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Feld Entertainment Announces Final Performances of *Ringling Bros. and Barnum & Bailey® Circus* in May 2017

Ellenton, Fla. – January 14, 2017 – Feld Entertainment Inc., parent company of *Ringling Bros. and Barnum & Bailey®* and the world's largest producer of live family entertainment, announced today that the iconic 146-year-old circus would hold its final performances later this year. *Ringling Bros.®'* two circus units will conclude their tours with their final shows at the Dunkin' Donuts Center in Providence, R.I., on May 7, and at the Nassau Veterans Memorial Coliseum in Uniondale, N.Y., on May 21, 2017.

The decision to end the circus tours was made as a result of high costs coupled with a decline in ticket sales, making the circus an unsustainable business for the company. Following the transition of the elephants off the circus, the company saw a decline in ticket sales greater than could have been anticipated.

"*Ringling Bros. and Barnum & Bailey* was the original property on which we built Feld Entertainment into a global producer of live entertainment over the past 50 years," said Kenneth Feld, Chairman and CEO of Feld Entertainment. "We are grateful to the hundreds of millions of fans who have experienced *Ringling Bros.* over the years. Between now and May, we will give them one last chance to experience the joy and wonder of *Ringling Bros.*"

"This was a difficult business decision to make, but by ending the circus tours, we will be able to concentrate on the other lines of business within the Feld Entertainment portfolio," said Juliette Feld, Feld Entertainment's Chief Operating Officer. "Now that we have made this decision, as a company, and as a family, we will strive to support our circus performers and crew in making the transition to new opportunities," she added.

Feld Entertainment's portfolio includes Marvel Universe LIVE!, Monster Jam, Monster Energy Supercross and *Disney On Ice*, among others. The company recently announced a new partnership to produce live tours of *Sesame Street* and expanded television coverage for the 2017 Monster Energy Supercross races.

Complete details on the remaining *Ringling Bros.* performances can be found online at Ringling.com. Members of the media can visit www.feldmediaguides.com/outofthisworld or www.feldmediaguides.com/circusxtreme for visual assets.

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Select Legal History for Ringling Bros. - Barnum & Bailey

Irina Tarsis, Esq.,
Center for Art Law

It's been alleged that ever since 1961, Ringling Bros. and Barnum & Bailey Circus (the "Circus") had owned trademarks and service marks for use of the phrase "The Greatest Show on Earth" in its various promotional materials. In 2017, the show closed for good. While circus and theater historians are writing the socio-cultural biography of this epic circus and while movie goers are enjoying "The Greatest Showman" in theaters near new, we propose a law-driven discussion of IP assets that are left behind when such giants, as Barnum & Bailey, or M. Knoedler & Co, or FAO Schwarz of the entertainment, arts and sports industries crumble. The following is a list of lawsuits involving the Circus, in IP, tax and negligence related cases that may be used for the Circus' law-inspired obituary.

* * *

Feld Ent't, Inc. and Ringling Bros.-Barnum & Bailey Combined Shows, Inc., v. Robert James Ritchie (PKA Kid Rock), and Live Nation Ent'l, Inc., 17-cv-03075-MSS-TBM (Mid.D.Fl.Tampa D. Dec.26, 2017) <u>IP LAW</u> Plaintiffs, who own a series of trademarks related to "The Greatest Show on Earth," filed a complaint against musical performer and a ticket booking agent for headlining a series of concerts the "Greatest Show on Earth 2018." The complaint explains that Plaintiffs license their affected trademarks for various purposes, including tee shirts, books, food and novelty products, and given Defendant's knowledge of the rights, *inter alia* seeks tremble damages for willful infringement of their IP.

ASPCA v. Feld Entm't, Inc., 677 F. Supp. 2d 55 (D.D.C. 2009) <u>ANIMAL RIGHTS/RICO</u> Multiple animal groups sued the circus, through its parent company, alleging that it violated the Endangered Species Act by its treatment of Asian elephants in its circus.The circus countersued under the Racketeer Influenced and Corrupt Organizations Act in 2007, alleging conspiracy to harm its business. In 2012, ASPCA allegedly paid the circus over $9 million to settle parts of the lawsuit.

ASPCA v Ringling Bros. & Barnum & Bailey Circus, Inc., 354 US App DC 432, 317 F3d 334 (2003)**.** <u>ANIMAL RIGHTS</u> Plaintiff animal rights organizations and a former elephant handler sued defendant circus and its owner claiming that the circus mistreated its Asian elephants in violation of the Endangered Species Act, 16 U.S.C.S. § 1531 et seq. The plaintiffs appealed the judgment of the United States District Court for the District of Columbia dismissing the complaint for plaintiffs' lack of standing under U.S. Const. art. III. The judgment of the district court dismissing the complaint for lack of standing was reversed.

Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v Utah Div. of Travel Dev., 170 F3d 449 (4th Cir 1999). <u>IP LAW</u> Case involving trademark "dilution" and the Federal Trademark

Dilution Act of 1995 ("the Act"), when Defendant Utah Division of Travel Development ("Utah") an agency of the State of Utah decided to use its GREATEST SNOW mark in connection with Utah tourism services. Court affirmed decision that Utah did not dilute Plaintiff's trademark

Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. BE Windows Corp., 969 F. Supp. 901 (S.D.N.Y. 1997). IP LAW Following the 1993 World Trade Center bombing, restaurateur Joseph Baum ("Baum"), of Four Seasons and Rainbow Room fame, won the rights to reopen the restaurant on the 107th floor of One World Trade Center known as "Windows on the World." In November 1994, Defendants decided to rename the bar attached to that restaurant as "The Greatest Bar on Earth," a lawsuit followed alleging that a bar named "The Greatest Bar on Earth" would be a violation of the Circus' rights. Court held that the Circus' evidence did not support a claim of willful trademark infringement by Defendants.

Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet, Inc., 855 F.2d 480 (7th Cir. 1988). IP LAW In this suit, the Circus, as owner of the trademark "The Greatest Show on Earth," obtained a preliminary injunction prohibiting Celozzi-Ettelson Chevrolet, Inc., an Illinois car dealership, from using the slogan "The Greatest Used Car Show on Earth." The injunction was upheld despite the finding that originally the mark was primarily descriptive and weak.

Mikos v Ringling Bros.-Barnum & Bailey Combined Shows, Inc., 497 So 2d 630 Fla. (1986). TAX LAW An application, alleging that respondent circus tour's property was not permanently located in Sarasota County for ad valorem tax purposes under Fla. Stat. ch. 192.032(2) and (5) (1983). Based on the allegations that the circus tour spent only two months of each year in Sarasota County, the County did not constitute a permanent situs that would subject petitioner to the assessment of ad valorem taxes. The decision that for taxes circus was not permanently located in Sarasota County was affirmed.

Ringling Bros.-Barnum & Bailey Combined Shows, Inc., v. Chandris America Lines, Inc., and Albert Frank Guenther Law, Inc., 321 F. Supp. 707 (S.D.N.Y. 1971) IP LAW In this suit brought under the Lanham Act, 15 U.S.C. §§ 1051-1127, the Circus claimed that Defendants willfully infringed, diluted and maliciously disparaged its trademark "The Greatest Show on Earth," and sought permanent injunction, compensatory damages in an undetermined amount, and punitive damages in the amount of $10 million. Defendants, a Delaware corporation in the business of offering wintertime vacation cruises in the Caribbean and an advertising agency which designed the advertisement for vacation cruises successfully argued that their actions gave no rise to the contention that the advertisement violated the anti-dilution statute.

Ringling Bros.-Barnum & Bailey Combined Shows, Inc., v. ACME Circus Operations Co., Inc., 12 A.D.2d 894 (N.Y. App. Div. 1961). N/A

Jacobs v. Ringling Bros.-Barnum & Bailey Combined Shows, Inc., 141 Conn. 86, 103 A.2d 805 (Conn. App. Div. 1954). ADMINISTRATION Case dealing with fees owed to receiver for administering claimed in the many suits for personal injuries and deaths caused by the Hartford circus fire of 1944.

Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Higgins, 189 F.2d 865 (2d Cir. 1951) TAX LAW Circus unsuccessfully appealed from a judgment dismissing on the merits its complaint in an action for refund of $3,105.79 paid on or about June 10, 1938, as unemployment taxes for the year 1936. In response to the question whether certain persons engaged in plaintiff's circus in 1936 were employees, as the trial court held, or independent contractors, in which case the tax is not applicable the court held that while circus is enriched by individuality of each act" and a manager of a vaudeville "could hardly be expected to direct the manner and means by which a human cannonball should be shot from a gun," together "The performers were an integral part of plaintiff's business of offering entertainment to the public. They were molded into one integrated show, `the circus.' It was not a loose collection of individual acts like a vaudeville show but that of "the circus."

Ringling Bros.-Barnum & Bailey C. Shows, Inc., v. Ringling, Inc., 53 A.2d 441, 29 Del. Ch. 610, 29 Del. 610 (1947). CORPORATE LAW Case dealing with shares in the Circus and validity of an agreement between co-owners.

Ringling Bros.-Barnum & Bailey C. Shows, Inc., v. Olvera, 119 F.2d 584 (9th Cir. 1941). TORT LAW A consolidated appeal from two judgments upon a verdict awarding damages to America Olvera, hereafter called Olvera, for injuries to her while performing as a trapeze artist. Court reversed ruling for Olvera finding that the Ringling-Olvera contract exempts the appellants from liability for their ordinary negligence and the court erred in refusing the requested instruction concerning their liability solely for gross negligence.

