion that they drafted the agreements, but argues that the notice provision is not a condition precedent because it does not explicitly foreclose the post-termination payment if three months notice is not given.

"Generally speaking, New York respects a presumption that terms of a contract are covenants rather than conditions." *Graham v. James*, 144 F.3d 229, 237 (2d Cir.1998). "[W]here there is ambiguity in a contractual term, the law does not favor a construction which creates a condition precedent." *Lui v. Park Ridge at Terryville Ass'n, Inc.*, 196 A.D.2d 579, 582 N.Y.App.Div.1993).

Given these presumptions, and viewing the available evidence in the light most favorable to Defendants, this Court finds that a genuine issue of material fact exists as to the effect of the notice and post-termination commission provisions of the Alvarez and Vargas agreements.

As for the oral contract with Defendant Margison, Plaintiff alleges it was terminable at will and contained a similar obligation to pay commissions for performances secured by Plaintiff but taking place after termination of the management relationship. Compl. ¶ 26; *see also* Green Dep. 23:8-17. Defendants' evidence contesting these allegations is in Defendant Margison's declaration; Margison has not yet been deposed by Plaintiff. Therefore, a contested issue of material fact remains as to whether Defendant Margison's oral contract with Plaintiff contained terms similar to the written contracts with Defendants Vargas and Alvarez.

C. Post-Termination Payment of Commissions as Industry Custom

Plaintiff argues that it is an industry custom for artists to pay their managers commissions for performances the managers arranged, even if the performances occur after the ending of the management relationship. Under New York law, "[a] contract must be construed according to the custom and use prevailing in a particular trade." *Seven Star Shoe Co., Inc. v. Strictly Goodies, Inc.,* 657 F.Supp. 917, 921 (S.D.N.Y.1987) (quoting *Edison v. Viva Int'l. Ltd,* 421 N.Y.S.2d 203, 205 (N.Y.App.Div.1979). Evidence of custom and usage must establish that "(1) the term in question has a fixed and invariable usage and (2) that the party sought to be bound was aware of the custom, or that the custom's existence was so notorious that it should have been aware of it." *SR Int'l Business Ins. Co., Ltd. v. World Trade Center Prop.,* 467 F.3d 107, 134 (2d Cir.2006) (internal quotations omitted).

In a related case involving the same Plaintiff, substantially similar claims, and a dispute also arising from Green and Zemsky's departure from CAMI, this Court held that "the industry custom governing the relationship between performing artists in the opera industry and their manager is that artists are obligated to pay their managers a commission for any performance booked during the time the manager worked for them, regardless of whether the performance takes place after the managerial relationship ends." *Columbia Artists Management, LLC v. Swenson & Burnakus, Inc.,* No. 05 Civ. 7314(LBS), 2010 WL 1379737 (S.D.N.Y. March 3, 2010).[FN2] To controvert this finding, Defendants here offer declarations from themselves, an affidavit from Zemsky and Green, testimony from CAMI's president Timothy Fox, and a declaration from Alan Gordon, National Executive Director of the American Guild of Musical Artists, AFL-CIO ("AGMA"), all contending that there is no such industry custom. Alvarez Dec. ¶¶ 6-7; Margison Dec. ¶¶ 6-7; Vargas Dec. ¶¶ 6-7; Zemsky and Green Aff. ¶¶ 41-49; Schwartz Dec. Ex. A; Gordon Dec. ¶¶ 10-11. Gordon's testimony, not offered in *Swenson,* is particularly relevant because the AGMA-Managers Basic Agreement and the AGMA Code of Ethics constitute Plaintiff's primary documentary evidence establishing the existence of its alleged industry custom. Pl. Mem. Supp. Mot. S.J. at 5-7; Segal Cert. Ex. C; Shiffman Cert. Ex. L. This evidentiary record contrasts with that in *Swenson,* where all of the witnesses-including those defendants and Green-testified that it was standard industry custom for opera singers to pay former managers commissions for performances booked before termination of the management relationship. *Swenson,* 2010 WL 1379737 at 2. Here, the weight of Defendant's new evidence depends in part on credibility determinations that are inappropriate at summary judgment.

FN2. Plaintiff cannot and does not attempt to argue that the finding in *Swenson* precludes Defendants from litigating this issue in the present action. *See, e.g., D'Arata v. New York Cent. Mut. Fire Ins. Co.,* 76 N.Y.2d 659, 664 (1990) ("the party to be precluded from relitigating an issue must have had a full and fair opportunity to contest the prior determination").

Defendants also argue that as foreign citizens making periodic appearances in the United States, they were unaware of any alleged industry custom that they were obligated to pay commissions to their former managers. Moreover, both Defendants Alvarez and Vargas allege that they did not speak English when they entered into the contracts in 1996. Alvarez Dec. ¶ 2; Vargas Dec. ¶ 2. Thus, Defendants contend, Plaintiff has failed to satisfy the second prong of the test for industry custom in *SR International:* either that they were aware of the custom, or that it was so notorious that they should have been aware of it. 467 F.3d at 134. Against this, Plaintiff offers the contracts signed by Defendants Vargas and Alvarez, with the provision providing for payment of commissions after termination of the agreement. Segal Dec. Exs. A-B. Plaintiff also casts doubt on Defendant Vargas's claim that he had never sung in the United States before 1996, and therefore had little familiarity with the industry customs of opera houses and managers in the United States.[FN3] Pl. Reply Mem. Supp. Mot. S.J. at 8 fn.11; Vargas Dec. ¶ 6. Both sides have offered probative evidence for their arguments, none of which is conclusive.

FN3. According to Plaintiff, Defendant Vargas made his United States debut in 1992 at the Metropolitan Opera.

Accordingly, the Court finds that genuine issues of material fact exist as to (1) whether it is a practice within the opera industry for artists to pay commissions for performances booked but not performed prior to a manager's termination, and (2) Defendants' awareness of this practice.

D. CAMI's Alleged Cancellation of the Managerial Contracts

In their reply brief at summary judgment, Defendants argue for the first time in this litigation that Plaintiff terminated its contracts with them by firing Zemsky and Green, pointing to a clause in the Alvarez and Vargas agreements which provides that Zemsky and Green "shall personally supervise your business during the term of this agreement[.]" Segal Dec. Exs. A-B. Defendants draw two conclusions from this allegation. First, they contend that this firing constituted a breach of the contracts between them and Plaintiff. Second, they allege in the alternative that Plaintiff failed to satisfy a condition precedent to its ability to collect commissions after termination of the management relationship. Citing the three months notice provision in the Alvarez and Vargas agreements, Defendants argue that they owe no commissions to Plaintiff because it failed to give them three months notice before firing Zemsky and Green.

Defendants' argument is not timely and is therefore waived. The Federal Rules of Civil Procedure require defendants to raise certain enumerated defenses and "any other matter constituting an avoidance or affirmative defense" in responsive pleadings. Fed.R.Civ.P. 8(c). An affirmative defense is a "defendant's assertion raising new facts and arguments that, if true, will defeat the plaintiff's or prosecution's claim, even if all allegations in the complaint are true." *Saks v. Franklin Covey Co.,* 316 F.3d 337, 350 (2d Cir.2003) (quoting *Black's Law Dictionary* 430 (7th ed.1999)). "Failure to plead an affirmative defense in the answer results in 'the waiver of that defense and its exclusion from the case.' " *Satchell v. Dilworth,* 745 F.2d 781, 784 (2d

Cir.1984) (quoting 5 C. Wright & A. Miller, *Federal Practice & Procedure* § 1278, at 339 (1969)); *see also Travellers Intern., A.G. v. Trans World Airlines, Inc.,* 41 F.3d 1570, 1580 (2d Cir.1994). District courts "may still entertain affirmative defenses at the summary judgment stage in the absence of undue prejudice to the plaintiff, bad faith or dilatory motive on the part of the defendant, futility, or undue delay of the proceedings." *Saks,* 316 F.3d at 350. They may do so "by construing the motion as one to amend the defendant's answer." *Monahan v. New York City Dept. of Corrections,* 214 F.3d 275, 283 (2d Cir.2000).

Here, Defendants never alleged in their Answer that Plaintiff had cancelled their managerial contracts by firing Zemsky and Green. Their counterclaim and affirmative defense both dwelt on the claim that Plaintiff was barred from collecting commissions because it was not registered with the State of New York, a claim this Court dismissed in its order dated December 1, 2009. Answer at 6-8.

Defendants' first argument, that Plaintiff's dismissal of Zemsky and Green should be considered a breach of contract, constitutes an affirmative defense. In this Circuit, "when a defendant seeks to raise a point about something that 'is not an element which the plaintiff must establish to make out a prima facie showing of liability,' he must plead it as an affirmative defense." *Estate of Hamilton v. City of New York,* --- F.3d ----, 2010 WL 4909676, at 5 (2d Cir. Dec. 3, 2010) (quoting *United States ex rel. Maritime Admin. v. Cont'l Ill. Nat'l Bank & Trust Co.,* 889 F.2d 1248, 1253 (2d Cir.1989)). Defendants' claim that Plaintiff breached the contracts by firing Zemsky and Green easily fits this description; Plaintiff is not required to anticipate Defendants' possible theories of breach.

Defendants' second argument contends that providing three months notice of cancellation is a condition precedent to Plaintiff's ability to collect post-termination commissions. Def. Opp. Mot. S.J. at 2. In New York, failure of a condition precedent is an affirmative defense. *United Resource Recovery Corp. v. Ramko Venture Management, Inc.,* 584 F.Supp.2d 645, 657 (S.D.N.Y.2008) (citing *Endovasc, Ltd. v. J.P. Turner & Co., LLC,* 169 Fed. Appx. 655, 657 (2d Cir.2006)). Failure of a condition precedent must be pleaded "specifically and with particularity." [FN4] N.Y. C.P.L.R. § 3015(a) (McKinney 2010); see also *1199 Hous. Corp. v. Int'l Fidelity Ins. Co.,* 788 N.Y.S.2d 88, 90 (N.Y.App.Div.2005) ("the burden to plead specifically and with particularity that any condition precedent has not been fulfilled rests on the party resisting enforcement of the contract" (internal quotation marks omitted)). Therefore, Defendants failed to raise their arguments regarding Plaintiffs cancellation of the contracts in a timely manner, and waived the right to present these arguments at summary judgment or at trial.

> FN4. The New York Court of Appeals has held that C.P.L.R. § 3015(a) encompasses conditions precedent to the obligee's performance under the contract, as well as conditions precedent to the existence of the contract. *Allis-Chalmers Mfg. Co. v. Malan Const. Corp.,* 30 N.Y.2d 225, 231 n. 4 (1972).

Some courts in this Circuit have allowed defendants to raise affirmative defenses that were not offered in responsive pleadings pursuant to Rule 8(c), but in all these cases, the plaintiffs were not prejudiced, the defenses did not involve questions of fact, or strong public policy considerations of judicial economy favored the court's consideration of the issue.[FN5] Here,

Plaintiff would be prejudiced by the admission of new fact-intensive affirmative defenses weeks before trial. To avoid such prejudice, trial would have to be rescheduled to allow Plaintiff to conduct discovery on these issues. However, the parties have advised the Court that any rescheduling of the trial will result in considerable delay, due to Defendants' careers as internationally touring performing artists and the rarity of their concurrent presence in New York. Thus, entertaining Defendants' arguments would result in either "undue prejudice to the plaintiff" or "undue delay of the proceedings." *Saks*, 316 F.3d at 350. Moreover, no judicial economy would result from allowing these affirmative defenses to be heard at summary judgment or at trial, because they would not narrow the issues in dispute.

> FN5. *See, e.g., Curry v. City of Syracuse,* 316 F.3d 324, 330-31 (2d Cir.2003) (district court did not err in considering collateral estoppel defense raised by defendant at summary judgment where plaintiff was given leave and additional time to file reply); *Doe v. Pfrommer,* 148 F.3d 73, 80 (2d Cir.1998) (district court did not err in considering *sua sponte* defense of collateral estoppel given "strong public policy" favoring "giving preclusive effect to the ALJ's factual determinations"); *Salahuddin v. Jones,* 992 F.2d 447 (2d Cir.1993) (district court did not err in considering *sua sponte* defense of *res judiciata* given "strong public interest in economizing the use of judicial resources by avoiding relitigation"); *Steinberg v. Columbia Pictures Industries, Inc.,* 663 F.Supp. 706, 715 (S.D.N.Y.1987) ("[A]bsent prejudice to the plaintiff, a defendant may raise an affirmative defense in a motion for summary judgment for the first time." (quoting *Rivera v. Anaya,* 726 F.2d 564, 566 (9th Cir.1984))).

Even if Defendants were allowed to present their new affirmative defenses at summary judgment or at trial, they would fail. Defendants base these defenses on the following language in the Alvarez and Vargas agreements: "Manager agrees that the following person(s) shall personally supervise your business during the term of the agreement: Bruce Zemsky and Alan Green [.]" Segal Dec. Exs. A-B. As for Defendant Margison, the only evidence for such a provision in his oral contract comes from statements in his declaration. Margison Dec. ¶¶ 2-3. However, Zemsky and Green's departure from CAMI is irrelevant to Defendants' alleged contractual obligation to pay commissions for performances already secured. The New York Court of Appeals has held that "where a contract consists of parts so distinct and independent that each could be performed without reference to the others, a failure of one of the parties to perform one of the parts or terms of the contract does not authorize the other to rescind the whole contract ...." *Ripley v. Int'l Rys. of Cent. Am.,* 8 N.Y.2d 430, 437 (1960) (quotation omitted); *see also* Lord, *Williston on Contracts* §§ 45:17-18 (4th ed.2010).

