Fall 2008

IN THE COURTROOM

The Way We See it

Summer is over and fall is in the air. As the weather cools and the pace of business heats up, we recommend that you take time to evaluate some of your important business practices.

In particular, we think an understanding of several recent developments in the areas of employment, commercial and intellectual property law, along with some practical advice areas, might help you avoid problems that could lead to litigation or otherwise cost you money.

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Employment Law

New York Bars Post-Employment Non-Competes in the Broadcasting Industry

On August 6, 2008, New York Governor David A. Patterson signed the "Broadcast Employees Freedom to Work Act." This new law, enacted after heavy lobbying from the American Federation of Television and Radio Artists (AFTRA), and with the support of the state's AFL-CIO, bans certain post-employment non-competition clauses for employees in the broadcasting industry. The aim is to provide broadcast employees greater career flexibility within New York, hopefully curbing their departure from the state.

In particular, this legislation prohibits covenants that, as a condition of employment, restrict an ex-employee from working: (a) in a specified geographic area; or (b) for a specific period of time; or (c) with a particular employer or in any particular industry. This law effectively creates an industry-specific exception to the enforcement of otherwise reasonable non-competes in New York. Employers who violate the statute will be civilly liable to employees for damages, attorneys' fees and costs.

The Broadcast Employees Freedom to Work Act applies only to the broadcasting industry. The law defines the "broadcasting industry" broadly to include: (1) television stations or networks; (2) radio stations or networks; (3) cable stations or networks; (4) internet or satellite-based services similar to a broadcast station or network; (5) any broadcast entity affiliated with any of the television, radio, cable, internet, or satellite-based employers previously identified; and (6) any other entity that provides broadcasting services such as news, weather, traffic, sports, or entertainment reports or programming. Management employees are specifically excluded from the statute. The Act, however, does not define the term "management employee," thereby leaving the meaning of this exclusion open to litigation.

Despite the vast scope of the new law, broadcasters still have a number of tools available to them to protect their legitimate interests. The law regulates post-employment non-competition clauses only; other covenants, such as those covering non-solicitation, confidentiality, and notice periods, are still available. Furthermore, the law does not regulate restrictive covenants, including non-competes, during the term of employment. The law also regulates only those non-competition agreements that are conditioned on employment. Therefore, non-competition agreements conditioned on other benefits may still be viable. For example, employers may condition non-competition agreements on an employment benefit, such as a special bonus or stock option plan participation, or on a post-employment benefit, such as severance pay. Finally, this law doesn't apply to independent contractors or consultants. Employers may therefore choose to engage workers as independent contractors, rather than as direct employees, or they may decide to work with independent consultants or other outside agencies when feasible.

The Way We See It

The Broadcast Employees Freedom to Work Act has certainly placed limits on the way broadcasters may protect their interests, but the limits are not insurmountable. Industry employers will need to reevaluate and redraft their agreements in light of this new law. In addition to modifying non-compete agreements to ensure that they comport with the Act, employers may still rely on alternative methods, such as those listed above, to protect their interests going forward.

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Intellectual Property Law

Copyright Damages and Digital Downloads

The remedies built into the Copyright Act include, in certain instances, statutory damage awards up to $150,000 per infringement, regardless of the owner's actual damages or the infringer's profits from its conduct. The potential for staggering judgments is clear. A single digital image uploaded to your website today, and downloaded by countless users tomorrow, could lead to a multi-million dollar claim for copyright infringement.

Historically, statutory damage awards are available only when the owner of the copyrighted work registers the work with the Copyright Office prior to the infringement. But what if an initial infringement preceded registration, while subsequent downloads come afterward? Let's say an unauthorized illustration is posted on a company's website, making it available for downloading. The illustrator then discovers the use of her work, registers it, and then seeks statutory damages – not for the initial posting, but for each download *after*

the registration. Are statutory damages available for these downloads? Is every download a separate infringement eligible for its own award of up to $150,000? Based on the relevant case law, we believe the answers are no, but that does not mean a creative litigant could not assert such a claim.

A ruling by the 4th Circuit in Bouchat v. The Bon-Ton Dep't Stores, et al., 506 F.3d 315 (4th Cir. 2007), covering a similar scenario, supports our view that such damages are not recoverable under the Copyright Act. The case involved allegations that the logo of the Baltimore Ravens, an NFL football team, infringed drawings submitted by an amateur artist. The artist sued the team, seeking the team's profits from the use of the logo (but not statutory damages, since he did not register the work until after the logo was unveiled). That initial lawsuit ended in a pyrrhic victory for the artist: a jury found that the team had indeed infringed the drawings, but awarded no damages.