Schock v. Ringling Bros. Etc., 105 P.2d 838 (Wash. 1940) TORT LAW Attractive nuisance case. Amos D. Schock brought this action on his own behalf, and as guardian ad litem of his three minor daughters, Jacqualine, Evangeline, and Marian, to recover damages resulting from injuries sustained by the three children while watching the unloading of defendant's circus within a railroad yard in Yakima. A trial to the court, sitting without a jury, resulted in findings of fact in favor of plaintiffs in varying amounts.

On August 23, 1939, at about 2:30 a.m., appellant's circus arrived in Yakima, Washington, by way of the Union Pacific Railroad. A large crowd of spectators, composed of men, women, and children, numbering from two hundred to three hundred people, congregated at the railroad yard during the early morning hours to watch the circus unload its equipment. At about 7:30 o'clock in the morning, respondents arrived at the railroad yard… One of the wagons detached and caused an accident. From a judgment entered in accordance with the findings, defendant appealed and the ruling was reversed on appeal because even though respondents had been standing in a position of comparative safety, their act [viewing unloading of the Circus and resulting accident] cannot be charged against the Circus "in view of the fact that it used reasonable care under the existing circumstances."

Ringling Bros., Etc. v. Wilkinson, 83 S.W.2d 705 (Tex. App. 1935) <u>CRIMINAL LAW</u> Plaintiff, Wilkinson sued the Circus to recover damages for personal and property injuries sustained in a collision between the car in which he was riding and a wagon loaded with poles, belonging to the circus. The grounds of negligence alleged were due to the Circus leaving one of its wagons parked at night on a public street in the city of Dallas, without displaying thereon lights. Having pleaded contributory negligence, the Circus alleged that Plaintiff was in such a state of intoxication as not to be able to properly drive his car or to avoid the collision with the stationary wagon. Jury held for the Circus and the decision was affirmed on appeal.

Burke v. Barnum Bailey, Etc., 99 A. 1027 (R.I. 1917) <u>CRIMINAL LAW</u> This is an action of trespass on the case to recover damages for personal injuries. A trial was had in the Superior Court before Mr. Justice Brown and a jury and resulted, on December 30, 1915, in a verdict for plaintiff for $875. The defendant's motion for a new trial was denied, and the case is now before this court on the defendant's bill of exceptions.

The declaration of the plaintiff is in one count and sets up in substance that the defendant corporation, in June, 1910, was engaged in conducting a circus in the city of Cranston, Rhode Island, and that the plaintiff, having paid the defendant corporation the price of admission, was witnessing the circus performance in the tent and at the place provided by the defendant corporation, when said defendant corporation, by its agents and servants, negligently caused certain horses and vehicles to be driven against and over the plaintiff (he being then in the exercise of due care), and thereby caused the plaintiff to be severely and permanently injured.

Trademarks > Trademark Electronic Search System (TESS)

TESS was last updated on Tue Jan 2 03:47:44 EST 2018

Word Mark	THE GREATEST SHOW ON EARTH RINGLING BROS. AND **BARNUM** & **BAILEY**
Goods and Services	IC 030. US 046. G & S: Candy; Cookies; Cotton candy; Lollipops. FIRST USE: 20170501. FIRST USE IN COMMERCE: 20170501
Mark Drawing Code	(3) DESIGN PLUS WORDS, LETTERS, AND/OR NUMBERS
Design Search Code	26.01.17 - Circles, two concentric; Concentric circles, two; Two concentric circles 26.01.21 - Circles that are totally or partially shaded. 26.19.01 - Spheres (geometric)
Serial Number	87588340
Filing Date	August 29, 2017
Current Basis	1A
Original Filing Basis	1A
Owner	(APPLICANT) Ringling Bros.-Barnum & Bailey Combined Shows, Inc. CORPORATION DELAWARE 8607 Westwood Center Dr. Vienna VIRGINIA 22182
Attorney of Record	Eric Pellenbarg
Prior Registrations	2511740;3847635;3993719;AND OTHERS
Description of Mark	Color is not claimed as a feature of the mark. The mark consists of The mark consists of the words "THE GREATEST SHOW ON EARTH" appearing inside a stylized sphere with the words "RINGLING BROS. AND" appearing to the left and "BARNUM & BAILEY" appearing to the right of the sphere.
Type of Mark	TRADEMARK
Register	PRINCIPAL
Live/Dead	LIVE

Indicator

Trademarks > Trademark Electronic Search System (TESS)

TESS was last updated on Tue Jan 2 03:47:44 EST 2018

Word Mark	THE GREATEST SHOW ON EARTH RINGLING BROS. AND **BARNUM** & **BAILEY**
Goods and Services	IC 009. US 021 023 026 036 038. G & S: PRERECORDED VIDEOS AND EDUCATIONAL CD ROMS FEATURING A PARTICULAR CIRCUS. FIRST USE: 19881200. FIRST USE IN COMMERCE: 19881200 IC 016. US 002 005 022 023 029 037 038 050. G & S: PAPER GOODS AND PRINTED MATTER, NAMELY PROGRAMS, POSTERS AND PAPER CONTAINERS. FIRST USE: 19781200. FIRST USE IN COMMERCE: 19781200 IC 025. US 022 039. G & S: CLOTHING, NAMELY HATS, SHIRTS AND JACKETS. FIRST USE: 19881200. FIRST USE IN COMMERCE: 19881200 IC 028. US 022 023 038 050. G & S: TOYS, NAMELY PLUSH, DOLLS AND HAND HELD TOYS FOR CREATING ILLUMINATION. FIRST USE: 19801200. FIRST USE IN COMMERCE: 19801200 IC 041. US 100 101 107. G & S: EDUCATIONAL AND ENTERTAINMENT SERVICES IN THE FORM OF A PARTICULAR CIRCUS AND ON-LINE DATA BASE SERVICES IN THE FIELDS OF ENTERTAINMENT, EDUCATION, HISTORICAL AND BIOGRAPHICAL INFORMATION REGARDING A SPECIFIC CIRCUS, PERFORMERS, ANIMALS AND OTHER CIRCUS-RELATED INFORMATION. FIRST USE: 19780100. FIRST USE IN COMMERCE: 19780100
Mark Drawing Code	(3) DESIGN PLUS WORDS, LETTERS, AND/OR NUMBERS
Design Search Code	01.07.01 - Globes with outlines of continents
Serial Number	75896507
Filing Date	January 13, 2000
Current Basis	1A
Original	1A

Filing Basis	
Published for Opposition	September 4, 2001
Change In Registration	CHANGE IN REGISTRATION HAS OCCURRED
Registration Number	2511740
Registration Date	November 27, 2001
Owner	(REGISTRANT) Ringling Bros.-Barnum & Bailey Combined Shows, Inc. CORPORATION DELAWARE 8607 Westwood Center Drive Vienna VIRGINIA 22182
Assignment Recorded	ASSIGNMENT RECORDED
Attorney of Record	Lisa Zeiler Joiner
Prior Registrations	0724946;0724947;0787963;0870254;1363330;1363568;1366779;1414050;2185161; 2188593;AND OTHERS
Type of Mark	TRADEMARK. SERVICE MARK
Register	PRINCIPAL
Affidavit Text	SECT 15. SECT 8 (6-YR). SECTION 8(10-YR) 20111229.
Renewal	1ST RENEWAL 20111229
Live/Dead Indicator	LIVE

Trademarks > Trademark Electronic Search System (TESS)

TESS was last updated on Tue Jan 2 03:47:44 EST 2018

 Record 13 out of 16

TSDR | ASSIGN Status | TTAB Status ***(Use the "Back" button of the Internet Browser to return to TESS)***

Word Mark	RINGLING BROS. AND **BARNUM** & **BAILEY** THE GREATEST SHOW ON EARTH
Goods and Services	(EXPIRED) IC 028. US 022. G & S: SWING SETS, GYMNASIUM EQUIPMENT, BALANCE BEAMS, MERRY-GO-ROUNDS, CLIMBERS, HAND BARS, AND THE LIKE. FIRST USE: 19700301. FIRST USE IN COMMERCE: 19700301 (EXPIRED) IC 025. US 039. G & S: CHILDREN'S COSTUMES-NAMELY, CLOWN SUITS, MONKEY SUITS, AND THE LIKE. FIRST USE: 19700301. FIRST USE IN COMMERCE: 19700301 (EXPIRED) IC 024. US 050. G & S: NOVELTY HATS, AND PLASTIC PLACE MATS. FIRST USE: 19700323. FIRST USE IN COMMERCE: 19700323
Mark Drawing Code	(3) DESIGN PLUS WORDS, LETTERS, AND/OR NUMBERS
Design Search Code	02.01.01 - Busts of men facing forward; Heads of men facing forward; Men - heads, portraiture, or busts facing forward; Portraiture of men facing forward 02.01.17 - Actors; Carnival characters (men); Clowns (men); Harlequins (men); Jesters (men); Men, clowns, actors, mimes, carnival characters, harlequins, jesters, men wearing tights; Mimes (men); Tights (men wearing) 02.01.31 - Men, stylized, including men depicted in caricature form 03.01.03 - Cats, tigers or other large cats; Cheetahs; Jaguars; Leopard; Lynx; Ocelots; Panther; Panthers; Puma; Tigers 03.01.16 - Heads of cats, dogs, wolves, foxes, bears, lions, tigers 03.01.24 - Stylized cats, dogs, wolves, foxes, bears, lions, tigers 03.03.01 - Elephants; Mammoths; Mastodons 03.03.16 - Heads of Elephants, hippopotami, rhinoceri, giraffes, alpacas, camels, llamas 03.03.24 - Stylized Elephants, hippopotami, rhinoceri, giraffes, alpacas, camels, llamas 03.11.01 - Apes; Baboons; Chimpanzees; Gorillas; Monkeys; Orangutans 03.11.24 - Stylized primates 26.11.27 - Oblongs not used as carriers for words, letters or designs
Serial Number	72385548
Filing Date	March 5, 1971

Current Basis	1A
Original Filing Basis	1A
Registration Number	0937019
Registration Date	July 4, 1972
Owner	(REGISTRANT) RINGLING BROS.-BARNUM & BAILEY COMBINED SHOWS CORPORATION DELAWARE 1250 CONNECTICUT AVE. NW. WASHINGTON D.C. 20036
Type of Mark	TRADEMARK
Register	PRINCIPAL
Affidavit Text	SECT 15. SECT 8 (6-YR).
Live/Dead Indicator	DEAD

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

FELD ENTERTAINMENT, INC. AND
RINGLING BROS.-BARNUM &
BAILEY COMBINED SHOWS, INC.,

Plaintiff,

vs. CASE NO.