Here, the contracts imposed Defendants' obligation to pay commissions "[f]or all engagements which you accept," and did not condition payment of those commissions on Plaintiff's continued retention as Defendants' manager. Segal Dec. Exs. A-B. In other words, Defendants naturally agreed to compensate Plaintiff for the work it performed while the agreement was in effect. Even if Plaintiffs dismissal of Zemsky and Green constituted a breach, that breach took place after Plaintiff had already performed under the contract and Defendants' obligation to compensate Plaintiff for its performance had already attached. The alleged obligation to pay commissions on performances secured before any putative breach is "distinct and independent" from any obligations or remedies arising from that breach, *Ripley,* 8 N.Y.2d at

437, and therefore, even if Defendants could establish such a breach, it would not excuse Defendants' alleged obligation. Whether the contractual language regarding post-termination commissions or the alleged industry custom applies to Defendants remains a contested issue of material fact.[FN6] However, the claim that Zemsky and Green's termination cancelled any possible obligation of Defendants to pay post-termination commissions is invalid as a matter of law.

> FN6. Defendants may still argue that the three-months clause constitutes a condition precedent on payment of post-termination commissions, but only insofar as this condition allegedly renders the contract language on such payment inapplicable to Defendants. They may not argue that Plaintiff actually failed to satisfy this condition by firing Zemsky and Green.

Equally invalid as a matter of law is the contention that Zemsky and Green's departure from Plaintiff itself constituted a failure of a condition precedent to recovery of the commissions, by allegedly terminating the contracts with Defendants Alvarez and Vargas without three months notice.[FN7] The contracts contain no language specifying that failure to retain Zemsky and Green automatically terminates the contract. Defendants can only allege that Zemsky and Green's departure constitutes a breach, as above. However, a material breach does not constitute termination in itself. The option to terminate is up to the aggrieved party: “When one party to a contract materially breaches the contract during the course of a continuing performance, the non-breaching party has a choice presented to him of continuing the contract or of refusing to go on.” *V.S. Intern., S.A. v. Boyden World Corp.*, 862 F.Supp. 1188, 1196 (S.D.N.Y.1994) (internal quotation marks omitted); *see also* Lord, *Williston on Contracts* § 39:32. Here, the only notices of termination in this case were submitted by Defendants, who also failed to give three months notice. Fox Cert. Exs. A-C. Defendants do not and cannot argue that Zemsky and Green's departure from CAMI constituted a repudiation of the contract or a fundamental breach. Therefore, Defendants' theory that said departure constituted termination of the agreements with Defendants without three months notice, and therefore failed to satisfy a condition precedent to recovery of post-termination commissions is invalid as a matter of law.

> FN7. The testimony regarding Defendant Margison's oral contract does not refer to a provision requiring three months notice for cancellation. Therefore, Defendants' affirmative defense of failure of a condition precedent does not apply to him.

Accordingly, Defendants are precluded from offering at trial the affirmative defenses that Plaintiff terminated the contract by firing Zemsky and Green and was therefore not entitled to post-termination commissions due to either breach of contract or failure to satisfy a condition precedent.

III. CONCLUSION

For the foregoing reasons, Plaintiff's motion for summary judgment is denied, and Defendants are precluded from presenting at trial the affirmative defense that Plaintiff terminated the contract.

United States District Court,,
S.D. Florida.
Rafael "Rafa" VERGARA HERMOSILLA, Plaintiff,
v.
THE COCA-COLA COMPANY, Defendant.
No. 10-21418-CIV.

June 2, 2010.

Michael C. Foster, James Miller Kaplan, Kaplan Zeena LLP, William Zeena, Jr., Miami, FL, for Plaintiff.

Sanford Lewis Bohrer, Brian A. Briz, Holland & Knight, Miami, FL, Brad R. Newberg, Holland & Knight, LLP, McLean, VA, Gordon P. Katz, Holland & Knight, LLP, Boston, MA, VErnon M. Strickland, Holland & Knight, LLP, Atlanta, GA, for Defendant.

ORDER GRANTING IN PART PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

K. MICHAEL MOORE, District Judge.

THIS CAUSE came before the Court upon Plaintiff's Emergency Motion for Preliminary Injunction (dkt # 10).

UPON CONSIDERATION of the Motion, the Response, the Reply, and the pertinent portions of the record, and being otherwise fully advised in the premises, the Court enters the following Order.

I. BACKGROUND

This case involves a claim by Plaintiff Rafael "Rafa" Vergara Hermosilla ("Vergara") to obtain damages and equitable relief for copyright infringement by Defendant Coca-Cola Company ("Coca-Cola"). Vergara's current Motion seeks a preliminary injunction preventing Coca-Cola from using the song *"Wavin' Flag (Coca-Cola Spanish Celebration Mix)."*

A Factual Background

Vergara is a songwriter, producer, and vocalist who has written songs for many successful artists including Marc Anthony and Jaci Velasquez. *See* Declaration of Rafael "Rafa" Vergara Hermosilla (dkt # 10-1) ("Vergara Decl."), at ¶ 2-3. In November 2009, Coca-Cola requested that Universal Music Group and several of its divisions or subsidiaries (collectively "Universal") assist it in creating a version of a music single that would incorporate Spanish language lyrics and be used to promote Coca-Cola's brands during the 2010 FIFA World Cup Soccer Games. *See* Declaration of Jose Puig (dkt # 16-2) ("Puig Decl."), at ¶¶ 2-3. The games are scheduled to take place in June 2010. *Id.* The single to be altered was *Wavin' Flag (Coca-Cola Celebration Mix)* by the artist K'naan. *Id.* ¶ 3. Coca-Cola secured "all the necessary rights" to create revised

versions of this song from all those who owned copyright interests in the original composition. *Id.* Performer David Bisbal ("Bisbal") was selected to sing the Spanish language portion of the new version while K'naan would still sing the English language portion. *Id.* Vergara was selected to perform two tasks: (1) to translate a portion of K'naan's lyrics into Spanish and (2) to mix and produce Bisbal's vocals for the final mix. *Id.* ¶ 5.

On November 17, 2009, Jose Puig ("Puig"), then a Vice President of Marketing for Universal Music Latin America, contacted Vergara by telephone and Vergara agreed by telephone to adapt the lyrics to Spanish and to mix and produce the record. *Id.* ¶ 6. According to Puig, during this conversation the two agreed that Vergara's work would be a work-for-hire and that Vergara's fee would be $6,000 for the project. *Id.* By contrast, Vergara denies that the Parties intended this to be a work-for-hire or that he has ever written a work-for-hire in his career. Vergara Decl. ¶¶ 6-8.

On November 18, 2009 at 3:04 a.m., Vergara sent an email to Puig containing Spanish language lyrics as well as an audio file demonstrating how the lyrics were to be sung. *See* Email from Vergara to Puig (Nov. 18, 2009) (English translation) (dkt # 22-3). Puig responded later that day noting "this is incredible. Now we can call this a song!" *See* Email from Puig to Vergara (Nov. 18, 2009) (English translation) (dkt # 22-3). Over the following weeks, Vergara created a variety of versions of the song using his own vocals, and ultimately one of the versions was approved by Universal, Coca-Cola and K'naan. Puig Decl. ¶ 11. On December 2, 2009, as planned, Bisbal recorded vocals for the track based on Vergara's lyrics and demo vocals. *Id.* The resulting track was returned to Vergara, who then performed additional mixing, background vocals, and production on the track. *Id.* On December 4, 2009, Vergara delivered a master version to Puig and this version has now appeared in a number of promotions in Spanish markets and in the United States, including a video which features both K'naan and Bisbal. *Id.* ¶¶ 11-13. The first publication of the work was in Mexico via iTunes' Mexican download website and Coca-Cola's Mexican website. Vergara Decl. ¶ 18.

On December 6, 2009, Vergara submitted an invoice for $10,000.00 to Universal for his work on the project including "Production, vocal edition, background vocals, mixing and mastering." *See* Invoice No. 031-2009 (dkt # 22-4). Before paying the monies due under the invoice, Universal asked that Vergara sign a document stating that all work done was work-for-hire. Puig Decl. ¶ 16.

On March 4, 2010, Vergara wrote an email to Puig seeking to resolve the dispute which stated:

> When you proposed to me the adaptation of the song Wavin Flag, the opportunity to solicit a percentage for the adaptation was always left open to the original authors.
>
> If I would have known from the beginning that such a possibility did not exist, I would have never agreed to do the adaptation. Additionally, I want to make it clear that the adaptation has nothing to do with the work I later performed as producer.
>
> As such, over the past weeks we have tried to communicate with the original authors, but no one has wanted to recognize our adaptation and the only version resulting from it.

> It is a shame that the original authors (as creative people) do not recognize my contributions to the official version of Waving Flag Spanish Celebration, aside from unjust, it is illegal. It must be that this is the first time that they do something important, because this has never happened to us on any other adaptation.
>
> But because I am a man of my word and honor, that is not moved by economic motives, my only request is that my credits are respected as producer and adapter of the Spanish version (that every time the name of any composer of this version appears, my name appears as adapter), and obviously, the credits for the production that are detailed in the invoice sent for this production, which I have detailed below.
>
> For the adaptation, you may consider it a work for hire with no economic compensation to that respect. I believe what's legal is a dollar.
>
> I hope that this leaves clear what my work was and what my good intentions were from the beginning.

Puig Decl. ¶ 18 (English translation); *see also* Email from Vergara to Puig (Mar. 4, 2010) (dkt # 27-3) (English translation).

On March 8, 2010, Vergara sent another email to Puig stating,

> I appreciate your sending me the contracts. However, my proposal was clear and it was just that, a proposal, since you requested my help because you knew things had not been done right. My only request regarding said proposal was a series of things that are not included in what you sent me. Moreover, nothing of what I proposed to you is included in the contracts.
>
> I want you to know I'm very upset and rather dissapointed [sic], because my proposal was based more on our friendship than anything else, and what I got does not honor the agreements.
>
> Taking into account the above, I hereby inform you that the proposal of last Friday from which the contracts would supposedly derive is revoked as of now and without effect.

See Email from Vergara to Puig (Mar. 8, 2010) (English translation) (dkt # 22-6). Puig responded to this stating, “I did not review the contracts. I will review them with the attorney right away and make any necessary changes. I'm sorry.” *See* Email from Puig to Vergara (Mar. 8, 2010) (English translation) (dkt # 22-6). Shortly thereafter, this lawsuit was brought.

B. Procedural Background

On May 3, 2010, Vergara initiated this action by filing a Complaint (dkt.# 1). On May 11, 2010, Vergara filed the instant Emergency Motion for Preliminary Injunction (dkt # 10). This injunction seeks an Order requiring that Coca-Cola and its subsidiaries cease advertising with, selling, distributing or otherwise commercially exploiting the song containing Vergara's lyrics. *Id.* at 13. Additionally, Vergara requests that the Order require Coca-Cola to immediately provide a public acknowledgment of Vergara's contribution “by such media or other vectors as

the Work has been previously disseminated." *Id.* Vergara also seeks fees and costs. *Id.* On May 13, 2010, Vergara filed a Motion Requesting a Hearing (dkt # 13) in relation to the request for an injunction. On May 17, 2010, Coca-Cola filed a Response (dkt # 16). On May 19, 2010, Vergara filed a Reply (dkt # 20).[FN1]

II. INJUNCTIVE RELIEF

To obtain a preliminary injunction, a party must establish four elements: (1) a substantial likelihood that it will prevail on the merits; (2) a substantial threat that it will suffer irreparable injury if the injunction is not granted; (3) the threatened injury to plaintiff outweighs the threatened harm the injunction may do to the defendants; and (4) granting the preliminary injunction will not disserve the public interest. *See Church v. City of Huntsville*, 30 F.3d 1332, 1342 (11th Cir.1994); *see also N. Am. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1217 (11th Cir.2008). Because a "preliminary injunction is an extraordinary and drastic remedy," it is "not to be granted until the movant clearly carries the burden of persuasion as to the four prerequisites." *Church*, 30 F.3d at 1342 (quoting *Ne. Fla. Chapter of the Ass'n of Gen-Contractors of Am. v. City of Jacksonville*, 896 F.2d 1283, 1285 (11th Cir.1990)).

A. Likelihood of Success on the Merits

In addressing whether there is a substantial likelihood that Vergara will succeed on the merits, the Court first discusses Vergara's prima facie case for infringement. Next, the Court addresses Coca-Cola's arguments that it is not liable because it: (a) has an implied, nonexclusive license to use the work; (b) Vergara performed the work as work-for-hire; (c) the work was never registered with the United States Copyright Office; and (d) Coca-Cola had joint rights in the work.

1. Prima Facie Case

A plaintiff seeking an injunction based on infringement must first establish that he has met the prima facie elements of a copyright infringement claim. Vergara must therefore show: (1) that he owns a valid copyright in the work and (2) that Coca-Cola copied original elements of the work. *See Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1265-66 (11th Cir.2001). Here, Vergara claims to have an enforceable Mexican copyright. To support this claim, Vergara has submitted a Declaration by an intellectual property attorney who is licensed to practice in Mexico. *See* Declaration of Jose Reygadas, Esq. (dkt # 10-2) ("Reygadas Decl."), at ¶¶ 2-3.[FN2] According to Reygadas,

> Under Mexican copyright law, copyright protection immediately attaches when an original work is created by a composer and incorporated into a tangible medium, e.g. MP3 or CD, by means of which the original work can then be published. The composer of the work may thereafter enforce the copyright by means of a civil or criminal action.
>
> Mexican Copyright law does not require registration of the original work prior to an author instituting an action to enforce his or her copyright protection. Copyright registration under Mexican law is simply a public declaration of ownership.