After being denied recovery in that first lawsuit, the artist then sued hundreds of NFL licensees who had incorporated the logo into their own products. The artist sought statutory damages against these licensees for multiple acts of infringement, claiming their uses of the logo came after his registration. But the court again declined to award damages, holding that each of the uses of the logo was traceable back to the team's initial infringement, and thus constituted one continuing infringement, which preceded the artist's copyright registration.

The Way We See It

In the digital age, it is more critical than ever to exercise caution with respect to the proper use and licensing of creative works such as photographs, illustrations, songs and articles. While the federal court's ruling supports our view that statutory damages should not be multiplied for every download of an image, this does not prevent future litigants from asserting such claims. It is very important to make sure that your company has a sound, written policy regarding the use of copyright-protected materials in its advertising and marketing materials.

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Commercial Law

The Perils of "Finders" Agreements

Finders agreements typically provide that a party will be entitled to a fee if the "finding party" introduces a third-party to the non-finding party (the finder's client), and the third-party enters into a transaction with the non-finding party. Phoenix Capital entered into such an agreement with Ellington.

In Phoenix Capital Investments LLC v. Ellington Management Group, L.L.C., 51 A.D.3d 549, 859 N.Y.S.2d 46 (1st Dept. 2008), an appellate court in New York delivered a warning to deal brokers. The court dismissed a deal broker's complaint for a breach of an implied covenant of fair dealing arising out of a "finders" agreement. Phoenix Capital agreed to work to find a non-U.S. investor in funds managed by Ellington, in exchange for a fee that Ellington would pay if the third-party made an investment. Ellington had the right to terminate the agreement on written notice. Under the agreement, however, Phoenix was still entitled to a fee if the third-party made an investment with Ellington within one year of the last contact that Phoenix had with the third-party. This one-year period is typically called the "tail."

Phoenix introduced Norges Bank, a Norwegian Bank, to Ellington as a possible investor. Two months after Phoenix made the introduction, Ellington terminated its agreement with Phoenix and instructed Phoenix not to contact Norges on Ellington's behalf. Two years later (one year after expiration of the tail), Norges invested $500 million in funds managed by Ellington.

Phoenix cried foul, claiming that it was entitled to a fee in connection with Norges' investment. It sued, alleging various claims, including breach of implied covenant of good faith and fair dealing. With respect to this claim, Phoenix first alleged that Ellington breached the implied covenant by terminating the finder's agreement and waiting out the tail period so as to deprive Phoenix of its finder's feet. Second, Phoenix alleged that Ellington manipulated events so that the deal with Norges would not be completed until after the one-year tail period had passed.

The appellate court rejected both arguments. In dismissing Phoenix's complaint, the court cited the agreement's termination provision and held that Phoenix could not "nullify that provision on the basis of a bare

allegation that defendant acted unfairly, both in terminating the agreement and in exercising its rights pursuant to the tail provision." The court stated that its finding was consistent with the well-established principle that an implied covenant of good faith and fair dealing will be enforced only to the extent it is consistent with provisions of the contract. Thus, in this case, Ellington bargained for the right not to pay a finder's fee as long as the investment was made after the tail period – and Phoenix accepted the risk that Ellington would act in exactly the manner it did.

The Way We See It

The court's ruling shows the dire consequences for finding parties relying on implied covenants of good faith and fair dealing to prevent bad faith actions in connection with finders' agreements. A fair reading of this opinion allows a non-finding party to benefit from an introduction to a third-party by a finding party, to immediately terminate its agreement with the finding party, and then to wait for the expiration of the tail period to reach agreement with the third-party, conveniently avoiding having to pay the finder a fee. As a result, prospective finders should explicitly protect their interests by negotiating terms that would prevent non-finding parties from acting in bad faith. Creative solutions include an explicit provision requiring that terminations be made in good faith, and not merely to avoid paying finder's fees, a lengthier tail-period to frustrate a non-finding party from waiting it out, or making fees contingent on the scope of the investment as opposed to the date it is finalized. If the non-finding party is unwilling to agree to these provisions, the "deal broker" should consider that a "deal breaker."

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