ROBERT JAMES RITCHIE
(PKA KID ROCK); AND LIVE NATION
ENTERTAINMENT, INC.

Defendants.
_______________________________________/

COMPLAINT AND DEMAND FOR JURY TRIAL
(Injunctive Relief Requested)

1. Plaintiffs, Feld Entertainment, Inc. ("Feld Ent.") and Ringling Bros.-Barnum & Bailey Combined Shows, Inc. ("Combined Shows") (collectively referred to herein as "RINGLING BROS." or "Plaintiffs"), for their Complaint against Defendants Robert James Ritchie, (professionally known as "Kid Rock") and Live Nation Entertainment, Inc. ("Live Nation") (referred to herein each as "Defendant" or collectively, as "Defendants"), state as follows:

PARTIES

2. Plaintiff Feld Ent. is a corporation duly organized and existing under the laws of the State of Delaware, headquartered and doing business at 800 Feld Way, Ellenton, FL 34221. Feld Ent. and its predecessors have been the producer and presenter of RINGLING BROS. AND BARNUM & BAILEY CIRCUS (the "RINGLING BROS. CIRCUS" or "CIRCUS") for over a century.

3. Plaintiff Combined Shows is a corporation duly organized and existing under the laws of the State of Delaware, with an office located at 8607 Westwood Center Drive, Vienna, Virginia 22182. Combined Shows is the owner of various trademarks including, *inter alia*, THE GREATEST SHOW ON EARTH.

4. Defendant Robert James Ritchie, p/k/a Kid Rock, is an individual having a correspondence address of P.O. Box 3876, Tequesta, Florida 33469 and upon information and belief, owns a residence at 11 Ocean Drive, Jupiter, Florida 33496. Kid Rock is the headlining musical performer in the "Greatest Show on Earth 2018" tour, scheduled to perform in approximately twenty-one (21) cities across the United States, and who regularly performs in Florida including in the Middle District of Florida.

5. Upon information and belief, Defendant Live Nation Entertainment ("Live Nation") is a corporation organized and existing under the laws of the State of Delaware, having an office and principal place of business located at 9348 Civic Center Drive, Beverly Hills, California 90210-3624. Live Nation is the producer, promotor, and booking and ticket sales company for the Greatest Show on Earth 2018 tour of Kid Rock. Upon information and belief, Live Nation and Ticketmaster merged and became Live Nation Entertainment, one of the Defendants herein. Live Nation does business throughout the United States, including in the State of Florida and in the Middle District of Florida.

6. Upon information and belief, one or more of the Defendants also own and operate websites located at the URLs www.kidrock.com, www.livenation.com and www.ticketmaster.com, which are accessible in the State of Florida (including this district) and through which Florida State residents can purchase tickets to Kid Rock concerts

including the Greatest Show on Earth 2018 Tour and products related to the same. Upon information and belief, kidrock.com is registered by Perfect Privacy, LLC of Jacksonville, FL.

7. Upon information and belief and as alleged herein, each of the Defendants has knowledge of, has directed to commit, and/or has personally committed, the tortious acts of trademark infringement, unfair competition, dilution, and deceptive and unfair trade practices complained of in this Complaint.

JURISDICTION AND VENUE

8. This Court has jurisdiction under Section 39 of the Lanham Act, 15 U.S.C. § 1121, 28 U.S.C. §§ 1331 and 1338(a) and (b). The Court has supplemental jurisdiction over the claims herein which arise under State statutory and common law under 28 U.S.C. § 1367(a), because the State law claims are also related to the Federal claims such that they form part of the same case or controversy.

9. Personal jurisdiction over Defendants is based on their (i) operating, conducting, engaging in and carrying on business within the State of Florida; (ii) commission of tortious acts within the State of Florida; and (iii) causing injury to residents of Florida through likelihood of confusion.

10. Venue is proper in this District pursuant to 28 U.S.C. §§ 1391(b) and 28 U.S.C. § 89(b) because Defendants regularly conduct business in this District, and because a substantial part of the acts or omissions giving rise to the claims asserted herein occurred in this District.

RINGLING BROS. REGISTERED MARKS

11. Combined Shows is the owner of U.S. Trademark Registration No. 1,363,330 duly issued by the United States Patent and Trademark Office on October 1, 1985, for the trademark THE GREATEST SHOW ON EARTH for program books in Class 16. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 1,363,330 is annexed hereto as Exhibit 1 and made a part hereof.

12. Combined Shows is the owner of U.S. Trademark Registration No. 1,363,568 duly issued by the United States Patent and Trademark Office on October 1, 1985, for the trademark THE GREATEST SHOW ON EARTH & DESIGN for toy stuffed animals in Class 28. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 1,363,568 is annexed hereto as Exhibit 2 and made a part hereof.

13. Combined Shows is the owner of U.S. Trademark Registration No. 1,366,779 duly issued by the United States Patent and Trademark Office on October 22, 1985, for the trademark THE GREATEST SHOW ON EARTH & DESIGN for t-shirts in Class 25. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 1,366,779 is annexed hereto as Exhibit 3 and made a part hereof.

14. Combined Shows is the owner of U.S. Trademark Registration No. 2,185,161 duly issued by the United States Patent and Trademark Office on August 25, 1998, for the trademark THE GREATEST SHOW ON EARTH for providing an interactive on-line data base in the fields of entertainment, education, historical and biographical information regarding a specific circus, performers, animals and other circus-related information in Class

41. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 2,185,161 is annexed hereto as Exhibit 4 and made a part hereof.

15. Combined Shows is the owner of U.S. Trademark Registration No. 2,380,169 duly issued by the United States Patent and Trademark Office on August 29, 2000, for the trademark THE GREATEST SHOW ON EARTH for electronic on-line retailing in the field of merchandise related to a specific circus in Class 35 and providing an interactive on-line data base in the fields of entertainment, education, historical and biographical information regarding a specific circus, performers, animals and other circus-related information in Class 41. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 2,380,169 is annexed hereto as Exhibit 5 and made a part hereof.

16. Combined Shows is the owner of U.S. Trademark Registration No. 2,511,740 duly issued by the United States Patent and Trademark Office on November 27, 2001, for the trademark THE GREATEST SHOW ON EARTH RINGLING BROS. AND BARNUM & BAILEY & DESIGN for, *inter alia*, paper goods and printed matter, namely programs, posters and paper containers in Class 16; clothing, namely hats, shirts and jackets in Class 25; toys, namely plush, dolls and hand held toys for creating illumination in Class 28; and educational and entertainment services in the form of a particular circus and on-line data base services in the fields of entertainment, education, historical and biographical information regarding a specific circus, performers, animals and other circus-related information in Class 41. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 2,511,740 is annexed hereto as Exhibit 6 and made a part hereof.

17. Combined Shows is the owner of U.S. Trademark Registration No. 3,015,685 duly issued by the United States Patent and Trademark Office on November 29, 2005, for the trademark THE GREATEST SHOW ON EARTH for entertainment services in the form of a circus in Class 41. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 3,015,685 is annexed hereto as Exhibit 7 and made a part hereof.

18. Combined Shows is the owner of U.S. Trademark Registration No. 3,020,576 duly issued by the United States Patent and Trademark Office on November 29, 2005, for the trademark THE GREATEST SHOW ON EARTH & DESIGN for entertainment services in the form of a circus in Class 41. The registration is valid, presently subsisting, incontestable and in full force and effect. A copy of Registration No. 3,020,576 is annexed hereto as Exhibit 8 and made a part hereof.

19. RINGLING BROS. and its predecessors-in-interest have used and have been associated with the mark THE GREATEST SHOW ON EARTH continuously for more than a century; THE GREATEST SHOW ON EARTH with the Globe Design since as early as 1933; and THE GREATEST SHOW ON EARTH RINGLING BROS. AND BARNUM & BAILEY in stylized letters with the Globe Design since as early as January 1978 (collectively referred to herein as the "RINGLING BROS.' Marks" or the "Trademarks"). The Trademarks have been used to identify RINGLING BROS. and its CIRCUS in advertisements, on television, radio, print, on websites, in a motion picture and in promotional material therefor, and they are currently used on its website, as part of promotional materials and in connection with the sale of goods throughout the United States.

RINGLING BROS. has current licensees of the Trademarks, and RINGLING BROS. and its licensees are selling products bearing the Trademarks.

20. Combined Shows' current licensees of the mark THE GREATEST SHOW ON EARTH include: Primary Color for confections, snacks and different types of stationery; Sourcebooks for storybooks and personalized books; Micro Trains for N and Z scale non-electric trains; and Bachmann for complete and ready-to-run HO, G and O gauge electric train sets. In the past five years, Combined Shows has also licensed the mark THE GREATEST SHOW ON EARTH for the sale of other products including: paper products and novelty items, different types of food and drinks; tee shirts and sportswear; food preparation products such as popcorn poppers and ice cream makers; children's sunglasses; and wall calendars.