> *Id.* ¶¶ 4-5. Thus, Vergara's Mexican copyright in the translated lyrics [FN3] became enforceable in Mexico once they were transmitted to Universal by email. *Id.* ¶ 6. Vergara's Mexican copyright then became enforceable in the United States no later than when his lyrics were published in Mexico. Under Section 104(b)(2) of the Copyright Act, works first published in foreign countries are protected in the United States if the foreign country, "on the date of first publication, is a treaty party." 17 U.S.C. § 104(b). Mexico is a "treaty party" to numerous Copyright treaties with the United States, including the Universal Copyright Convention and the Berne Convention. *See* Melville B. Nimmer and David Nimmer, Nimmer on Copyright, App'x 24-27 (2010) (reprinting Universal Copyright Convention and the Berne Convention). Moreover, Vergara's lyrics qualify for protection under Section 104(b)(2) because they were published in Mexico before publication in the United States. *See* Vergara Decl. ¶ 18.[FN4] Finally, it is undisputed that Coca-Cola subsequently copied original elements of Vergara's lyrics and published them in the United States. *See id.* Thus, Vergara has shown he can establish a prima facie claim for infringement.

2. Implied, Non-Exclusive License

Coca-Cola argues that Vergara's request for injunctive relief must be denied because Coca-Cola has an implied, non-exclusive license to use the work. Resp. at 7-10.

> A nonexclusive license to use copyrighted material may be granted orally or implied from conduct. Because there is no transfer of ownership, as with an exclusive license, a nonexclusive license need not be in writing. An implied nonexclusive license is created when one party creates a work at another party's request and hands it over, intending that the other party copy and distribute it. In determining whether an implied license exists, a court should look at objective factors evincing the party's intent, including deposition testimony and whether the copyrighted material was delivered "without warning that its further use would constitute copyright infringement." A copyright owner waives his right to sue for copyright infringement while the nonexclusive license is in effect.

Wilchombe v. TeeVee Toons, Inc., 555 F.3d 949, 956 (11th Cir.2009) (citations omitted). However, such a license is revocable unless and until consideration is accepted by the licensor. *Carson v. Dynegy, Inc.,* 344 F.3d 446, 451 (5th Cir.2003) (stating that a license not supported by consideration is revocable and revoked by filing a lawsuit). In the present action, Vergara has made clear that he has, to date, accepted no consideration for his work.2d Vergara Decl. ¶ 18 (dkt # 20-1). Thus, while an implied, non-exclusive license undoubtedly existed when the work was initially published, this license was unequivocally revoked the moment the present lawsuit was filed. Thus, Coca-Cola's defense on this basis is meritless.[FN5]

3. Work-for-Hire

Coca-Cola next argues that Vergara's Motion must fail because Vergara performed the work as work-for-hire. Resp. at 7-10. "Once it is established that a work is made for hire, the hiring party is presumed to be the author of the work." *Playboy Enters., Inc. v. Dumas,* 53 F.3d 549, 554 (2d Cir.1995). Since Vergara is not an employee of Coca-Cola or Universal, for the subject piece to

be considered work-for-hire, the parties must expressly agree "in a written instrument signed by them that the work shall be considered a work made for hire." 17 U.S.C. § 101.

Coca-Cola has made no showing that any such agreement exists. The document that Coca-Cola relies on is an email that is an offer to deem the song a work-for-hire in exchange for Universal and Coca-Cola agreeing to other conditions. Puig Decl. ¶ 18 (Vergara asked that "my credits are respected as producer and adapter of the Spanish version (that every time the name of any composer of this version appears, my name appears as adapter")). That this email was an offer and not an agreement is shown by the fact that shortly thereafter, Universal sent Vergara contracts constituting a counteroffer that did not contain Vergara's requested terms. *See* Email from Vergara to Puig (Mar. 8, 2010) (English translation) (dkt # 22-6). Vergara then expressly revoked the prior offer, *id.*, and so Coca-Cola may not rely on Vergara's March 4, 2010 email to show the translation was a work-for-hire. Thus, the translation of song lyrics by Vergara do not qualify as a work-for-hire because the writing requirement for work-for-hire contracts is not met.[FN6]

4. Registration

Coca-Cola next argues that the request for injunctive relief must be denied because Vergara has only applied for copyright registration, and registration has not yet been granted. Resp. at 13-17. However, as noted above, Registration is not a requirement under Mexican law, Reygadas Decl. ¶¶ 4-5, and foreign copyright holders do not need to register in the United States unless they seek statutory damages or attorneys' fees. *Rudnicki v. WPNA 1490 AM*, 580 F.Supp.2d 690, 694 (N.D.Ill.2008) ("Registration is only a prerequisite when the foreign copyright holder seeks statutory damages and attorney's fees."). Coca-Cola argues that the only publication in Mexico was done by Coca-Cola, and Coca-Cola's own behavior was unauthorized by Vergara, and thus did not qualify as publication for Section 104(b)(2) purposes. Resp. at 14. Thus, Coca-Cola reasons, because the translation was never validly published in Mexico the work must be registered in the United States before a lawsuit may validly be brought. This argument without merit. As noted above, Coca-Cola's initial publication in Mexico was protected by an implied, non-exclusive license. Thus, the initial publication of the translation in Mexico was authorized by Vergara and satisfied the foreign publication requirement under Section 104(b)(2), and the requirement of Registration in the United States was never triggered. Therefore, Coca-Cola cannot defeat Vergara's Motion on this basis.

5. Joint Rights

Coca-Cola argues that Vergara's request for injunctive relief must be denied because Vergara was, at most, a joint author of the work. Resp. at 18-19. Vergara has stated that neither Coca-Cola nor Universal provided him with any assistance in creating the Spanish language translation of the song. Vergara Decl. ¶ 14. Coca-Cola has presented no evidence showing otherwise. Thus, Vergara's contribution is more accurately categorized as an authorized derivative work, rather than as a joint work. *See* 17 U.S.C. § 101 ("A 'derivative work' is a work based upon one or more preexisting works, such as a translation ...").

> The subject matter of federal copyright includes derivative works, but the copyright in such works 'extends only to the material contributed by the author,' and does not affect any copyright protection in the preexisting material. Under 17 U.S.C. § 101, 'a derivative work must incorporate a substantial element of a preexisting work of authorship and recast, transform, or adapt those elements.

Latimer v. Roaring Toyz, Inc., 601 F.3d 1224, 1233-34 (11th Cir.2010). A copyright holder can typically obtain a copyright in a derivative work when the derivative work was created lawfully. *Id.* at 1234; *Palladium Music, Inc. v. EatSleepMusic, Inc.*, 398 F.3d 1193, 1197 (10th Cir.2005) (noting work can be copyrighted as a derivative work "if the new work was produced with the permission of the copyright owner of the preexisting work"); *see also* 1 Nimmer on Copyright § 3.06 (collecting cases). In the present action, it is undisputed that Coca-Cola had secured "all necessary rights" from K'naan and others to create revised versions of K'naan's original composition. Puig Decl. ¶ 3. Vergara's derivative translation was then authorized and indeed solicited by Coca-Cola through Universal and thus was created lawfully. Moreover, "the right to claim copyright in a noninfringing derivative work arises by operation of law, not through authority from the copyright owner of the underlying work." 1 Nimmer on Copyright § 3.06. "Even though one co-author has the right to revise a joint work in order to create an individual derivative work, the other co-author acquires no property rights in the newly created work prepared without his involvement." *Weissmann v. Freeman*, 868 F.2d 1313, 1318 (2d Cir.1989). Here, Vergara's newly created derivative translation was done without the original author's involvement, but with the original author's permission. Thus, Vergara has exclusive copyright ownership of his translation.

6. Conclusion

For all the above-stated reasons, the Court finds there is a substantial likelihood that Vergara has a valid copyright that has been infringed, and that he will prevail in this litigation.

B. Threat of Irreparable Harm

Vergara must next show that he will be irreparably harmed unless this Court issues an injunction. "An injury is 'irreparable' only if it cannot be undone through monetary remedies." *Ferrero v. Assoc. Materials Inc.*, 923 F.2d 1441, 1449 (11th Cir.1991) (citation omitted). "[T]he loss of customers and goodwill is an 'irreparable' injury." *Id.* (citation omitted). The harm to Vergara by Coca-Cola using his lyrics without providing credit goes beyond monetary damages to his name recognition among music listeners. He has put forward undisputed evidence that his earning ability is largely dependent on "receiving credit for writing songs, which enhances my reputation and exposure." Vergara Decl. ¶ 4; *cf. Smith v. Montoro*, 648 F.2d 602, 607 (9th Cir.1981) ("[s]ince actors' fees for pictures, and indeed, their ability to get any work at all, is often based on the drawing power their name may be expected to have," being credited is "of critical importance in enabling actors to sell their 'services' "). Moreover, since the lyrics are designed for a song relating to the World Cup, as soon as the World Cup ends it will be difficult, if not impossible, to recapture the goodwill and exposure lost during the World Cup period. Thus, Vergara has shown that he is in danger of being irreparably harmed.

C. Balancing of Hardships

The Court must next address whether the threatened injury to Vergara if a preliminary injunction is denied outweighs any potential harm to Coca-Cola if the preliminary injunction is granted. *See Axiom Worldwide,* 522 F.3d at 1217. Coca-Cola claims that a complete bar from using the song in the United States [FN7] would cost Coca-Cola over $15,050,000 dollars. Declaration of Miguel Nigrinis (dkt # 16-3), at ¶ 18. Given the sheer amount of money at stake, this potential harm to Coca-Cola outweighs Vergara's interest in ordering an outright injunction. However, Coca-Cola has not come forward with any evidence whatsoever showing that it will be harmed by having to credit Vergara as the adaptor whenever the author of the original lyrics are credited and the adaptation is used. Indeed, Coca-Cola claims that it is already doing so. *See* Puig Decl. ¶ 19. Thus, Coca-Cola will suffer minimal harm and Vergara's rights will be protected if the injunction is structured such that Coca-Cola is only enjoined from selling or otherwise using Vergara's lyrics without providing Vergara credit whenever his lyrics are used and either (1) the original English composer is credited or (2) a composer is often credited with such a use.[FN8] Similarly, Vergara's request that Coca-Cola provide a public acknowledgment of Vergara's contribution "by such media or other vectors as the Work has been previously disseminated" is unduly burdensome. However, Coca-Cola can notify consumers on its own website on the download page offering *"Wavin' Flag (Coca-Cola Spanish Celebration Mix)"* at minimal cost to itself. Thus, an injunction can be entered in a manner such that the benefits to Vergara outweigh the potential harms to Coca-Cola.

D. Public Interest

Finally, Vergara must show that the public interest would not be disserved by the requested injunction. *See Axiom Worldwide.,* 522 F.3d at 1217. Copyright law's "ultimate aim is ... to stimulate artistic creativity." *Twentieth Century Music Corp. v. Aiken,* 422 U.S. 151, 156, 95 S.Ct. 2040, 45 L.Ed.2d 84 (1975). Here, this goal will be served by granting a partial injunction because artists who provide valuable services such as translation of lyrics will know their work will be protected.

E. Conclusion

For the above-stated reasons, this Court finds after considering Vergara's likelihood of success, the potential for irreparable harm, Coca-Cola's counterbalancing interests and the public interest, that an injunction should issue. However, this Court also finds that the injunction requested would be unduly burdensome, and thus has sought to craft a more narrow injunction that protects Vergara from irreparable harm without unduly burdening Coca-Cola.

III. ATTORNEYS' FEES AND COSTS

Although Vergara's Motion seeks attorneys' fees and costs, Mot. at 13, nothing in Vergara's Motion suggests he is entitled to attorneys' fees or costs. Thus, this portion of the Motion is denied.

IV. CONCLUSION

For the foregoing reasons, Plaintiff's Emergency Motion for Preliminary Injunction (dkt # 10) is GRANTED IN PART. It is

ORDERED AND ADJUDGED that, by June 11, 2010, Defendant Coca-Cola and any individuals or entities acting under its direction or control cease advertising, selling, distributing, or otherwise disseminating *"Wavin' Flag (Coca-Cola Spanish Celebration Mix)"* unless adaptation credit is given to Vergara whenever his lyrics are used and either: (1) the original English composer is credited or (2) a composer is often credited with such a use. It is further

ORDERED AND ADJUDGED that, by June 11, 2010, Defendant Coca-Cola post on its website on the page offering *"Wavin' Flag (Coca-Cola Spanish Celebration Mix)"* for download, a conspicuous notice indicating Vergara's contribution to the song. It is further

ORDERED AND ADJUDGED that, by June 12, 2010, Defendant Coca-Cola file with the Court a Notice, stating that Coca-Cola has complied with the above requirements.

Plaintiff's Motion for Hearing (dkt # 13) is DENIED AS MOOT.

DONE AND ORDERED.

FN1. On May 21, 2010, Vergara and Coca-Cola filed English translations (dkt22, 27) of certain supporting documents in response to this Court's Order (dkt # 21) stating that Spanish language documents without English translations would not be considered. On May 28, 2010, Vergara file a Notice containing a citation to a newly issued Ninth Circuit decision which he believes to be relevant (dkt # 30).

FN2. When analyzing foreign law, district courts may rely on affidavits of foreign attorneys. *See Trinidad Foundry and Fabricating, Ltd. v. M/V K.A.S. Camilla,* 966 F.2d 613. 615 (11th Cir.1992); *Whallon v. Lynn,* 230 F.3d 450, 458 (1st Cir.2000) (relying on affidavit of Mexican attorney); *see also* Fed.R.Civ.P. 44.1. Coca-Cola has provided no contrary evidence regarding Mexican law, and thus the description of Mexican law in Reygadas' Declaration is taken as accurate.

FN3. Though Vergara claims an original copyright in more than just the translation of the lyrics, the Court focuses on this translation because it is less clear whether Vergara's role in other elements of the work was exclusive given Bisbal's contribution of vocals, and Universal and Coca-Cola's alleged input at the mixing stage. *See* Puig Decl. ¶ 11. However, the Court need not address the scope of Vergara's copyright beyond rights in the translation at this point, because finding Vergara has a copyright in the translated lyrics is sufficient to decide this Motion.

FN4. For purposes of this analysis, it is irrelevant that this publication was made by Coca-Cola itself. Publication need not be done by the copyright holder, but may rather be done by another party so long as that other party has the copyright holder's consent. 1

Nimmer on Copyright § 4.04 (collecting cases). As discussed in Section III(A)(2) and Section III(A)(4) *infra,* the original publication in Mexico of Vergara's work was done by Coca-Cola with Vergara's consent pursuant to an implied non-exclusive license. That this consent was later revoked does not undo the prior publication.

FN5. The main case relied on by Coca-Cola, *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749 (11 Cir.1997), is readily distinguishable in that in *Jacob Maxwell* the licensor was seeking to claim infringement for usage that occurred before the licensor successfully revoked the implied license. *See id.* at 753. By contrast, in the present action, the alleged infringement is ongoing.

FN6. The fact that the Parties disagree as to whether Vergara's work was intended to be a work-for-hire is irrelevant. *See* Puig Decl. ¶ 6; Vergara Decl. ¶¶ 6-8. Whether or not the Parties intended the work as a work-for-hire, they did not fulfill the statutory requirements to create a valid agreement.

FN7. This Court could not issue an injunction for infringement occurring outside the United States. *Palmer v. Braun,* 376 F.3d 1254, 1258 (11th Cir.2004) ("federal copyright law has no extraterritorial effect, and cannot be invoked to secure relief for acts of infringement occurring outside the United States") (citations omitted).

FN8. For example, Coca-Cola need not credit Vergara in television advertisements unless Coca-Cola typically credits a composer in a commercial or unless the composer of the English lyrics is credited as such, while Coca-Cola would need to credit Vergara when *"Wavin' Flag (Coca-Cola Spanish Celebration Mix)"* is distributed in a medium such as iTunes where composers are often credited.

United States District Court,
S.D. New York.
FIFTY-SIX HOPE ROAD MUSIC LTD., Cedella Marley, David Marley, Julian Marley, Karen Marley, Rita Marley, Rohan Marley, Stephen Marley, Damian Marley, Stephanie Marley, and Robert Marley, Plaintiffs,
v.
UMG RECORDINGS, INC., Defendant.
No. 08 CIV. 6143(DLC).

Sept. 10, 2010.

L. Peter Parcher, Elizabeth K. Murray, Manatt, Phelps & Phillips LLP, New York, NY, Barry E. Mallen, Manatt, Phelps & Phillips LLP, Los Angeles, CA, Peter S. Shukat, Dorothy M. Weber, Shukat, Arrow, Hafer, Weber & Herbsman LLP, New York, NY, for Plaintiffs.

Andrew H. Bart, Carletta F. Higginson, Joseph J. McFadden, Jenner & Block LLP, New York, NY, for Defendant.

OPINION & ORDER

DENISE COTE, District Judge.

This dispute concerns the ownership of the renewal term copyrights in certain pre-1978 sound recordings embodying the performances of Jamaican reggae artist, Bob Marley (the "Sound Recordings"). The Sound Recordings were created pursuant to exclusive recording agreements between Bob Marley and the predecessor-in-interest to defendant UMG Recordings, Inc. ("UMG"). The plaintiffs-Bob Marley's widow, Rita Marley, as well as nine of Bob Marley's children (together with Rita Marley, the "Adult Beneficiaries"), and their wholly-owned company, Fifty-Six Hope Road (collectively, the "Plaintiffs")-allege that the renewal term copyrights in the Sound Recordings reverted to them under the Copyright Act of 1909 upon Bob Marley's death in 1981. Plaintiffs also assert claims for underpayment of royalties against UMG. Plaintiffs and UMG have cross-moved for partial summary judgment. For the following reasons, UMG's motion is granted in part and Plaintiffs' motion is denied.

BACKGROUND

1. The Marley Recording Agreements

Bob Marley was a renowned Jamaican reggae singer and songwriter who, from August 25, 1972, until his death in 1981, rendered services as a recording artist to Island Records Ltd. and Island Records, Inc. (together "Island") pursuant to a series of exclusive recording agreements. Defendant UMG is Island's successor-in-interest.[FN1] UMG is the largest record company in the world and is engaged in the business of producing sound recordings, and distributing, selling, and licensing the distribution and sale of its sound recordings as phonorecords. Among its activities, UMG sells, licenses, and distributes sound recordings embodying the performances of

Bob Marley, including the Sound Recordings that are the subject of Plaintiffs' copyright claim in this action.

FN1. In the late 1980s or early 1990s, Island was acquired by an entity within the PolyGram Music Group ("PolyGram"). In 1998, Universal Music Group, of which UMG is a part, acquired PolyGram.

a. The 1972 Agreement: "Catch A Fire" and "Burnin' "

On August 5, 1972, Island entered into a recording agreement with Bob Marley and two other artists (the "1972 Agreement").[FN2] Pursuant to the 1972 Agreement, Marley agreed to perform services as a recording artist exclusively for Island and to produce "sufficient acceptable recordings" for two albums during the term of the agreement. Island agreed to pay Bob Marley certain advances against royalties for the creation of the Sound Recordings. Island also agreed to permit Marley to use Island's studios to record his performances, subject to the right to recover the costs of these recording sessions from royalties.[FN3]

FN2. The 1972 Agreement consists of a customized letter agreement, attached to which are certain standard recording artist contract conditions. The 1972 Agreement states that in the event of a conflict between the provisions of the letter and those of the conditions, the provisions of the letter shall govern. The 1974 and 1975 Agreements, discussed below, have the same format.

FN3. An invoice attached to the 1972 Agreement shows that Island also advanced certain recording costs to Bob Marley, at least some of which appear to have been recouped from royalties.

The 1972 Agreement provided that Island had the right to compel Bob Marley's attendance at various locations for the purpose of recording his performances. The 1972 Agreement states in pertinent part:

> The Artist shall during the period attend at such places and times as the Company shall reasonably require and shall render to the best of his skill and ability and to the satisfaction of the Company such performances ... as the Company shall elect for the purpose of reproduction in or by any record or sound recording.

The 1972 Agreement further provided that Island and Bob Marley would "[m]utually agree" as to the lyrics and music to be recorded, but that Island could "[d]ecide in its discretion whether or not such lyrics and music as recorded are acceptable and satisfactory for the manufacture and sale of records."

The 1972 Agreement stated that "all recordings featuring the Artist and recorded by the Company ... in pursuance hereof are the absolute property of the Company and the Company will continue to account to the Artist for the royalties thereon both during the period and thereafter." Under the 1972 Agreement, Island was "entitled to the sole and exclusive right in perpetuity throughout the territory of production reproduction sale and distribution ... and performance

(including broadcasting) throughout the Territory by any and every means whatsoever of recordings incorporating the Artist's performances." [FN4]

FN4. The 1972 Agreement defined "Territory" as the world excluding the "West Indies," *i.e.*, the Caribbean.

Island released two albums pursuant to the 1972 Agreement: "Catch a Fire" and "Burnin'." Island registered both works with the United States Copyright Office, listing "Island Records, Ltd." as the author of the sound recordings on the albums. The 1972 Agreement contained an incontestability clause that provided that royalty statements rendered by Island were binding "unless specific objection in writing stating the basis thereof is given to the Company within twelve months from the date the statement in question is rendered."

b. The 1974 Agreement: "Natty Dread"

On August 27, 1974, Island Records, Ltd. entered into a new recording agreement with Bob Marley and two other artists (the "1974 Agreement"). Pursuant to the 1974 Agreement, Bob Marley agreed that he would provide his services exclusively to Island during the term of the agreement and would produce "sufficient acceptable recordings" for two albums. Like the 1972 Agreement, Island agreed to pay Bob Marley certain advances against royalties for the creation of the Sound Recordings. The 1974 Agreement further provided that Island would pay advances for the recording costs of the albums "upon submission of duly verified invoices," which could only be recouped from royalties. Recording costs incurred by Island in its own studios could not be recouped.

Like the 1972 Agreement, the 1974 Agreement granted Island the right to compel Bob Marley's attendance at various locations and required Bob Marley to render such performances as Island elected for the purpose of producing the sound recordings. The 1974 Agreement also provided that Island and Bob Marley would "[m]utually agree" as to the lyrics and music to be recorded, but that Island could "[d]ecide in its discretion whether or not such lyrics and music as recorded are acceptable and satisfactory for the manufacture and sale of records."

Under the 1974 Agreement, Island could refuse to accept an album if it determined "that such album does not have sufficient commercial potential." In the event Island refused to accept such an album, the album would "not count towards the number of albums to be recorded" under the agreement. Bob Marley had the right, however, subject to his first repaying Island the recording costs for the rejected album, to release such album through a third party.

The 1974 Agreement provided that any recordings produced pursuant to the agreement were "the absolute property" of Island and that Island would have the exclusive and perpetual right to exploit such recordings by "any and every means whatsoever" throughout the Territory.

Island released one album pursuant to the 1974 Agreement: "Natty Dread." It registered the album with the United States Copyright Office, listing "Island Records Ltd." as the author of the sound recordings on the album. Like the 1972 Agreement, the 1974 Agreement contained an

incontestability clause which required that any objections to a royalty statement be made in writing, but extended the time period for such objections to three years after the date the statement is rendered.

c. The 1975 Agreement: “Rastaman Vibrations” and “Exodus”

On August 6, 1975, Island Records, Inc. entered into an agreement (the “1975 Agreement”) with Media Aides Limited (“Media Aides”), a company owned and controlled by Bob Marley. The 1975 Agreement included a personal inducement letter from Bob Marley stating that he had licensed his exclusive services to Media Aides, that Media Aides was authorized to furnish his personal services to Island, and that he would personally perform under the contract if Media Aides was not able. Despite being denominated a “License,” the 1975 Agreement contained almost identical exclusivity, control, ownership, and payment provisions as the 1972 and 1974 Agreements.

Pursuant to the 1975 Agreement, Media Aides agreed to deliver to Island “satisfactorily recorded sufficient acceptable material” to comprise at least six albums. The 1975 Agreement provided that Island would pay Media Aides certain advances for the creation of the Sound Recordings, which could be recouped from royalties. In addition, the 1975 Agreement provided that “the Company shall pay, as additional advance royalties, an amount equal to the cost of recording each album” up to a maximum of $35,000 for each album. Advances for recording costs were recoupable only from royalties.

Unlike the 1972 and 1974 Agreements, the 1975 Agreement provided Media Aides the right to “determine the times and places for recording.” Other provisions stated, however, that “the times of recordings shall be such that albums are delivered at reasonable intervals” and that Bob Marley “shall render to the best of [his] skill and ability and to the satisfaction of [Island] such performances ... as [Island] shall elect for the purpose of reproduction in or by any record or sound recording.” Furthermore, Media Aides could not “deliver more than two (2) albums during [each] calendar year period” and could not “manufacture, distribute or sell or authorize ... phonograph records” featuring Bob Marley performances for three months following delivery of the last album.

The 1975 Agreement provided that Island and Media Aides would “[m]utually agree” as to the lyrics and music to be recorded, but reserved to Island the right to “[d]ecide in its discretion whether or not such lyrics and music as recorded are acceptable and satisfactory for the manufacture and sale of records.” As under the 1974 Agreement, Island could also reject an album under the 1975 Agreement if it decided “that such album does not have sufficient commercial potential” to be released. In the event Island refused to accept an album, the album would “not count towards the number of albums to be delivered” under the agreement, and Media Aides had the right, subject to it first repaying Island the recording costs for the rejected album, to release such album through a third party.

Pursuant to the 1975 Agreement, Media Aides agreed that Island had the exclusive right in perpetuity to exploit the Sound Recordings. The 1975 Agreement states in pertinent part:

> [Media Aides] hereby licenses in perpetuity to [Island] all present and future record and recording copyright and [Island] shall be entitled to the sole and entire copyright in recordings made by the Artist during the period including ... the exclusive right in perpetuity throughout the territory of production reproduction sale and distribution ... and performance throughout the Territory by any and every means whatsoever of all such recordings.

The 1975 Agreement further provided that sound recordings produced pursuant to the agreement were “the absolute property” of Island.

Prior to 1978, Island released two albums pursuant to the 1975 Agreement: “Rastaman Vibrations” and “Exodus.” [FN5] Island registered both albums with the United States Copyright Office, listing “Island Records Ltd.” as the author of the sound recordings on the albums. The 1975 Agreement contained an incontestability clause which required any objections to a royalty statement be made in writing within three years after the statement is rendered. The 1975 Agreement states that it is to be governed by California law.