21. The services rendered under the Trademarks were provided throughout the United States, including in Florida. RINGLING BROS. CIRCUS appeared annually in major cities typically for one to two weeks at a time and in smaller cities typically for three or more days at a time. By way of example, from 2012-2016, approximately 1,000 performances were presented in approximately 80 cities per year, to an average of 3.76 million people annually.

22. Although RINGLING BROS. CIRCUS last performed its live show on May 21, 2017, RINGLING BROS. has never abandoned the use of the Trademarks and intends to continue and is continuing to use the trademark THE GREATEST SHOW ON EARTH for live performances and merchandise throughout the United States. One example of the continuing use of the trademark THE GREATEST SHOW ON EARTH is a current

broadcast agreement to air two programs related to RINGLING BROS. CIRCUS. The production work began last spring and is ongoing. The initial program airings are scheduled for May 2018 in the United States with rights granted for international distribution as well. As part of this agreement, rights to use THE GREATEST SHOW ON EARTH, rights to use footage from RINGLING BROS. CIRCUS and access to performers of RINGLING BROS. CIRCUS were granted. Other opportunities with others to grant rights to use THE GREATEST SHOW ON EARTH are under consideration.

23. The Trademarks are celebrated and valuable trademarks and service marks. Through various media, the trademark THE GREATEST SHOW ON EARTH is seen by millions of people each year. In an effort to promote its brand and related merchandise, RINGLING BROS. enters into joint promotions or sponsorships with retailers throughout the United States. The retailers, such as Chick-fil-A (national restaurant chain), Ingles Market (supermarket chain in six states), MetroPCS (telecommunications provider), Easterseals (non-profit), Gas South (natural gas utility) and Zaxby's (restaurant chain in seventeen states), pay for advertisements in consideration for the right to associate themselves with RINGLING BROS. and THE GREATEST SHOW ON EARTH mark. RINGLING BROS. has engaged in countless joint campaigns in many diverse markets. The joint promotions include the prominent display of the mark THE GREATEST SHOW ON EARTH, resulting in significant additional exposure of the mark to the public. RINGLING BROS. chooses carefully to whom it grants these joint promotions, based on the image of any potential joint promoter and the associations RINGLING BROS. wishes to create in the minds of its consumers. RINGLING BROS. also licenses its Trademarks, but only under strict quality

control provisions. RINGLING BROS. has a practice of not conducting joint promotions or entering into licensing agreements with companies or individuals who are involved in or promote violence, alcohol, illegal activities, sex or cigarettes. Moreover, unless authorized by RINGLING BROS., no variations of THE GREATEST SHOW ON EARTH are permitted.

24. There has been extensive publicity and promotion of RINGLING BROS. CIRCUS wherein the mark THE GREATEST SHOW ON EARTH was prominently used in conjunction with or as a substitute for the name RINGLING BROS. AND BARNUM & BAILEY. Such promotion and advertising includes websites, newspapers, magazines, radio, television, online, outdoor billboards and direct mail. RINGLING BROS. CIRCUS has been the subject of numerous books, radio and television features, as well as the major and award-winning motion picture production entitled "THE GREATEST SHOW ON EARTH," each of which prominently features the mark THE GREATEST SHOW ON EARTH. The mark THE GREATEST SHOW ON EARTH has also been advertised and promoted by RINGLING BROS. through, *inter alia*, press kits, posters, program books, souvenirs, internet and joint promotions with other companies. Currently, the Trademarks are used on RINGLING BROS.' website, as part of promotional materials, and by licenses in connection with the sale of goods throughout the United States.

25. RINGLING BROS. utilizes a number of techniques for prominently advertising and promoting the Trademarks. These techniques have a direct impact on the consumer and are intended to bring these Trademarks to the attention of the consumer. Such advertising and promotion, in addition to the foregoing, have included "e buzz" via electronic

communication, announcements to the press, posters, program books, souvenirs and joint promotions with other companies. Feld Ent. also maintains websites at www.ringling.com and www.ringlingonline.com, which has advertised the CIRCUS and continues to sell merchandise related to the CIRCUS. A copy of a page from the www.ringlingonlinestore.com website is annexed hereto as Exhibit 9.

26. There have been daily programming, television specials, and documentaries on CBS, NBC, CNN, ABC, Univision, Discovery Channel, Fox Sports, The History Channel, Nickelodeon, the Family Channel and other networks, viewed by approximately 60 million people, in which RINGLING BROS. CIRCUS and the mark THE GREATEST SHOW ON EARTH were prominently displayed. RINGLING BROS. CIRCUS has also been featured in many printed publications, such as *Tampa Tribune*, *Miami Herald*, *Orlando Sentinel*, *People Magazine, The Wall Street Journal, The New York Times, The Washington Post* and *USA Today*. RINGLING BROS. has offered for sale DVDs featuring the CIRCUS and its trademarks and service marks, including THE GREATEST SHOW ON EARTH, THE GREATEST SHOW ON EARTH Ball Logo and RINGLING BROS. AND BARNUM & BAILEY/THE GREATEST SHOW ON EARTH Banner Mark.

27. RINGLING BROS. CIRCUS has appeared in the State of Florida, including in Tampa, Orlando, Miami and Jacksonville annually for years. Specifically, RINGLING BROS. CIRCUS traditionally opened in Tampa every year since at least 2000. RINGLING BROS. CIRCUS also has performed annually in Miami, Orlando and Jacksonville, most recently in January 2017. Until a couple of years ago, Winter Quarters for RINGLING BROS. CIRCUS were held at the Florida State Fairgrounds in Tampa.

28. In 2012-2016, RINGLING BROS. spent in excess of $65,000,000 on advertising and promotion related to the Trademarks. In Florida alone, RINGLING BROS. spent in excess of $5,000,000 in 2012-2016 on advertising and promotion related to the Trademarks. RINGLING BROS. has promoted the Trademarks in a manner that has generated and perpetuated a wholesome, family-oriented image.

29. Revenues obtained from services rendered and goods sold under the Trademarks are in excess of $50,000,000 annually for each of the past five years. In addition, the Trademarks are licensed to third parties by Combined Shows, thereby producing additional revenue for RINGLING BROS.

30. As a result of the popularity and association of the Trademarks with RINGLING BROS. CIRCUS, there has been substantial unsolicited coverage of RINGLING BROS. CIRCUS, which is not paid for by RINGLING BROS. CIRCUS. Thus, for example, newspapers of national importance, such as *The New York Times* and *USA Today*, published numerous stories and photographs of THE GREATEST SHOW ON EARTH. According to an independent media intelligence company, the estimated earned media advertising value of unpaid media exposure related to THE GREATEST SHOW ON EARTH through print, web and broadcast materials was in excess of $375,000,000 for the first five months in 2017, with over 40 billion estimated impressions and over $700,000,000 in 2016, with over 57 billion estimated impressions. These numbers do not include radio exposure which itself is substantial. It is extremely rare for any advertising, promotion or media coverage of RINGLING BROS. CIRCUS to not include THE GREATEST SHOW ON EARTH.

DEFENDANTS' CONDUCT

31. In order to protect against any potential loss of the distinctiveness of the famous mark THE GREATEST SHOW ON EARTH, RINGLING BROS. has an enforcement program by which it notifies potential diluters or infringers of the mark THE GREATEST SHOW ON EARTH. As part of its enforcement program, on or about October 24, 2017, RINGLING BROS. received a press release announcing that Defendants were promoting and launching the "GREATEST SHOW ON EARTH TOUR 2018" (referred to herein as the "Tour") at www.kidrock.com and offering tickets for sale on www.livenation.com and www.ticketmaster.com (collectively referred to herein as the "Websites"). Annexed hereto as Exhibit 10 is a true copy of the Press Release announcing the Tour. In addition, on the same date, a call was received by a Vice President of Feld Ent. from Dave Brooks, Founder and Executive Editor of Amplify, a digital media company covering the live entertainment, concert and touring industry, and Senior Correspondent, Touring and Live Entertainment at Billboard Magazine, a well-known entertainment outlet. Mr. Brooks was aware of the GREATEST SHOW ON EARTH TOUR 2018 designation for Kid Rock's tour and was surprised by such use. Mr. Brooks acknowledged and stated his belief that THE GREATEST SHOW ON EARTH mark was RINGLING BROS.' intellectual property.

32. The Tour is scheduled to appear in venues throughout the United States and Canada including venues in at least, Kansas City, Missouri; Nashville, Tennessee; Louisville, Kentucky; Tulsa, Oklahoma; Houston, Texas; Atlanta, Georgia; Charlotte, North Carolina; Toronto, Ontario; Columbus, Ohio; Philadelphia, Pennsylvania; Cleveland, Ohio; Uncasville,

Connecticut; Baltimore, Maryland; Newark, New Jersey; Nassau County, New York; Chicago, Illinois; Omaha, Nebraska; Denver, Colorado; Phoenix, Arizona; Las Vegas, Nevada and three sold out shows in Durant, Oklahoma. A concert advertised by Kid Rock's website as being part of the Tour has already taken place in Laughlin, Nevada on November 11, 2017. With few exceptions, these venues have also hosted THE GREATEST SHOW ON EARTH circus over the past three years, as part of a RINGLING BROS. engagement.

33. As part of promoting the Tour, the front page of the www.kidrock.com website includes a banner stating "GREATEST SHOW ON EARTH TOUR 2018". Annexed hereto as Exhibit 11 is a true screenshot of the front page of the www.kidrock.com website.

34. The Tour is being promoted on the Websites and across social media as being "with A Thousand Horses", which upon information and belief is a reference to the band "A Thousand Horses." Annexed hereto as Exhibit 12 is a true printout of a page on the www.kidrock.com website.