> FN5. Additional albums containing sound recordings produced pursuant to the 1975 Agreement were subsequently released. The sound recordings on such albums are not the subject of Plaintiffs' copyright claim in this action.

d. Agreements after Marley's Death

Bob Marley died intestate on May 11, 1981. Rita Marley, Bob Marley's widow, was appointed one of three administrators of Bob Marley's estate (the “Estate”), and acted on behalf of Media Aides until sometime in late 1986. During this time, Media Aides entered into new agreements with Island in 1983, 1984, and 1986 governing the creation of additional albums-“Confrontation,” “Legend,” and “Rebel Music,” respectively-containing sound recordings embodying the performances of Bob Marley (together with the 1972, 1974, and 1975 Agreements, the “Marley Recording Agreements”). Like the 1974 and 1975 Agreements, the 1983 Agreement contains a three-year incontestability clause for royalty statements rendered by Island, which is incorporated by reference into the 1984 Agreement.[FN6]

> FN6. While the 1986 Agreement states that royalties for the sound recordings on “Rebel Music” “shall be calculated and computed on the same basis mutatis mutandis” as provided in the 1984 Agreement, the 1986 Agreement does not expressly incorporate the incontestability clause of the 1983 Agreement-either directly by reference to the 1983 Agreement itself, or indirectly by reference to the provision of the 1984 Agreement incorporating the 1983 Agreement's incontestability clause.

2**. The 1992 Royalties Agreement**

In 1988, certain Estate assets, including all of the Estate's rights and obligations under the Marley Recording Agreements, were transferred to Island Logic, Inc., a company controlled by Chris Blackwell (“Blackwell”), a founder and former executive of Island. On December 19, 1989, the Estate assets were transferred to another company controlled by Blackwell, Island Logic Ltd. (together with Island Logic, Inc., “Island Logic”). On March 3, 1990, the Estate assets were

again transferred to a Dutch foundation called the Stitching Bob Marley (the "Stitching"), which was created by Blackwell, apparently for tax purposes.

In the summer of 1993, Island and the Stitching entered into an agreement dated with effect from July 1, 1992 (the "1992 Royalties Agreement"). The 1992 Royalties Agreement concerned, *inter alia*, the royalty rates and methods of royalty calculations for the sound recordings produced pursuant to the Marley Recording Agreements. Paragraph 2(c) of the 1992 Royalties Agreement provided in pertinent part that:

> the royalty rates and methods of royalty calculations for records released in formats newly developed as a result of advanced technology (including, without limitation, digital compact cassette), same shall be determined on the average, from time to time, as utilized in computing royalties for the format concerned with respect to the then top ten (10) selling "popular" recording artists whose vocal performances are in the English language and whose agreement in respect of their recording services is with [PolyGram].

Attached to the 1992 Royalties Agreement was a "Royalty Schedule." Paragraph 11 of the Royalty Schedule provided:

> In the event that Island sells or licenses third parties to exploit Masters via telephone satellite cable or other direct transmission to the consumer over wire or through the air, Island will credit to your royalty account sixty percent (60%) of its receipts therefrom attributable to the Masters or any of them.

The Royalty Schedule defines the term "Masters" as "master recordings."

3. Transfer of Estate Assets to Fifty-Six Hope Road

Fifty-Six Hope Road, whose sole shareholders are the Adult Beneficiaries, was founded on June 23, 1995. On August 9, 1995, the Adult Beneficiaries, Fifty-Six Hope Road, and Island Logic entered into a series of contracts that transferred certain Estate assets, including the Estate's rights and obligations under the Marley Recording Agreements, from Island Logic to Fifty-Six Hope Road.[FN7]

> FN7. The Stitching had conveyed the rights under the Marley Recording Agreements back to Island Logic on June 30, 1994, in preparation for the ultimate transfer of the Estate assets to the Adult Beneficiaries.

4. Copyright Renewal Registrations

The copyrights in the Sound Recordings created pursuant to the 1972, 1974, and 1975 Agreements began to enter the renewal term in January 2002.[FN8] Beginning on December 21, 2001, UMG filed renewal registrations for the Sound Recordings with the United States Copyright Office. UMG filed a copyright renewal registration for "Catch a Fire" on December 21, 2001; for "Burnin' " on December 23, 2002; for "Natty Dread" and "Rastaman Vibrations" on December 20, 2004; and for "Exodus" on December 30, 2005. On each of the renewals, UMG listed Island as the author and claimant of copyright for the Sound Recordings.

FN8. Specifically, “Catch a Fire” and “Burnin' “ entered the renewal copyright term on January 1, 2002; “Natty Dread” entered the renewal term on January 1, 2003; “Rastaman Vibrations” entered the renewal term on January 1, 2005; and “Exodus” entered the renewal term on January 1, 2006.

5. This Litigation

On January 8, 2008, attorneys for the Plaintiffs sent a letter and “draft” audit report to UMG in which Plaintiffs claimed that UMG had underpaid royalties for the period from January 1, 2001 to June 30, 2005.[FN9] The largest dollar item in the audit report concerned UMG's alleged underpayment of royalties on digital downloads.[FN10] The parties were unable to resolve the royalties dispute.

FN9. On March 31, 2010, the Plaintiffs served UMG with an updated audit report claiming underpayment of royalties for the periods January 1, 2001 to June 30, 2005, and July 1, 2005 through June 30, 2009.

FN10. Plaintiffs indicate in their briefs that their royalty accounting claims concern only the sale of albums released pursuant to the Marley Recording Agreements dated 1975 and later, not those covered by the 1972 or 1974 Agreements.

On July 3, 2008, Plaintiffs filed the original complaint in this action. The complaint principally alleged that UMG had failed to pay Fifty-Six Hope Road all of the royalties owed under the Marley Recording Agreements. On November 20, Plaintiffs filed a first amended complaint that, like the original complaint, focused on underpayment of royalties. On December 29, the Plaintiffs filed a second amended complaint in which the Plaintiffs asserted for the first time that they owned the renewal term copyrights in the Sound Recordings. Plaintiffs filed a third amended complaint on January 30, 2009. The third amended complaint seeks a declaratory judgment that the Plaintiffs are the owners of the renewal term copyrights in the Sound Recordings, as well as damages for breach of contract based on UMG's purported failure to account properly for royalties and UMG's granting of unauthorized licenses for the certain sound recordings. On March 4, 2009, UMG filed its answer to the third amended complaint and asserted two counterclaims against Plaintiffs for breach of contract and indemnification.[FN11]

FN11. UMG's counterclaim asserts that “in the event that the Marley Heir Plaintiffs prevail in their belated attempt to reclaim these renewal rights, then Fifty-Six Hope Road will be liable to UMG for breach of the representations, warranties and contractual transfers contained in the numerous agreements between Fifty-Six Hope Road, through its predecessors, and UMG, through its predecessors.” UMG further contends that pursuant to the 1983 Agreement, Fifty-Six Hope Road must indemnify UMG for any and all liability, costs and expenses, including attorneys' fees, incurred by UMG in connection with defending against the Plaintiffs' claim that they are the owners of the renewal term copyrights in the Sound Recordings.

On May 7, 2010, Plaintiffs and UMG filed cross-motions for partial summary judgment. The motions were fully submitted on June 11.

DISCUSSION

1. Legal Standard

Summary judgment may not be granted unless all of the submissions taken together "show that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c). The moving party bears the burden of demonstrating "the absence of a genuine issue of material fact." *Celotex Corp. v. Catrett,* 477 U.S. 317, 323 (1986). In making this determination, the court must "construe all evidence in the light most favorable to the nonmoving party, drawing all inferences and resolving all ambiguities in its favor." *Dickerson v. Napolitano,* 604 F.3d 732, 740 (2d Cir.2010).

Once the moving party has asserted facts showing that the non-movant's claims cannot be sustained, the opposing party must "set out specific facts showing a genuine issue for trial," and cannot "rely merely on allegations or denials" contained in the pleadings. Fed.R.Civ.P. 56(e); *see also Wright v. Goord,* 554 F.3d 255, 266 (2d Cir.2009). "A party may not rely on mere speculation or conjecture as to the true nature of the facts to overcome a motion for summary judgment," as "[m]ere conclusory allegations or denials cannot by themselves create a genuine issue of material fact where none would otherwise exist." *Hicks v. Baines,* 593 F.3d 159, 166 (2d Cir.2010) (citation omitted). Only disputes over material facts-"facts that might affect the outcome of the suit under the governing law"-will properly preclude the entry of summary judgment. *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 248 (1986); *see also Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.,* 475 U.S. 574, 586 (1986) (stating that the nonmoving party "must do more than simply show that there is some metaphysical doubt as to the material facts").

2. The Copyright Claim

Both Plaintiffs and UMG have moved for summary judgment on Plaintiffs' claim for a declaratory judgment that they own the renewal term copyrights in the Sound Recordings. The Plaintiffs contend that because Bob Marley died in 1981, before the copyrights in the Sound Recordings entered the renewal terms, ownership of the renewal term copyrights reverted to them under the Copyright Act of 1909 (the "1909 Act"). Because Plaintiffs have not conveyed the copyrights to UMG, or anyone else, Plaintiffs claim that they are the rightful owners of the renewal term copyrights.

UMG vehemently disputes Plaintiffs' claim. UMG argues that through its predecessor-in-interest, Island, UMG has at all times been the statutory "author" of the Sound Recordings. UMG contends that the 1972, 1974, and 1975 Agreements demonstrate that the Sound Recordings were "works made for hire" under the 1909 Act. As a result, UMG contends that it owns the copyrights in the initial and renewal terms, regardless of when Bob Marley died.

An analysis of the Plaintiffs' claim must begin with the distinction between the meaning of the term "author" in its common dictionary sense and the meaning of the term "author" as a legal conclusion in copyright law. UMG does not deny that Bob Marley is the author of the Sound Recordings in the common dictionary sense, *i.e.,* in the sense that he is their creator or source of the Sound Recordings. UMG disputes, however, that Bob Marley is the author of the Sound Recordings in the legal sense, *i.e.,* in the sense that Bob Marley is the person in whom the statutory copyright in the Sound Recordings initially vested and to whose heirs the renewal term of the copyright reverted when he died before commencement of that term.

Typically, the author in the common dictionary sense is also the author for purposes of copyright law. Here, however, UMG argues that because Island contracted with Bob Marley to author the works, paid him to do so, bore the expenses for the Sound Recordings, and had control over the final albums that were produced, it is the "author" of the Sound Recordings for purposes of copyright law. In short, UMG claims that the Sound Recordings were "works for hire" and that it is therefore entitled to the financial rewards copyright law traditionally grants to encourage such efforts. Because the Sound Recordings were recorded prior to January 1, 1978, they are governed by the 1909 Act. *Martha Graham Sch. and Dance Found., Inc. v. Martha Graham,* 380 F.3d 624, 632 (2d Cir.2004) (*"Martha Graham"*). For copyrights that were in their initial term as of January 1, 1978, the initial term of copyright protection endures until December 31 of the twenty-eighth year from the date that the copyright was originally secured. 17 U.S.C. § 304(a)(1)(A); § 305. For copyrighted "works made for hire," the employer is entitled to additional copyright protection during the renewal term of 67 years. *Id.* § 304(a)(1)(B)(ii). For copyrighted works that were not "works made for hire," the renewal term belongs to the author or to "the widow, widower, or children of the author, if the author is not living." *Id.* § 304(a)(1)(C)(ii).

Under the 1909 Act, the word "author" includes "an employer in the case of works made for hire." 17 U.S.C. § 26 (repealed). "Thus, with respect to works for hire, the employer is legally regarded as the 'author,' as distinguished from the creator of the work." *Martha Graham,* 380 F.3d at 634. "If a work is a work for hire under the 1909 Act, the employer as statutory 'author' owns the original term, and the renewal term vests in the employer if the employer makes an application for renewal within the last year of the original term." *Id.* (citing 17 U.S.C. § 24 (repealed)).

In determining whether a work is a "work made for hire" under the 1909 Act, the Second Circuit applies the "instance and expense" test. *Martha Graham,* 380 F.3d at 634. "The copyright belongs to the person at whose 'instance and expense' the work was created." *Id.* at 634-35 (citing *Brattleboro Publ'g Co. v. Winmill Publ'g Corp.,* 369 F.2d 565, 567 (2d Cir.1966)). The "instance and expense" test determines work-for-hire status regardless of whether the work was created by a traditional "employee" or an "independent contractor." *Martha Graham,* 380 F.3d at 635; *see also Estate of Burne Hogarth v. Edgar Rice Burroughs, Inc.,* 342 F.3d 149, 158-63 (2d Cir.2003) (*"Hogarth"*); *Picture Music, Inc. v. Bourne, Inc.,* 457 F.2d 1213, 1216 (2d Cir.1972).

"A work is made at the hiring party's 'instance and expense' when the employer induces the creation of the work and has the right to direct and supervise the manner in which the work is carried out." *Martha Graham,* 380 F.3d at 635; *see also Playboy Enters., Inc. v. Dumas,* 53 F.3d

549, 554 (2d Cir.1995). “The *right* to direct and supervise the manner in which work is created need never be exercised.” *Martha Graham,* 380 F.3d at 635; *see also Playboy,* 53 F.3d at 554 (“[T]he hallmark of ‘an employment for hire’ is whether the employer *could have exercised* the requisite power to control or supervise the creator's work.” (citation omitted) (emphasis added)); *Picture Music,* 457 F.2d at 1216. The Second Circuit has acknowledged that its jurisprudence concerning the status of commissioned works under the 1909 Act has created “an almost irrebuttable presumption that any person who paid another to create a copyrightable work was the statutory ‘author’ under the ‘work for hire’ doctrine.” *Hogarth,* 342 F.3d at 158 (citation omitted).