35. As part of promoting the Tour, the front page of the www.livenation.com website includes a banner stating "GREATEST SHOW ON EARTH TOUR 2018". Annexed hereto as Exhibit 13 is a true screenshot of the front page of the www.livenation.com website.

36. As part of offering tickets for sale, the www.ticketmaster.com website includes a banner stating "KID ROCK'S GREATEST SHOW ON EARTH TOUR". Annexed hereto as Exhibit 14 is a true printout of a page on the www.ticketmaster.com website.

37. As part of the Tour, one of the concerts to be held on December 31, 2017 is being promoted and advertised as "THE GREATEST NEW YEAR'S EVE BASH ON EARTH". Annexed hereto as Exhibit 15 is a true screenshot of a webpage advertising and offering tickets for sale for that show.

38. Use of the RINGLING BROS.' Marks as part of the promotion of the Tour, including, without limitation, as part of radio advertisements is commercial speech, implicates an association with RINGLING BROS. and tarnishes the family friendly reputation that RINGLING BROS. has built during the last century.

39. As part of selling tickets for the Tour, Defendants are offering VIP packages, including a "Greatest Show on Earth VIP Package" that include, *inter alia,* an "exclusive Kid Rock- Greatest Show on Earth wall flag"; "collectible Greatest Show on Earth poster" and "Commemorative Greatest Show on Earth VIP ticket". Annexed hereto as Exhibit 16 is a true screenshot of a webpage offering such VIP packages and related merchandise.

40. Upon information and belief, as part of promoting the Tour, Defendants are involved in an advertising campaign, as well as a direct marketing campaign, to target potential customers who may have an interest in purchasing tickets for the Tour, at least by, sending unsolicited emails to consumers prominently displaying "Kid Rock's Greatest Show on Earth Tour" in such emails. Annexed hereto as Exhibit 17 is a true copy of an email sent to Plaintiffs' in-house counsel showing such use.

41. Upon information and belief, as part of promoting their tour, Defendants are using online marketplaces to sell merchandise, including t-shirts, that are emblazoned with

the words “GREATEST SHOW ON EARTH TOUR”. Annexed hereto as Exhibit 18 is a true printout of webpages offering such t-shirts for sale.

42. As part of the process of purchasing tickets for concerts that are part of the Tour, the potential customers are repeatedly inundated with references to “GREATEST SHOW ON EARTH TOUR” at every step of the process. Annexed hereto as Exhibit 19 are true printouts and screenshots of webpages from the Websites showing the purchase of tickets that are a part of the Tour.

43. Once a ticket is purchased for a concert that is part of the Tour, a ticket is generated which states “Greatest Show on Earth” just above the venue name and location. Annexed hereto as Exhibit 20 is a true copy of a ticket (redacted to remove the “issued to” and “order number” fields) that was purchased on November 8, 2017 for a concert at the Prudential Center to be held on March 9, 2018, that is part of the Tour. The unauthorized uses of GREATEST SHOW ON EARTH set forth in ¶31 through ¶43 inclusively are collectively referred to herein as “Unauthorized Uses.”

44. A live performance of Kid Rock is antithetical to the family friendly reputation of the Circus and the Trademarks. During at least one performance, Kid Rock repeatedly used vulgar language, both in his songs and in addressing the audience. During the opening song for such show, dancers appeared in bright lights on a riser with Kid Rock. The dancers were wearing bikini tops, short skirts and readily visible undergarments. They were featured prominently on two large video screens, on either side of the stage throughout the performance.

45. As part of promoting the Tour, Kid Rock has created a video entitled "Greatest Show on Earth [Official Video]" (referred to herein as the "Video") featuring music from Kid Rock's album entitled "Sweet Southern Sugar." The Video has been posted to the website www.kidrock.com as well as www.youtube.com. On YouTube, it has received more than 2 million views since its release. Annexed hereto as Exhibit 21 are a true printout of a page from YouTube showing 2,100,000 views of the Video and a DVD of the Video entitled "Greatest Show on Earth [Official Video], downloaded from Kid Rock's YouTube channel.

46. In the Video, Kid Rock states numerous times "Welcome to the greatest f***in' show on earth." In addition to use of vulgar language, the Video includes obscene gestures, smoking and images of women in various stages of undress which would be inappropriate for children and inconsistent with the family friendly entertainment of RINGLING BROS. and the RINGLING BROS.' Marks. As part of promoting the Tour, towards the end of the Video the words "GREATEST SHOW ON EARTH" and "COMING TO A CITY NEAR YOU" appear on the screen. Annexed hereto as Exhibit 22 is a copy of the lyrics from the Video.

47. On information and belief on September 11, 2017, Kid Rock gave a concert in the Little Caesars Arena in Detroit, Michigan, where he took the stage beginning with his newly released song "Greatest Show on Earth" surrounded by an array of circus characters. Annexed hereto as Exhibit 23 is a true copy of an article from the Detroit Free Press describing the concert and related protests.

48. On or about October 6, 2017 employees of Feld Ent. were contacted by a venue contact seeking information about how to obtain (1) stilt walkers, (2) a little person and (3) a juggler (collectively "Circus Performers"), which Circus Performers, on information and belief, were to perform on stage with Kid Rock for a single song at a Nashville-area concert. Although information was provided as to who could provide the Circus Performers, it was later learned that Kid Rock or his team cancelled the request for Circus Performers. Prior to cancelling the request for Circus Performers, there was no mention of a Kid Rock tour named the Greatest Show on Earth.

49. The Unauthorized Uses of an identical trademark by Defendants for entertainment services and merchandise, as well as the advertising and promotion thereof, are commercial speech and are willful and blatant violations of RINGLING BROS.' rights. Kid Rock's performance with circus characters, as well as the apparent intention to use the aforementioned Circus Performers, is further evidence of bad faith. No rights were granted by RINGLING BROS. to Defendants.

50. On October 26, 2017, in-house counsel for RINGLING BROS. sent an email to Lee Trink, Kid Rock's manager, advising him of RINGLING BROS.' position regarding its trademark rights in THE GREATEST SHOW ON EARTH. A copy of the email is annexed hereto as Exhibit 24.

51. On October 27, 2017, in-house counsel for RINGLING BROS. sent a message through the website www.kidrock.com identified as "URGENT" advising of RINGLING BROS.' position regarding its trademark rights in THE GREATEST SHOW ON EARTH. A true screenshot showing this message is annexed hereto as Exhibit 25.

52. On October 27, 2017, Mr. Trink provided the name of Kid Rock's attorney, Peter Paterno. On October 30, 2017, in-house counsel for RINGLING BROS. sent an email to, and on October 31, 2017 had a conversation with, Peter Paterno, counsel for Kid Rock. A copy of the email is annexed hereto as Exhibit 26. Subsequent telephone conversations took place between in-house counsel for RINGLING BROS. and Mr. Paterno.

53. On November 2, 2017, outside counsel for RINGLING BROS. sent a cease and desist letter to the attorney for Kid Rock, copied to Lee Trink (Kid Rock's agent), Michael Rapino and Michael Rowles of Live Nation, and Jon Loba of BBR Music Group (Kid Rock's record label), setting forth RINGLING BROS.' position regarding its trademark rights in THE GREATEST SHOW ON EARTH and requesting that Defendants contact RINGLING BROS. no later than November 3, 2017 regarding their use of the designation the "Greatest Show on Earth." A copy of this letter is annexed hereto as Exhibit 27.

54. On November 16, 2017, outside counsel for Kid Rock sent a letter to RINGLING BROS.' counsel claiming that the assertions in the November 2, 2017 letter were misplaced. A copy of this letter is annexed hereto as Exhibit 28.

55. Contrary to the position set forth by counsel in Exhibit 28, Robert Ritchie himself has registered and owns several trademarks comprised of "common words" and a song title. Robert Ritchie owns a trademark registration for the mark AMERICAN BAD ASS for *inter alia*, entertainment services, namely live musical performances by a musical performer or group, Registration No. 2,877,990. A copy of Registration No. 2,877,990 is annexed as Exhibit 29. The trademark AMERICAN BAD ASS was the name of Kid Rock's tour in 2001 and is the name of a song by him. Annexed as Exhibit 30 is a screenshot

showing the American Bad Ass tour and the album cover including the song "American Bad Ass." In addition, Robert J. Ritchie also owns a trademark registration for the mark CHILLIN THE MOST for *inter alia*, entertainment services in the nature of live musical performances, Registration No. 4,555,942. "Chillin the most" is part of the lyrics of a song, "Cowboy," by Kid Rock. A copy of Registration No. 4,555,942 and the lyrics from the song "Cowboy" are annexed hereto as Exhibits 31 and 32, respectively.

56. Upon information and belief, the purpose of Defendants' adoption of the designation "Greatest Show On Earth Tour 2018" was to trade on, misappropriate and wrongfully reap the benefits of the established recognition, goodwill and reputation which has attached to the RINGLING BROS.' Mark, THE GREATEST SHOW ON EARTH, by reason of the substantial expenditure of time, money and effort by RINGLING BROS.

57. Based upon the foregoing and Defendants' insistence to continue their course of conduct unaltered, it is clear that Defendants have no intention to cease infringing the RINGLING BROS.' Marks.

58. Defendants' Unauthorized Uses of the Trademarks have been made in willful disregard of RINGLING BROS.' prior rights in the RINGLING BROS.' Marks.

59. Based on the promotion of Kid Rock's Tour, there is a likelihood that Defendants' goods and services will be associated or affiliated with RINGLING BROS., its Trademarks and/or its goods and services.