“Once it is established that a work is made for hire, the hiring party is presumed to be the author of the work. That presumption can be overcome, however, by evidence of a contrary agreement, either written or oral.” *Playboy,* 53 F.3d at 554 (citing *Roth v. Pritikin,* 710 F.2d 934, 937 n. 3 (2d Cir.1983)). “The burden of proof is on the independent contractor to demonstrate by a preponderance of the evidence that such a contrary agreement was reached.” *Playboy,* 53 F.3d at 554-55.

The Sound Recordings were works made for hire under the 1909 Act.[FN12] The plain language of the 1972, 1974, and 1975 Agreements clearly demonstrate that the Sound Recordings were created at the instance of Island and that Island had the right to direct and supervise the manner in which Bob Marley created the Sound Recordings. Each of the agreements obligated Bob Marley to produce “sufficient acceptable recordings” to comprise a specific number of albums for Island within the term of each agreement. In addition, the 1972 and 1974 Agreements required Bob Marley to

> FN12. Plaintiffs' copyright claim concerns only the renewal term copyrights in the Sound Recordings created before January 1, 1978, pursuant to the 1972, 1974 and 1975 Agreements. Thus, Plaintiffs' claim does not concern sound recordings created in 1978 or later pursuant to the 1975 Agreement or subsequent agreements between Media Aides and Island.

> attend at such places and times *as [Island] shall reasonably require* and shall render to the best of his skill and ability and *to the satisfaction of [Island]* such performances ... *as [Island] shall elect* for the purpose of reproduction in or by any record or sound recording.
> (Emphasis added.) Although the 1975 Agreement granted Media Aides the right to “determine the times and places for recording” Bob Marley's performances, this right was circumscribed by (1) the requirement that Bob Marley “render to the best of [his] skill and ability and to the satisfaction of [Island] such performances,” (2) the limitation on the number of albums that Media Aides could deliver each calendar year, and (3) the restriction on Media Aide's right to manufacture or distribute records of Bob Marley's performances after the delivery of the last album. Furthermore, while Island and Bob Marley were to “[m]utually agree” prior to recording as to the lyrics and music to be recorded under all three agreements, Island had the right to “[d]ecide *in its discretion* whether or not such lyrics and music *as recorded* are acceptable and satisfactory for the manufacture and sale of records.” (Emphasis added.) Likewise, under the 1974 and 1975 Agreements, Island could refuse to accept an album if it determined that the album did not have “sufficient commercial potential.”

Island was also responsible for the expense of creating the Sound Recordings. The 1972, 1974, and 1975 Agreements each provided that Island would pay Bob Marley certain advances against royalties for the creation of the Sound Recordings. In addition, the 1974 and 1975 Agreements stated that Island would advance Bob Marley the recording costs for the albums produced pursuant to these agreements, which could only be recouped from royalties. While the 1972 Agreement did not explicitly provide that Island would advance recording costs, the invoice attached to that agreement shows that Island did in fact advance recording costs for the albums produced pursuant to the 1972 Agreement. The 1974 Agreement also stated that any recording costs incurred by Island in its own studios would *not* be recoupable. Thus, Island bore the expense associated with the creation of the Sound Recordings.

Because the Sound Recordings were works for hire, Island, and its successor-in-interest, UMG, is presumed to be the statutory author under the 1909 Act. While this presumption can be overcome by evidence of an agreement to the contrary, the Plaintiffs have presented no evidence of such an agreement. In fact, other provisions in the 1972, 1974, and 1975 Agreements reinforce the presumption that UMG is the statutory author of the Sound Recordings. Each of the agreements provided that the Sound Recordings were the "absolute property" of Island, and that Island was entitled to the "sole and exclusive right in perpetuity" to exploit the Sound Recordings by "any and every means whatsoever." That the Sound Recordings were works made for hire is also consistent with the original copyright registrations and renewal registrations, which listed Island, not Bob Marley, as the "author" of the Sound Recordings. [FN13]

> FN13. "A certificate of registration creates no irrebuttable presumption of copyright validity. Extending a presumption of validity to a certificate of copyright merely orders the burdens of proof." *Hogarth*, 342 F.3d at 166 (citation omitted). Here, however, the copyright registrations for the Sound Recordings are consistent with the contractual language indicating that they were works for hire.

Plaintiffs argue that the Sound Recordings were not works for hire because they were not traditional "commissioned" works and because Bob Marley "would have continued to record his music regardless of whether Island had agreed to a recording contract." Plaintiffs' argument that the Sound Recordings were not traditional commissioned works elevates form over substance. Plaintiffs ignore the reality that, but for the Marley Recording Agreements, these particular Sound Recordings would never have been produced. Whether Marley would have recorded his music even if he had not entered the recording agreements with Island is beside the point. *See Martha Graham*, 380 F.3d at 640 ("Where an artist has entered into an explicit employment agreement to create works, works that she creates under that agreement cannot be exempted from the work-for-hire doctrine on speculation about what she would have accomplished if she had not been so employed.").

Plaintiffs' reading of the 1972, 1974, and 1975 Agreements ignores the provisions which obligated Marley to produce a certain number of albums for Island, that gave Island the right to accept, reject, modify, and otherwise control the creation of the Sound Recordings, and that allowed Island to reject albums that were not commercially viable. While Plaintiffs point to the clause stating that Island and Bob Marley would "mutually agree" on lyrics and music *before*

recordings were made, they disregard the very next provision which gave Island the discretion to decide "whether or not such lyrics and music *as recorded* are acceptable and satisfactory."

Plaintiffs argue that despite these contractual provisions, Bob Marley exercised artistic control over the recording process. Plaintiffs contend that Bob Marley selected the recording studios, chose the musicians and songs to record, and determined when the group recorded. The fact that Marley may have exercised artistic control over the recording process, however, is legally irrelevant; what is dispositive is that Island had the contractual *right* to accept, reject, modify, and otherwise control the creation of the Sound Recordings. *See Martha Graham*, 380 F.3d at 635; *Playboy*, 53 F.3d at 554; *Picture Music*, 457 F.2d at 1216.

Plaintiffs also contend that Marley had "control over his own destiny" because the recording agreements permitted him to release any album that Island rejected on his own through a third-party. This contractual right, which was subject to Bob Marley repaying Island for all the recording costs of any rejected album, is not inconsistent with a finding of a workfor-hire relationship. *See Picture Music*, 457 F.2d at 1216 ("[T]he freedom to do other work, especially in an independent contractor situation," is "never conclusive."). Indeed, the fact that Island could reject an album shows that Island had ultimate authority over the albums that were produced pursuant to the Marley Recording Agreements. Likewise, the fact that any rejected album released by Bob Marley would not count towards the number of albums he was obligated to produce for Island further reinforces the conclusion that the Sound Recordings were works for hire.

As to the "expense" prong of the instance and expense test, Plaintiffs argue that Marley, not Island, was ultimately responsible for paying the expenses for the Sound Recordings. Plaintiffs do not dispute, however, that Island paid Bob Marley advances against royalties for the creation of the Sound Recordings, or that Island advanced the recording costs for the albums. While it is true that "where the creator of a work receives royalties as payment, that method of payment weighs against finding a work-for-hire relationship," *Playboy*, 53 F.3d at 555; *see also Martha Graham*, 380 F.3d at 641, "[t]he absence of a fixed salary ... is never conclusive." *Picture Music*, 457 F.2d at 1216. Thus, the Second Circuit held in *Picture Music* that a song constituted a work for hire where the creator, an independent contractor, was paid only a share of the royalties for her services in rearranging and adding lyrics to the song. *See id.* at 1217. The fact that Island paid Bob Marley advances against royalties for the creation of the Sound Recordings, combined with the fact that Island advanced the recording costs for the albums that would only be recouped if the albums were successful, is sufficient to satisfy the expense prong of the instance and expense test.

Plaintiffs point to a single provision in the 1972 Agreement that they claim required Bob Marley to "indemnify" Island for all recording costs for the Sound Recordings. The provision states in pertinent part: "The Artist undertakes with [Island] that all recordings made by the Artist hereunder shall be free from and the Artist will indemnify [Island] against and satisfy ... all payments in respect of all recording costs in connection therewith." Based on this provision, Plaintiffs argue that in the event the albums were unsuccessful, Island would have had "direct redress against Marley for any recording costs it had advanced." This provision, however, appears to apply only to costs that Bob Marley incurred on Island's behalf without Island's

knowledge. The plain language of this provision protects Island against any unknown liabilities that might encumber its interests in the Sound Recordings. Thus, the provision also states that Bob Marley would "satisfy all payments and royalties which may ... become due to all persons and organizations ... whose performances or services are embodied in such sound recordings." Plaintiffs have introduced no evidence that any such hidden costs were ever incurred, or that Bob Marley ever paid Island for any such costs.[FN14]

> FN14. Plaintiffs also point to a provision that appears in the standard conditions attached to the 1974 and 1975 Agreements that provided that Bob Marley and Media Aides "shall pay for all costs of recordings made pursuant to this agreement and shall indemnify [Island] in respect thereof." This provision, however, conflicts with provisions in the letter portions of the 1974 and 1975 Agreements that provided that recording costs would be advanced by Island and recouped only from royalties. As noted above, both the 1974 and 1975 Agreements provide that where a conflict exists between the provisions of the letter and those in the attached conditions, the provisions of the letter govern.

Plaintiffs also argue that the recording agreements do not use the exact phrase "work made for hire," but rather contain language that either "assigns" or "licenses" rights from Marley to Island for the distribution of the Sound Recordings. The use of the phrase "work made for hire" in an agreement is not necessary in order to find the existence of a work-for-hire relationship under the 1909 Act.[FN15] Indeed, the Second Circuit has held that a work was "made for hire" under the 1909 Act despite the absence of such magic words in the contract. *E.g., Martha Graham,* 380 F.3d at 639-41; *Hogarth,* 342 F.3d at 151-53, 163.

> FN15. By contrast, the 1976 Act defines a "work made for hire" in pertinent part as:
>
> (1) a work prepared by an employee within the scope of his or her employment; or
>
> (2) a work specially ordered or commissioned ... if the parties *expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.*
>
> 17 U.S.C. § 101 (emphasis added).

Faced with the clear contractual language demonstrating that the Sound Recordings were works made for hire, Plaintiffs attempt to introduce extrinsic evidence to support their argument that neither Island nor Bob Marley intended for the Sound Recordings to be works for hire. Specifically, Plaintiffs offer the declarations of Blackwell and Tom Hayes ("Hayes"), former senior executives of Island, and Raphael Tisdale ("Tisdale"), an attorney who represented Bob Marley in connection with the negotiation of the 1974 Agreement.[FN16] Blackwell, Hayes, and Tisdale assert that Island never intended for the Sound Recordings to be works made for hire, but they fail to identify any language in the agreements to support this conclusory assertion.[FN17] Moreover, Blackwell, Hayes, and Tisdale do not dispute that Island had the contractual *right* to accept, reject, modify, and otherwise control the creation of the Sound Recordings, even if that right was not exercised. Nor do they dispute that Island paid Marley advances for the creation of the Sound Recordings, including advances for recording costs, which could only be recouped

from royalties. Thus, even if it were admissible, such extrinsic evidence based on post hoc conclusory assertions of the intent of the parties would not alter the conclusion that the Sound Recordings were works made for hire.[FN18]

FN16. On June 25, 2010, UMG moved to strike the declarations of Blackwell, Hayes, and Tisdale because Plaintiffs did not disclose these witnesses until after the close of discovery in violation of Fed.R.Civ.P. 26(a). Because the admission of these declarations would not alter the outcome reached in this Opinion, UMG's motion to strike is denied as moot.

FN17. Hayes interprets the 1972, 1974, and 1975 Agreements as having "provided Island a license to distribute the Marley sound recordings covered by the agreements for the world, excluding the Caribbean." This interpretation, however, is at direct odds with other provisions of the contracts, particularly those that state that the Sound Recordings were to be the "absolute property" of Island and that Island would have the "perpetual right" to exploit the Sound Recordings.

FN18. The Plaintiffs and UMG dispute whether the Marley Recording Agreements should be interpreted according to New York or California law (the only two possibilities considered by the parties). Under New York law, extrinsic evidence about the meaning of a contract is inadmissible where a court finds, as here, that the language of the contract is unambiguous. *Bank of N.Y. v. First Millennium, Inc.,* 607 F.3d 905, 917 (2d Cir.2010) (New York law). Under California law, however, "even if the trial court personally finds the document not to be ambiguous, it should preliminarily consider all credible evidence to ascertain the intent of the parties." *Guidiville Band of Pomo Indians v. NGV Gaming, Ltd.,* 531 F.3d 767, 787 (9th Cir.2008) (citation omitted) (California law). "If in light of the extrinsic evidence the court decides the language is 'reasonably susceptible' to the interpretation urged, the extrinsic evidence is then admitted to aid in the second step-interpreting the contract." *Id.* at 787-88 (citation omitted). In this case, even when the extrinsic evidence propounded by the Plaintiffs is considered, the 1972, 1974, and 1975 Agreements are not "reasonably susceptible" to the meaning that the Plaintiffs ascribe to them. Thus, the conclusion that the Sound Recordings are works for hire is the same regardless of whether California or New York law applies.

The 1972, 1974, and 1975 Agreements demonstrate that the Sound Recordings were produced at the instance and expense of Island, and were therefore works made for hire under the 1909 Act. Furthermore, Plaintiffs have failed to introduce any evidence of an agreement to rebut the presumption that Island owned the copyrights in the Sound Recordings from the outset. Accordingly, UMG, as Island's successor-in-interest, is the statutory author and owner of the initial and renewal term copyrights in the Sound Recordings.[FN19]

FN19. UMG also argues that Plaintiffs' copyright claim is barred by the three-year statute of limitations and by the doctrine of equitable estoppel. Because this Opinion concludes that the Sound Recordings were works made for hire, there is no need to address UMG's additional arguments. In addition, because Plaintiffs' copyright claim fails, UMG's counterclaims for breach of contract and indemnification, which are predicated on a

breach by Fifty-Six Hope Road of its representations concerning Island's "absolute ownership" of and "perpetual right" to exploit the Sound Recordings in the Marley Recording Agreements, are moot. UMG's motion for summary judgment on its counterclaims is therefore denied.

3. Royalties for Digital Downloads

Plaintiffs have moved for summary judgment on their royalty accounting claims concerning digital downloads. Plaintiffs argue that Paragraph 11 of the Royalty Schedule to the 1992 Royalties Agreement governs royalties paid on digital downloads. Paragraph 11 states:

> In the event that Island sells or licenses third parties to exploit *Masters* via *telephone satellite cable or other direct transmission to the consumer over wire or through the air,* Island will credit to your royalty account sixty percent (60%) of its receipts therefrom attributable to the Masters or any of them.

(Emphasis added.) Plaintiffs also contend that UMG improperly pays royalties based on its *net,* rather than *gross,* receipts from digital downloads.

UMG argues that Paragraph 11 does not apply to royalties on digital downloads, which it contends are instead governed by Paragraph 2(c) of the 1992 Royalties Agreement. By its terms, Paragraph 2(c) governs "the royalty rates and methods of royalty calculations for *records* released in *formats newly developed as a result of advanced technology."* (Emphasis added.) Among other things, UMG contends that the use of the term "records" in Paragraph 2(c) includes copies of sound recordings embodied in all formats, including those developed subsequent to the 1992 Royalties Agreement, such as permanent digital downloads. By contrast, Paragraph 11 uses the term "Masters," which is defined as "master recordings," and is therefore distinct from the term "records." In addition, UMG argues that Paragraph 11 deals with direct "transmission" of "Masters" to consumers, for instance through satellite or cable broadcasts, rather than digital sales of "records" to consumers. UMG thus interprets Paragraph 11 to apply to situations where UMG sells or licenses the right to third parties to transmit broadcasts of Bob Marley masters via satellite, cable or similar means.[FN20]

> FN20. From the advent of digital music sales until August 2007, UMG paid royalties for the sale of digital downloads of the Sound Recordings based on Paragraph 2(c). In August 2007, UMG began paying royalties on digital downloads based on Paragraph 11 of the Royalty Schedule. In an August 15, 2007 letter to Plaintiffs' counsel, however, UMG expressly noted that its decision was "being done solely in the interests of maintaining a positive working relationship" and that UMG "shall not be deemed to waive or limit any of [UMG's] rights, remedies, defenses and/or causes of action."

UMG has shown that the pertinent language in the 1992 Royalties Agreement is susceptible of at least two fairly reasonable meanings. Thus, it is ambiguous whether royalties for digital downloads are governed by Paragraph 2(c) of the 1992 Royalties Agreement or by Paragraph 11 of the Royalty Schedule. Even if the extrinsic evidence offered by the Plaintiffs of the parties'

intent is considered, it does not resolve this ambiguity. Accordingly, Plaintiffs' motion for summary judgment on the royalty accounting claims concerning digital downloads is denited.[FN21]

FN21. Because it is ambiguous whether Paragraph 11 applies to digital downloads, it is unnecessary for this Opinion to address Plaintiffs' argument that UMG improperly pays royalties on its net, rather than gross, receipts for digital downloads.

CONCLUSION

Plaintiffs' May 7, 2010 motion for partial summary judgment is denied. UMG's May 7, 2010 motion for partial summary Judgment is granted in part. Plaintiffs' claim for a declaratory judgment that they own the renewal term copyrights in the Sound Recordings is dismissed. The Court Reserves decision on that portion of UMG's motion that seeks partial summary judgment on plaintiffs' royalty accounting claims based on the incontestability provisions in the Marley Recording Agreements. UMG's June 25, 2010 motion to strike is denied as moot. The conduct of further proceedings in this action shall be governed by the scheduling order issued separately with this Opinion.

United States Court of Appeals,
Second Circuit.
Anne BRYANT, Ellen Bernfeld, Gloryvision, Ltd., Plaintiffs-Appellants,
v.
MEDIA RIGHT PRODUCTIONS, INC., Douglas Maxwell, Orchard Enterprises, Inc., Defendants-Appellees.
Docket No. 09-2600-cv.

Argued: March 10, 2010.
Decided: April 27, 2010.

Mitchell C. Shelowitz, Shelowitz & Associates PLLC, Montvale, NJ, for Appellees.

Before LIVINGSTON, Circuit Judge, and WOOD,[FN**] District Judge. [FN1]

KIMBA M. WOOD, District Judge:

Plaintiffs-Appellants appeal from an order of the United States District Court for the Southern District of New York (Young, J.) holding that Defendants-Appellees committed direct copyright infringement, and awarding Plaintiffs-Appellants statutory damages but denying them attorneys fees.

Appellants produced two copyrighted albums of music, each of which was composed of ten songs. Appellee Media Right Productions, Inc. ("Media Right") gave the albums to Appellee Orchard Enterprises, Inc. ("Orchard"), who copied and sold them without authorization. The Court awarded Appellants one statutory damage award for each album infringed by each Appellee, a total of four awards, rather than one statutory damage award for each of the songs on the albums (which would have totaled forty awards), as Appellants had sought. The Court also found that Appellants had not proven that the infringement was willful, that Orchard had proven that its infringement was innocent, and that profits from infringing sales were low; the Court thus awarded a total of only $2400 in damages. We conclude that the District Court (1) correctly awarded statutory damages for each album infringed; (2) did not commit clear error in finding that Appellants had failed to prove willfulness and that Orchard had proven its innocence; and (3) correctly calculated damages. We also conclude that the District Court did not abuse its discretion by denying attorneys fees. Accordingly, we affirm.

I. *Background* [FN2]

Appellants Anne Bryant and Ellen Bernfeld are songwriters who own a record label, Appellant Gloryvision Ltd (collectively with Bryant and Bernfeld, "Appellants"). In the late 1990s, Appellants created and produced two albums, *Songs for Dogs* and *Songs for Cats* (the "Albums"). They registered the Albums with the United States Copyright Office. They also separately registered at least some of the twenty songs on the Albums.

On February 24, 2000, Appellants entered into an agreement with Media Right ("Media Right Agreement"), which authorized Media Right to market the Albums in exchange for twenty percent of the proceeds from any sales. The Agreement did not grant Media Right permission to make copies of the Albums. If Media Right needed more copies of the Albums, Appellants would provide them.

The Media Right Agreement resulted from conversations between Appellant Ellen Bernfeld ("Bernfeld") and Appellee Douglas Maxwell ("Maxwell"), President of Media Right, during which Maxwell told Bernfeld that Media Right would be distributing music through Orchard, a music wholesaler.

Media Right entered into an agreement with Orchard on February 1, 2000 ("Orchard Agreement"). The Orchard Agreement authorized Orchard to distribute on Media Right's behalf eleven albums listed in the Agreement, two of which were the Albums (apparently in anticipation of the Media Right Agreement). The Orchard Agreement provided, in relevant part, that:

> [Media Right] grant[s] [Orchard] ... non-exclusive rights to sell, distribute and otherwise exploit ... [Media Right's albums] by any and all means and media (whether now known or existing in the future), including ... throughout E-stores including ... those via the Internet, as well as all digital storage, download and transmission rights, whether now known or existing in the future.

In the Orchard Agreement, Media Right warranted that Orchard's use of the Albums would not infringe any copyrights. Maxwell gave Orchard physical copies of the Albums, which bore copyright notices stating that the copyrights for the Albums were held by Appellants.

When Media Right entered into the Orchard Agreement in 2000, Orchard sold only physical copies of recordings. In about April 2004, however, Orchard began making digital copies of the Albums to sell through internet-based music retailers such as iTunes. Internet customers were able to purchase and download digital copies of the Albums and individual songs on the Albums. Orchard did not inform Media Right or Appellants that it was selling digital copies of the Albums and individual songs on the Albums.

From April 1, 2002 to April 8, 2008, Orchard generated $12.14 in revenues from sales of physical copies of the Albums, and $578.91 from downloads of digital copies of the Albums and of individual songs. Media Right's share of these revenues was $413.82, of which $331.06 should have been forwarded to Appellants pursuant to the Media Right Agreement. Because the $413.82 was aggregated with other monies Orchard paid to Media Right, Media Right overlooked that it owed a portion of the payments to Appellants. Media Right, therefore, did not pay Appellants the $331.06 to which they were entitled.

In 2006, Appellants discovered that digital copies of the Albums were available online. On April 16, 2007, Appellants filed a complaint against Appellees in the Southern District of New York, alleging direct and contributory copyright infringement, and seeking statutory damages.

In 2008, Appellants and Appellees both moved for summary judgment in the case. They agreed to permit the District Court to treat the motions as a case stated. The Court conducted two evidentiary hearings before issuing its order. The Court held, in relevant part, that Appellees had committed direct copyright infringement by making and selling digital copies of the Albums and the individual songs on the Albums.

The Court awarded Appellants statutory damages in the total amount of $2400, pursuant to Section 504 of the Copyright Act of 1976 (the "Act"). 17 U.S.C. § 504(c). The Act provides that a court can award statutory damages of not less than $750 or more than $30,000, "as the court considers just," for all infringements with respect to one work, and that all parts of a "compilation" constitute one work. 17 U.S.C. § 504(c)(1). If the infringer proves that his infringement was innocent, the court may reduce damages to an amount not less than $200. 17 U.S.C. § 504(c)(2). If the copyright holder proves that infringement was willful, the court may increase the award to no more than $150,000. *Id.*

The District Court made the following three rulings regarding damages, all of which Appellants contest on appeal.

First, the Court held that the Albums were compilations, and thus that each Appellee was liable for only one award of statutory damages per Album, rather than one award per song, as Appellants had sought. *Bryant v. Europadisk Ltd.*, 07 Civ. 3050(WGY), 2009 WL 1059777, 6-8 (S.D.N.Y. April 15, 2009).

Second, the Court found that Orchard had proven that its infringement was innocent, and thus ordered Orchard to pay only minimal statutory damages of $200 per Album, for a total of $400. *Id.* at 8-9.

Third, the Court found that Maxwell and Media Right had failed to prove that their infringement was innocent, but that Appellants had failed to prove that Maxwell and Media Right's infringement was willful. *Id.* The Court found that because neither side had met its burden of proof, and because Appellees' revenues from the Albums were very low, Media Right and Maxwell were jointly and severally liable for an award of only $1000 per Album, for a total of $2000. *Id.*

The Court did not award Appellants attorneys fees. Dist. Ct. Order, May 12, 2009. Accordingly, the total award to Appellants was $2400. This appeal followed.

II. *Discussion*

Appellants argue that we should vacate the District Court's statutory damage award, contending that: (1) the Court erred in refusing to grant a separate statutory damage award for each song on the Albums; (2) the Court erred in its findings on intent; and (3) the Court erred in determining the amount of damages. Appellants also argue that the Court abused its discretion by refusing to award them attorneys' fees. We address each of these arguments in turn. [FN3]

A. ***The District Court's Decision to Award Statutory Damages on a Per-Album Basis***

Appellants contend that the District Court erred in holding that the Albums were compilations, and thus limiting statutory damages to one award for each Album. Appellants argue that each song on the Albums qualifies as a separate work because, according to Appellants, each song is separately copyrighted, [FN4] and because Orchard sold the songs individually.

The question of whether a work constitutes a "compilation" for the purposes of statutory damages pursuant to Section 504(c)(1) of the Copyright Act is a mixed question of law and fact. *See Gamma Audio & Video, Inc. v. Ean-Chea*, 11 F.3d 1106, 1116 (1st Cir.1993). We thus review *de novo* the District Court's decision that the Albums are "compilations." *See APL Co. PTE Ltd. v. Blue Water Shipping A/S Inc.*, 592 F.3d 108, 110 (2d Cir.2010). We conclude that the District Court's ruling was correct.

The Copyright Act allows only one award of statutory damages for any "work" infringed. 17 U.S.C. § 504(c)(1). It states that "all the parts of a compilation ... constitute one work." *Id.* § 504(c)(1). It defines a "compilation" as "a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship." *Id.* § 101. The term compilation includes collected works, which are defined as works "in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective work." *Id.* The Conference Report that accompanied the Act and explains many of its provisions, states that a "compilation" "results from a process of selecting, bringing together, organizing, and arranging previously existing material of all kinds, *regardless of whether ... the individual items in the material have been or ever could have been subject to copyright.*" H.R.Rep. No. 1476, 94th Cong., 2d Sess. 162, *reprinted in* 1976 U.S.C.C.A.N. 5659 (emphasis added).

An album falls within the Act's expansive definition of compilation. An album is a collection of preexisting materials-songs-that are selected and arranged by the author in a way that results in an original work of authorship-the album. Based on a plain reading of the statute, therefore, infringement of an album should result in only one statutory damage award. The fact that each song may have received a separate copyright is irrelevant to this analysis. *See* H.R.Rep. No. 1476, 94th Cong., 2d Sess. 162, *reprinted in* 1976 U.S.C.C.A.N. 5659.