60. Such false suggestion and association is causing and will cause irreparable harm to RINGLING BROS.' reputation.

61. Further, Defendants' infringement of RINGLING BROS.' Marks in this manner will dilute them by tarnishing and blurring the distinctiveness of RINGLING BROS.' Marks and the reputation of RINGLING BROS. RINGLING BROS.' Marks will be tarnished, blurred, impaired, and suffer negative associations through Defendants' use of the Greatest Show on Earth in the manner set forth above.

62. RINGLING BROS. has suffered and will continue to suffer irreparable harm if Defendants' conduct is not enjoined. RINGLING BROS. has no adequate remedy at law.

COUNT I
FEDERAL TRADEMARK DILUTION

63. COUNT I is an action for trademark dilution, arising under §43(a) of the Lanham Act, 15 U.S.C. §1125(c). Subject matter jurisdiction over this Count is based on 15 U.S.C. §1121 and 28 U.S.C. §§1331 and 1338.

64. RINGLING BROS. repeats and realleges the allegations in paragraphs 1 through 62, above as if fully set forth herein.

65. The RINGLING BROS.' Marks are distinctive and famous marks, which have been used and advertised continuously throughout the continental United States of America for over a century.

66. The RINGLING BROS.' Marks have received extensive publicity both as a result of the efforts of RINGLING BROS. and through third party recognition. The RINGLING BROS.' Marks are famously associated and extensively recognized with RINGLING BROS. CIRCUS and entertainment-related goods and services.

67. The foregoing acts of Defendants are intended to create an association, constituting dilution by tarnishing and blurring of RINGLING BROS.' Marks in violation of

Section 43(c) of the Lanham Act, 15 U.S.C. §1125(c), as the RINGLING BROS.' Marks will suffer negative associations through Defendants' use of "Greatest Show on Earth" in the manner set forth above. RINGLING BROS. has no ability to control such uses of Defendants with which it does not wish to be associated.

68. By reason of all the foregoing, RINGLING BROS. is being damaged by Defendants' willful use of the Trademarks in the manner set forth above and will continue to be damaged unless Defendants are enjoined from using the same.

69. RINGLING BROS. will be irreparably injured by the continued acts of Defendants, unless such acts are enjoined. RINGLING BROS. has no adequate remedy at law.

COUNT II
FEDERAL TRADEMARK INFRINGEMENT

70. COUNT II is a claim for trademark infringement under the trademark laws of the United States (Lanham Act), 15 U.S.C. §1114. Subject matter jurisdiction over this Count is based upon 15 U.S.C. §1121 and 28 U.S.C. §§1331 and 1338.

71. RINGLING BROS. repeats and realleges the allegations in paragraphs 1 through 62 above as if fully set forth herein.

72. Defendants' Unauthorized Uses of RINGLING BROS.' Marks in the manner set forth above is commercial speech trading on RINGLING BROS.' Marks and the goodwill of RINGLING BROS., and is likely to confuse and deceive the consuming public into believing that Defendants are associated with RINGLING BROS.

73. The actions of Defendants complained of herein are likely to cause confusion, to cause mistake or to deceive others into erroneously believing that Defendants, the Tour

and related products are authorized by, licensed by, sponsored by, endorsed by, approved by or otherwise associated with RINGLING BROS.

74. RINGLING BROS. has repeatedly placed Defendants on oral and written notice of its infringement and unlawful conduct, but Defendants have failed to terminate their wrongful conduct.

75. The acts and conduct of Defendants complained of herein constitute willful and deliberate infringements of RINGLING BROS.' Marks.

76. The foregoing acts of Defendants constitute infringement of RINGLING BROS.' federally registered trademarks in violation of Section 32 of the Lanham Act, 15 U.S.C. §1114.

77. By reason of all the foregoing, RINGLING BROS. is being damaged by Defendants' willful use of the Trademarks in the manner set forth above and will continue to be damaged unless Defendants are enjoined from using the RINGLING BROS.' Marks.

78. RINGLING BROS. will be irreparably injured by the continued acts of Defendants, unless such acts are enjoined. RINGLING BROS. has no adequate remedy at law.

COUNT III
FEDERAL UNFAIR COMPETITION

79. COUNT III is an action for false designation of origin and false or misleading descriptions and representations, arising under §43(a) of the Lanham Act, 15 U.S.C. §1125(a). Subject matter jurisdiction over this Count is based on 15 U.S.C. §1121 and 28 U.S.C. §§1331 and 1338.

80. RINGLING BROS. repeats and realleges the allegations in paragraphs 1 through 62 above as if fully set forth herein.

81. The actions complained of herein constitute false designations of origin and false descriptions, in that the unlawful use by Defendants of "THE GREATEST SHOW ON EARTH" mark and designation is likely to cause confusion or to deceive as to the affiliation, connection or association of RINGLING BROS.' Marks with Defendants, as to the origin, sponsorship or approval of Defendants, their websites, performances and products. No permission has been granted by RINGLING BROS. to Defendants to use the RINGLING BROS. Marks.

82. RINGLING BROS. has repeatedly placed Defendants on oral and written notice of its infringement, but Defendants have failed to terminate its wrongful conduct.

83. The foregoing acts of Defendants constitute unfair competition in violation of Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a).

84. By reason of all the foregoing, RINGLING BROS. is being damaged by Defendants' willful use of the Trademarks in the manner set forth above and will continue to be damaged unless Defendants are enjoined from using the Greatest Show on Earth.

85. RINGLING BROS. will be irreparably injured by the continued acts of Defendants, unless such acts are enjoined. RINGLING BROS. has no adequate remedy at law.

COUNT IV
FLORIDA COMMON LAW TRADEMARK INFRINGEMENT

86. Count IV is an action for trademark infringement under the common law of the State of Florida. Subject matter jurisdiction over this Count is founded upon supplemental jurisdiction under 28 U.S.C. §1367.

87. RINGLING BROS. repeats and realleges each and every allegation contained in paragraphs 1 through 62 above, as if fully set forth herein.

88. By reason of all of the foregoing, RINGLING BROS. has acquired common law trademark rights in the RINGLING BROS.' Marks.

89. The actions of Defendants herein complained of are likely to create confusion, mistake and deception of consumers into believing that Defendants is authorized by, licensed by, sponsored by or otherwise associated with the common law trademark rights in the RINGLING BROS.' Marks.

90. Upon information and belief, the acts and conduct of Defendants complained of constitute willful and deliberate infringement of RINGLING BROS.' common law rights in the RINGLING BROS.' Marks and will continue in willful and wanton disregard of RINGLING BROS.' valuable trademark rights.

91. The foregoing acts of Defendants constitute infringement of the RINGLING BROS.' Marks in violation of the common law of the State of Florida.

92. By reason of all the foregoing, RINGLING BROS. is being damaged by Defendants' willful use of the RINGLING BROS.' Marks in the manner set forth above and will continue to be damaged unless Defendants are enjoined from using the Greatest Show on Earth.

93. RINGLING BROS. will be irreparably injured by the continued acts of Defendants, unless such acts are enjoined. RINGLING BROS. has no adequate remedy at law.

COUNT V
VIOLATION OF FLORIDA STATUTORY TRADEMARK DILUTION AND INJURY TO BUSINESS REPUTATION

94. Count V is an action for violation of Florida statutory trademark dilution and injury to business reputation under Fla. Stat. § 495.151 *et seq.* Subject matter jurisdiction over this Count is founded upon supplemental jurisdiction under 28 U.S.C. §1367.

95. RINGLING BROS. repeats and realleges each and every allegation contained in paragraphs 1 through 62 above, as if fully set forth herein.

96. The RINGLING BROS.' Marks are distinctive and famous marks in the State of Florida by virtue of their substantial inherent and acquired distinctiveness, their extensive use in the State of Florida, and the extensive advertising and publicity of the RINGLING BROS. Marks in Florida which have developed strong, widespread recognition thereof.

97. The actions of Defendants complained of herein are likely to injure the business reputation and dilute the distinctive quality of RINGLING BROS.' well-known and famous Trademarks.

98. The RINGLING BROS.' Marks have received extensive publicity both as a result of the efforts of RINGLING BROS. and through third party recognition. The RINGLING BROS.' Marks are famously associated and extensively recognized with RINGLING BROS. CIRCUS and entertainment-related goods and services.

99. The foregoing acts of Defendants were commercial in nature and are using the RINGLING BROS.' Marks in commerce.

100. The foregoing acts of Defendants are intended to create an association, constituting dilution by tarnishing and blurring of RINGLING BROS.' Marks as the RINGLING BROS.' Marks will suffer negative associations through Defendants' use of the marks in the manner set forth above and cause injury to RINGLING BROS.' business reputation and goodwill.

101. By reason of all the foregoing, RINGLING BROS. is being damaged by Defendants' willful use of the Trademarks in the manner set forth above and will continue to be damaged unless Defendants are enjoined from using the same.

102. RINGLING BROS. will be irreparably injured by the continued acts of Defendants, unless such acts are enjoined. RINGLING BROS. has no adequate remedy at law.

COUNT VI
COMMON LAW UNFAIR COMPETITION

103. Count VI is an action for unfair competition under the common law of the State of Florida. Subject matter jurisdiction over this Count is founded upon 28 U.S.C. §§ 1338 and supplemental jurisdiction under 28 U.S.C. §1367.

104. RINGLING BROS. repeats and realleges each and every allegation contained in paragraphs 1 through 62 above, as if fully set forth herein.

105. The actions of Defendants complained of herein constitute a misappropriation of the RINGLING BROS.' Marks and the goodwill associated therewith, acts of passing off

RINGLING BROS.' Marks, all of which constitute unfair competition under the common law of the State of Florida.