We have addressed in two previous decisions the issue of what constitutes a compilation subject to Section 504(c)(1)'s one-award restriction. *See Twin Peaks Prods., Inc. v. Publ'ns. Int'l Ltd.*, 996 F.2d 1366, 1381 (2d Cir.1993); *WB Music Corp. v. RTV Comm. Group, Inc.*, 445 F.3d 538, 541 (2d Cir.2006). In both decisions, we focused on whether the plaintiff-the copyright holder-issued its works separately, or together as a unit.

In *Twin Peaks*, the plaintiff issued each episode of a television series sequentially, each at a different time. The *defendant* printed eight teleplays from the series in one book. 996 F.2d at 1381. We held that the plaintiff could receive a separate award of statutory damages for each of the eight teleplays because the *plaintiff* had issued the works separately, as independent television episodes.[FN5] *Id.* In *WB Music Corp.*, the plaintiff had separately issued each of thirteen

songs. 445 F.3d at 541. It was the *defendant* who issued the songs in album form. *Id.* We held that the plaintiff could receive a separate statutory damage award for each song, because there was "no evidence ... that any of the separately copyrighted works were included in a compilation authorized by the [*plaintiff*]." *Id.* (emphasis added).

Here, it is the copyright holders who issued their works as "compilations"; they chose to issue Albums. In this situation, the plain language of the Copyright Act limits the copyright holders' statutory damage award to one for each Album.[FN6]

Appellants argue that the District Court should have allowed a statutory damage award for each song, because each song has "independent economic value": internet customers could listen to and purchase copies of each song, each of which Appellants claim was independently copyrighted. Plaintiffs point to a decision from the First Circuit, *Gamma Audio,* in which the Court held that a work that is part of a multi-part product can constitute a separate work for the purposes of statutory damages if it has "independent economic value and ... is viable." 11 F.3d at 1116-17. Applying what that court described as a "functional" test, the court held that each episode of a television show, although released on videotape as part of a complete series, could be the subject of a separate statutory damage award because each episode *could* be rented and viewed separately. *Id.* at 1117-18. At least three other circuits have adopted the "independent economic value" test, although to date none has applied the test to an album of music. *See MCA Television Ltd. v. Feltner,* 89 F.3d 766, 769 (11th Cir.1996) (holding that each episode of a television show can be the subject of a separate statutory damage award because each episode has independent economic value); *Columbia Pictures Television v. Krypton Broad. of Birmingham, Inc.,* 106 F.3d 284, 295 (9th Cir.1997) (same) (reversed on other grounds, 523 U.S. 340, 118 S.Ct. 1279, 140 L.Ed.2d 438 (1998)); *Walt Disney Co. v. Powell,* 897 F.2d 565, 569 (D.C.Cir.1990) (holding that plaintiff could not receive a separate statutory damage award for each, separate picture of Mickey Mouse and Minnie Mouse in different poses, because each picture did not have independent economic value). Appellants argue that it is particularly appropriate to apply the "independent economic value" test to music albums, because music is increasingly available in digital form, which has made it easier for infringers to break apart albums and sell the album's songs individually, as Appellees did here.

This Court has never adopted the independent economic value test, and we decline to do so in this case.[FN7] The Act specifically states that all parts of a compilation must be treated as one work for the purpose of calculating statutory damages. This language provides no exception for a part of a compilation that has independent economic value, and the Court will not create such an exception. *See UMG Recordings, Inc.,* 109 F.Supp.2d at 225 (stating that to award statutory damages on a per-song basis would "make a total mockery of Congress' express mandate that all parts of a compilation must be treated as a single 'work' for purposes of computing statutory damages"). We cannot disregard the statutory language simply because digital music has made it easier for infringers to make parts of an album available separately. This interpretation of the statute is consistent with the Congressional intent expressed in the Conference Report that accompanied the 1976 Copyright Act, which states that the one-award restriction applies even if the parts of the compilation are "regarded as independent works for other purposes." H.R.Rep. No. 1476, 94th Cong., 2d Sess. 162, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5778.

Accordingly, we affirm the District Court's decision to treat each Album as a compilation, subject to only one award of statutory damages.

B. *The District Court's Decision on Intent and the Amount of Damages*

Appellants contend that the District Court erred in finding that Orchard proved that its conduct was innocent, and that Appellants failed to prove that Appellees' conduct amounted to willful infringement.

Pursuant to Section 504(c)(2) of the Copyright Act, an infringer's intent can affect the amount of statutory damages awarded: only a minimal award may be warranted where the infringement is innocent; a higher award may be warranted where the infringer acted willfully.

We review the district court's findings on intent for clear error. *See Fitzgerald Pbl'g Co. v. Baylor Pbl'g Co.,* 807 F.2d 1110, 1115 (2d Cir.1986). The burden of proving innocence is on the alleged infringer. The burden of proving willfulness is on the copyright holder. *See* 17 U.S.C. § 504(c).

1. *Innocence*

The District Court found that Orchard acted innocently because Orchard, in making digital copies, reasonably relied on two provisions of the Orchard Agreement: (1) a provision permitting Orchard to distribute the Albums "by any and all means and media ... including digital storage, download and transmission....," Orchard Agreement, Appellants App., A-174; and (2) a provision warranting that Orchard's use of the Albums in accordance with the Agreement would not infringe any copyrights, Orchard Agreement, Appellants App., A-174.

We hold that it was not clear error for the District Court to find that it was reasonable for Orchard to believe that it had received the right to copy the Albums.

2. *Willfulness*

A copyright holder seeking to prove that a copier's infringement was willful must show that the infringer "had knowledge that its conduct represented infringement or ... recklessly disregarded the possibility." *Twin Peaks,* 996 F.2d at 1382.

The District Court found that Appellees did not prove that Maxwell and Media Right acted willfully in infringing Appellees' copyright. The District Court found that it was not unreasonable for Maxwell not to have anticipated that Orchard would distribute digital copies of the Albums, notwithstanding that the Orchard Agreement granted Orchard the right to do so, because Orchard did not distribute digital music in 2000, when the Orchard Agreement was signed. The District Court also found credible Maxwell's testimony at the evidentiary hearing that he had never before marketed recordings that were not his own, and that, in allowing Orchard broad distribution rights, he focused only on his belief that Appellants wanted him to do everything possible to market their Albums. This testimony shows that Maxwell did not have

experience marketing music owned by a third party; that he did not fully understand the rights he had obtained under the Media Right Agreement; and that his focus was on maximizing sales of the Albums.

We hold that it was not clear error for the District Court to find that Maxwell and Media Right's infringement was not willful.

C. *The District Court's Calculation of Statutory Damages*

Appellants also argue that the statutory damages awarded by the District Court were too low. District courts "enjoy wide discretion ... in setting the amount of statutory damages." *Fitzgerald Pbl'g Co.,* 807 F.2d at 1116. We review for clear error the District Court's factual findings supporting its determination of the appropriate level of statutory damages, and we review an award of those damages for abuse of discretion. *Lyons Parntership, L.P. v. Morris Costumes, Inc.,* 243 F.3d 789, 799 (4th Cir.2001); *see also Knitwaves, Inc. v. Lollytogs Ltd. (Inc.),* 71 F.3d 996, 1012 (2d Cir.1995).

When determining the amount of statutory damages to award for copyright infringement, courts consider: (1) the infringer's state of mind; (2) the expenses saved, and profits earned, by the infringer; (3) the revenue lost by the copyright holder; (4) the deterrent effect on the infringer and third parties; (5) the infriger's cooperation in providing evidence concerning the value of the infringing material; and (6) the conduct and attitude of the parties. *See N.A.S. Impor. Corp. v. Chenson Enter., Inc.,* 968 F.2d 250, 252-53 (2d Cir.1992).

The District Court awarded a total of $2400 in statutory damages, based on its finding that Appellees' profits from infringing sales of the Albums and songs were meager,[FN8] and that the award did not need to be higher to achieve deterrence, because deterrence was effectuated here by Appellees having to pay their own attorneys fees. We hold that the District Court did not abuse its discretion in calculating statutory damages.

D. *The District Court's Decision Not to Award Attorneys' Fees*

Section 505 of the Copyright Act provides that a district court may "in its discretion ... award a reasonable attorneys fee to the prevailing party" in a copyright action. 17 U.S.C. § 505. The District Court declined to award Appellants attorneys fees.

When determining whether to award attorneys fees, district courts may consider such factors as (1) the frivolousness of the non-prevailing party's claims or defenses; (2) the party's motivation; (3) whether the claims or defenses were objectively unreasonable; and (4) compensation and deterrence. *See Fogerty v. Fantasy, Inc.,* 510 U.S. 517, 534 n. 19, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994). The third factor-objective unreasonableness-should be given substantial weight. *See Matthew Bender & Co. v. West Publ'g Co.,* 240 F.3d 116, 122 (2d Cir.2001).

Here, Appellees' defenses were not objectively unreasonable. Indeed, Appellees prevailed on several important issues. Appellees also were reasonable in trying to resolve the case short of

trial: Appellees made an Offer of Judgment in the amount of $3000, which Appellants rejected, in favor of continuing to demand over $1 million in damages, notwithstanding the evidence that Appellees had received less than $600 in revenues from infringing sales.

In these circumstances, the District Court did not abuse its discretion by declining to award attorneys' fees.

III. *Conclusion*

For the reasons stated above, the order of the District Court is AFFIRMED.

FN** William G. Young of the United States District Court of the District of Massachusetts, sitting by designation. Kimba M. Wood, of the United States District Court for the Southern District of New York, sitting by designation.

FN1. The Honorable Rosemary S. Pooler, originally assigned to this panel, did not participate in the consideration of this appeal. The remaining two members of the panel, who are in agreement, have determined this matter. *See* Second Circuit Internal Operating Procedure E(b); 28 U.S.C. § 46(d); *United States v. Desimone*, 140 F.3d 457 (2d Cir.1998).

FN2. The facts in this section are taken from the District Court's opinion, *Bryant v. Europadisk Ltd.*, 07 Civ. 3050(WGY), 2009 WL 1059777 (S.D.N.Y. April 15, 2009).

FN3. Appellants also argue-in one paragraph-that the Court should have awarded separate statutory damages against Maxwell. (Appellants' Br. 39.) Section 504(c)(1) provides that a copyright holder can recover a statutory damage award for all infringements of a work, for which any one infringer is liable individually, or for which two or more infringers are liable jointly and severally. 17 U.S.C. § 504(c)(1). Maxwell is the president of Media Right, and infringed Appellants' copyrights only through Media Right, not individually. Maxwell and Media Right, therefore, are jointly and severally liable for one statutory damage award for each infringed work. The District Court was correct not to award separate damages against Maxwell.

FN4. Appellants contend that each song on the Albums was copyrighted separately. The District Court found that Appellants had registered all twenty of the songs on the Albums with the Copyright Office. It is not clear from the record, however, whether Appellants actually obtained a separate copyright for each song on the Albums. For the purpose of this decision, we assume that each song on the Albums was copyrighted separately.

FN5. We also relied on the facts that the episodes were separately written and separately produced. *Twin Peaks*, 996 F.2d at 1381. We held that, although the episodes taken together had a common plot line (“Who killed Laura Palmer?”), that did not suffice to render the episodes a “compilation.” *Id.*

FN6. The few district courts that have considered whether a compilation is subject to only one statutory damage award have reached the same conclusion. *See UMG Recordings, Inc. v. MP3.COM, Inc.,* 109 F.Supp.2d 223, 225 (S.D.N.Y.2000) (Rakoff, J.) (finding that where the infringed works were albums issued by the plaintiff, statutory damages should be awarded on a per-album basis); *Country Road Music, Inc. v. MP3.com, Inc.,* 279 F.Supp.2d 325, 332 (S.D.N.Y.2003); *Arista Records, Inc. v. Flea World, Inc.,* Civ. No. 03-2670, 2006 WL 842883, at *21 (D.N.J. Mar. 31, 2006); *see also Xoom, Inc. v. Imageline, Inc.,* 323 F.3d 279, 285 (4th Cir.2003) (holding that plaintiff could receive only one statutory damage award for its computer clip art software, which contained many individual pieces of clip art, because plaintiff had packaged and sold the clip art in one piece of software, and thus the software constituted a compilation); *Stokes Seeds Ltd. v. Geo. W. Park Seed Co.,* 783 F.Supp. 104, 106 (W.D.N.Y.1991) (holding that catalog containing many separately copyrighted photographs of plant seedlings constituted a compilation because plaintiff had assembled the photographs into a compilation (the catalog)).

FN7. In *Robert Stigwood Group Ltd. v. O'Reilly,* we held that each separately copyrighted song from the musical *Jesus Christ Superstar* could be the subject of a separate statutory damage award because each song could “live [its] own copyright life.” 530 F.2d 1096, 1104-05 (2d Cir.1976). In *Stigwood,* however, we were awarding statutory damages pursuant to the Copyright Act of 1909, which provided for a separate statutory damage award “for each infringement that was separate”; the Copyright Act of 1909 did not expressly limit the number of awards available for infringement of a compilation. *Id.* at 1102. The one-award restriction for compilations was introduced in the Copyright Act of 1976. We have previously recognized that the one-award restriction may render *Stigwood's* holding inapplicable in cases involving compilations. *See Twin Peaks,* 996 F.2d at 1381.

FN8. Appellants contended that revenues must have been higher, but offered no evidence to support their claim.