106. The actions of Defendants herein complained of are likely to create confusion, mistake and deception of consumers into believing that Defendants are authorized by, licensed by, sponsored by or otherwise associated with the common law trademark rights in the RINGLING BROS.' Marks.

107. Upon information and belief, the acts and conduct of Defendants complained of constitute willful and deliberate unfair competition and Defendants will continue those acts and conduct in willful and wanton disregard of RINGLING BROS.' valuable trademark rights.

108. The foregoing acts of Defendants constitute unfair competition under the common law of the State of Florida.

109. By reason of all the foregoing, RINGLING BROS. is being damaged by Defendants' willful use of the RINGLING BROS.' Marks in the manner set forth above and will continue to be damaged unless Defendants are enjoined from using the Greatest Show on Earth.

110. RINGLING BROS. will be irreparably injured by the continued acts of Defendants, unless such acts are enjoined. RINGLING BROS. has no adequate remedy at law.

COUNT VII
UNJUST ENRICHMENT UNDER COMMON LAW

111. Count VII is an action for unjust enrichment under common law. Subject matter jurisdiction over this Count is founded upon supplemental jurisdiction under 28 U.S.C. §1367.

112. RINGLING BROS. repeats and realleges each and every allegation contained in paragraphs 1 through 62 above, as if fully set forth herein.

113. The acts of Defendants complained of herein constitute a misuse and misappropriation of RINGLING BROS.' rights by the unlawful use by Defendants of the RINGLING BROS.' Marks and the goodwill associated therewith.

114. Defendants' use of the RINGLING BROS. Marks have conferred a benefit upon Defendants, with Defendants' knowledge thereof, which Defendants have retained and which benefits would be inequitable to retain without payment of the value thereof to RINGLING BROS.

115. Defendants have been unjustly enriched under Florida law and should be required to make restitution to RINGLING BROS. in an amount to be determined at trial.

116. Defendants' acts have caused and will continue to cause irreparable injury and damage to RINGLING BROS. unless such acts are enjoined. RINGLING BROS. has no adequate remedy at law.

WHEREFORE, Plaintiffs pray for the following relief:

A. That the Court enter a judgment against Defendants as follows:

1. Defendants have violated Section 43 of the Lanham Act, 15 U.S.C. § 1125(c) by diluting the RINGLING BROS.' Marks through tarnishment and blurring;

2. Defendants have infringed Plaintiffs' trademark in violation of 15 U.S.C. § 1114(a) and the common law of the state of Florida;

3. Defendants acts constitute unfair competition under Section 43 of the Lanham Act, 15 U.S.C. § 1125(a) and Florida common law;

4 Defendants have violated Florida's statutory trademark dilution and injury to business reputation under Fla. Stat. § 495.151 et seq.;

5. Defendants have through their tortious acts detailed in this Complaint been unjustly enriched, under the common law of Florida; and

6. In all instances, Defendants acted in bad faith, willfully, intentionally, and/or in malicious disregard of Plaintiffs' lawfully protected rights.

B. That the Court enters an Order that Defendants and their parents, subsidiaries and affiliated companies, their respective officers, agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, be preliminarily and permanently restrained and enjoined from using the Trademarks, and from using, affixing, offering for sale, selling, advertising, promoting or rendering goods or services with the Trademarks, "Greatest Show On Earth," "The Greatest New Year's Eve Bash on Earth" or any other trade name or trademark confusingly similar to the Trademarks.

C. That the Court enters an Order that Defendants and their parents, subsidiaries and affiliated companies, their respective officers, agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, be preliminarily and permanently restrained and enjoined from use of any false descriptions or representations or any false designations of origin or from otherwise committing any acts of unfair competition with respect to RINGLING BROS. and its Trademarks by using the Trademarks or any trade name or trademark confusingly similar to the Trademarks.

D. That the Court enters an Order that Defendants and their parents, subsidiaries and affiliated companies, their respective officers, agents, servants, employees and attorneys, and those persons in act of concert or participation with them who receive actual notice of the injunction by personal service or otherwise, be preliminarily and permanently enjoined from diluting by tarnishing and blurring the distinctiveness and goodwill established by RINGLING BROS. in its Trademarks, by using the Trademarks or any trade name or trademark diluting by tarnishing and blurring of the Trademarks.

E. That the Court enters an Order directing Defendants to deliver all catalogs, signs, displays, labels, brochures, videos, images, merchandise, advertising and promotional material bearing the Trademarks or any trade name or trademark confusingly similar to the Trademarks in their possession or subject to Defendants' control or direction to the Clerk of the Court for maintenance during the pendency of this action and for destruction upon entry of a Final Judgment.

F. That the Court enters an Order directing Defendants to promptly remove the Trademarks and any trade name or trademark confusingly similar to the Trademarks from all websites owned or operated on behalf of Defendants their parents, subsidiaries and affiliated companies, their respective officers, agents, servants, employees and attorneys and those persons in active concert or participation with them.

G. That the Court enters an Order directing Defendants to file with the Court within 30 days of the Order a report, signed under oath with a copy to RINGLING BROS.' attorneys, setting forth in detail the manner and form in which Defendants have complied with any order issued hereunder.

H. That the Court enters an Order waiving any requirement that Plaintiffs post a bond.

I. That the Court award RINGLING BROS. the profits of Defendants and the damages sustained by RINGLING BROS. as a result of the willful, intentional and wrongful conduct of Defendants.

J. That the Court award RINGLING BROS. damages in an amount to be proven at trial, together with prejudgment interest, including without limitation damages sufficient to allow Plaintiffs to conduct adequate and appropriate corrective advertising.

K. That because of the willful nature of Defendants' acts, the Court enter a judgment for treble the amount of the aforesaid damages.

L. That because of the willful, intentional and wrongful nature of Defendants' acts, the Court award to RINGLING BROS. in an amount to be determined by the jury at trial.

M. That the Court require Defendants to pay RINGLING BROS. its costs in this action including reasonable attorneys' fees.

N. That the Court grant RINGLING BROS. such other and further relief as the Court deems just and proper.

DEMAND FOR JURY TRIAL

Pursuant to Rule 38(b), Fed.R.Civ.P., RINGLING BROS. hereby demands trial by jury as to all claims in this litigation.

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Knoedler Obituary (1857 – 2011): Select Legal History of the Oldest American Art Gallery

By Irina Tarsis, Center for Art Law (2014)[1]

> *What we call the beginning is often the end. And to make an end is to make a beginning. The end is where we start from. ~ T. S. Eliot*

Every important art museum and private collection in the United States likely owns works of art that at one point or another, or more than once, sold through one of the oldest and finest American art galleries, Knoedler & Co (the Gallery). A tour through the annals of case law also uncovers many a Knoedler references, from matters under review by the United States Tax Court to illegal wire-tapping hearings, from the United States Customs Court citations to nineteenth century unfair competition conflicts, from World War II looted art to Soviet nationalization title disputes, from warranty breaches to racketeering, and fraud.

The rise and demise of the Gallery span three centuries. It was established by Michael Knoedler and members of a French firm Goupil, Vibert & Cie (later Boussod, Valadon & Cie) in 1848, well before the founding of the major museums in the United States. In 1857, Michael Knoedler bought out the Gallery from his French partners and shifted from selling French Salon paintings to providing old master paintings to the American art market. In 1971, the Gallery was acquired by Armand Hammer, a clever businessman and the founder of The Armand Hammer Museum of Art and Culture Center in California, who decades earlier brought valuables nationalized by the Soviets into the United States and sold books, paintings, jewels and much more in American department stores as well as antique shops.

On November 11, 2011, the Gallery suddenly announced that it was shutting down and going out of business. The apparent reason for closing this venerable institution was the sale of dozens of works falsely attributed to the high-ticket twentieth century artists such as Jackson Pollock, Mark Rothko, and Robert Motherwell. The Gallery and its principles and agents were subsequently sued for fraud, racketeering, breach of contract, breach of the covenant of good faith and fair dealing, unjust enrichment and more.

Recognized for its significance in the field, parts of the Gallery's archives were purchased by the Getty Institute in 2012. The archive contained letters written by the preeminent nineteenth and twentieth century collectors and artists, including Léon Bakst, Alexander Calder, Edgar Degas, Greta Garbo, Paul Gauguin, Sarah Bernhardt, Childe Hassam, Winslow Homer, Rockwell Kent, Henri Matisse, Irving Penn, Mark Rothko, John Singer Sargent, and Edward Steichen.

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The Gallery had been in existence for more than 160 years and its demise was a sad chapter in the American art and business history. This article will explore select cases that map a footprint the Gallery left on the American legal history.

Intervivos

The first legal action on record involving the Gallery, in a role of a plaintiff, dates back to 1891. Michael Knoedler tried to stop successor in interest to the French gallery from operating under the name he was using for his business. In 1887, three decades after he bought out the the New York concern, new owners of the French gallery owners opened another storefront in New York City, operating under the name of "Goupil & Co., of Paris; Boussod, Valadon & Co., successors." The name was confusingly similar to that used by Knoedler, who has been doing business under the name of "Goupil & Co., M. Knoedler & Co., successors" since the 1850s. Nevertheless, the court held that the acts of the defendants did not "depreciate the value of the good-will of the concern bought by M. Knoedler in 1857," and that Knoedler did not acquire "the exclusive right to use the name of Goupil & Co. as a trade designation in [the United States]". In 1893, the Second Circuit Court of Appeals affirmed the ruling denying Knoedler's request to enjoin the French art gallery from using the Goupil & Co business name in New York and the United States.

Next, in 1919, the Gallery protested assessment of import duties by the collector of customs at the Port of New York. In the case of M. Knoedler & Co. v. United States, 36 Treas. Dec. 63, T. D. 37898, G. A. 8229 (1919), the court considered proper classification of a bronze statue produced by Auguste Rodin. There, a board of three assessors agreed that Rodin was a professional sculptor of high order and his sculpture, imported by Knoedler, was produced (carved, remodeled and improved) by the artist. Thus the court held that the bronze statue was an 'original' and not subject to an ad valorem 15% fee as initially estimated. At the time the sculpture was valued at 12,000 francs.

Some of the Gallery-affiliated sales from the 1930s and 1950s would instigate legal action decades later. For example, between 1997 and in 2000, the Gallery found itself a third party defendant to the dispute between the Seattle Art Museum (the Museum) and Elaine Rosenberg, heir of Paul Rosenberg, an important Jewish art dealer in Paris, whose collection was confiscated by the Nazis during World War II. The facts of the dispute revealed that in 1954, the Gallery sold a 1928 Matisse painting, Odalisque, to Virginia and Prentice Bloedel, who bequeathed it to the Museum. The Museum took possession of the painting in 1991 and full ownership in 1996. Elaine Rosenberg sued the Museum to recover the painting, and the Museum impleaded the Gallery, alleging fraud and/or negligent misrepresentation at the time of the 1954 sale. The Gallery was able to get out of the dispute, with its costs reimbursed, by demonstrating that it was not a party to the Bloedel's bequest to the Museum.

Ultimately, the Museum Board of Trustees decided to return Odalisque to the Rosenberg heirs in 1999, and following the return, the Museum and the Gallery reached an out-of-court agreement, whereby the Museum was able to chose “at least one painting from the inventory of the Knoedler gallery” and the Gallery waived its right to collect awarded attorney’s fees. The Director of the Gallery at the time, Ann Freedman, was quoted as saying “If there’s anything I would choose to emphasize, it’s that this settlement is larger than our specific case… Being in the world of art, this case has the potential to be part of a universal understanding and healing.”

Four years later, in 2004, the Gallery was defending itself for a sale of another painting stolen during World War II. In 1955, the Gallery sold a painting Spring Sowing by the Italian artist Jacopo da Ponte to the Springfield Library and Museum Association (the Association) for $5,000. The bill of sale stated that the defendant “covenants with the grantee that it [is] the lawful owner of the said goods and chattels; that they are free from all encumbrances; that it have [sic] good right to sell same as aforesaid; and that it will warrant and defend the same against lawful claims and demands of all persons.” However, in 1966, the Director General of the Arts for the Italian Government wrote to the Association’s director, claiming that Spring Sowing belonged to the Uffizi, a museum in Florence, Italy. Apparently the painting was on loan to the Italian Embassy in Poland before World War II, and it went missing during the War. The Association exchanged letters with the Gallery staff and Italian officials, and while the Gallery staff acknowledged that probably this painting was the one stolen from the embassy, little action was taken until the early 2000s, when the Italian government reached out again to the Association. Following the 2001 return of the painting, the Association sued the Gallery alleging breach of contract, breach of implied warranty, fraud and deceit, negligence and misrepresentations, among other counts. The ultimate decision or the terms of a settlement between the Association and the Gallery are not public; however, the court refused to dismiss this case even though the Gallery argued that the plaintiff’s actions were time barred. In fact, the court refused to decide the case at the pleading stage, and found that the Museum may be able to argue equitable estoppel to overcome the Gallery’s time limitations argument, ruling that the statute of limitation was tolling since the 1960s.

Posthumously

Ann Freedman turned out to be the last of the Gallery directors. Now a principle of another art gallery at 25 East 73rd Street in New York City, called FreedmanArt, Freedman worked at the Knoedler Gallery from 1977 through 2009.

When venerable establishments like the Gallery crumble, the aftershocks tend to reverberate far and wide. The circumstances of its demise in particular, sale of numerous forgeries at high market value prices, triggered many legal proceedings. The fakes came from a single source, an art dealer named Glafira Rosales, who offered the Gallery dozens of “previously unknown works painted by important Abstract Artists.” Rosales provided only basic background about the original collector of these works, but the art world was eager to embrace a crop of fresh Pollocks, Rothkos, Klines and other prized artists. Many art experts, including curators with the leading galleries and authors of catalogue raisonnes, seasoned collectors and gallerists, such as Ann Freedman, viewed the works offered by Rosales and believed them to be authentic. As more heretofore unseen works were entering the market, Rosales fabricated provenance information, even allegedly naming Alfonso Ossorio, an artist and a collector, as a conduit from the famed artists to the anonymous collector as an explanation of their long lost status.

The too good to be true discovery of the Abstract Expressionist treasure trove was simply just that. On September 16, 2013, Rosales plead guilty to all counts brought against her, including charges of wire fraud, tax evasion, failure to file financial statements, money laundering, and more. She is facing a prison sentence of almost 100 years, revocation of her U.S. citizenship, as well as monetary penalties in excess of $80 million. Rosales is reportedly cooperating with the government, but that does nothing for the defunct Gallery.

Between 2011 and 2013, there were half a dozen legal actions started against the Gallery in the Southern District of New York, and complaints continue to materialize. First, on December 1, 2011, Pierre Lagrange, a businessman from London, filed a complaint against Knoedler Gallery LLC and Ann Freedman, having received a forensic report that showed that the work attributed to Pollock that he purchased from the Gallery for $17 million was a forgery. In 2012, John D. Howard sued Freedman, Rosales and the Gallery, accusing them of common-law fraud, breach of warranty, mistake and RICO violations, for selling him a fake Rothko for $8.4 million.

Next, in rapid succession, the Martin Hilti Family Trust, Domenico and Eleanore De Sole, Frances Hamilton White, David Mirvish Gallery Limited, and The Arthur Taubman Trust all sued to recover their losses on forgeries the Gallery sold to them from the Rosales Collection. For example, Frances Hamilton White brought action seeking compensatory and punitive damages for the sale of a fake Pollock. Together with her ex-husband, she purchased a purported Jackson Pollock painting for $3.1 million, which has since been determined to be a forgery. In the complaint, the plaintiff submitted that she "chose to acquire art through Knoedler because of its reputation as New York City's oldest art gallery." She purchased multiple works for about $5 million because she and her former husband relied on the "knowledge, experience and sterling reputation" of the Gallery and its staff. The collectors tried to unwind the sale when the work was declined on consignment by an auction house because it did not appear in a Pollock catalogue raisonne. White alleged that the defendants "profited greatly from the fraudulent sale(s)," namely Rosales received about $670,000 for her "Pollock", a price well below market value, while the Gallery and its agents kept more than $2.4 million.

The most recent complaint to name the Gallery as defendant was filed on August 30, 2013. Michelle Rosenfeld Galleries sued two collectors, Martin and Sharleen Cohen, and Knoedler Gallery LLC, because Rosenfeld felt threatened that its art sales from 1997 and 1998 were under suspicion by the Cohens. These clients allegedly requested a refund for a Pollock and a de Kooning Rosenfeld sold to the Cohens (having first purchased them from the Gallery). Rosenfeld is seeking declaratory judgment that any claim by the Cohens is barred as a matter of controlling law, that any continued pursuit of refund would be frivolous and merit compensation of Rosenfeld's legal expenses. Lastly, Rosenfeld requests an indemnification by the Gallery against any purported liability in case the claim by the collectors proceeds.

According to Freedman, Knoedler sold about 40 paintings from the Rosales Collection. In a conservative prognosis, more suits against Knoedler are coming down the legal conveyer belt. The aftershocks of the Gallery's demise are also leaving marks in the courts. Most recently, Ann Freedman, named defendant in some of the lawsuits, brought a legal action of her own. In Freedman v. Grassi, she alleges that another art dealer, Marco Grassi owner of Grassi Studios gallery, defamed her when his opinion of Freedman's due diligence in investigating the Rosales Collection appeared in the New York Magazine. Grassi was quoted as saying, "It seems to me Ms. Freedman was totally irresponsible, and it went on for years… Imagine people coming to someone and saying every painting you sold me is a fake. It is an unthinkable situation. It is completely insane. A gallery person has an absolute responsibility to do due diligence, and I don't think she did it. The story of the paintings is so totally kooky. I mean, really. It was a great story and she just said, 'this is great.' by stating that she did not do her due diligence."

Freedman alleges that she was acting in good faith and with due diligence conducted research into the provenance of the Rosales Collection. She alleges that Grassi deliberately published a false defamatory statement about her to harm her reputation, and thus she seeks compensatory damages, nominal damages and punitive damages, as well as judgment interest allowable by law, attorney fees, legal costs and any other appropriate relief. Whether Freedman's case survives pretrial motions or not remains to be seen. However, the Gallery is now figuring in association with a First Amendment and freedom of speech dispute.

Even posthumously the Gallery finds itself in a rare situation having shaped the habits of generations of collectors, going out of business with a bang and not a whisper, and having been sued multiple times. The way things are developing, it may merit the prize for the most sued art galleries of the modern times, second perhaps only to Salander-O'Reilly. However, as the Rosales conspiracy fades away, and the complete history of the Knoedler Gallery waits to be written, what is worth emphasizing is that this venerable Gallery will more likely be remembered for its avant-garde aesthetic and the authentic gems it dealt in rather than the fakes and legal disputes that marred its last chapter. Having left an indelible mark on the world of art in the United States, the Gallery's legacy is larger than the series of recent and pending cases.

On September 30, 2013, U.S. District Judge Paul G. Gardephe ruled in de Sole and Howard actions against Knoedler Gallery, Ann Freedman, Glafira Rosales and other Defendants. The Judge dismissed all claims of wrongdoing against the gallery owner, Michael Hammer; but he denied most motions to dismiss charges against Freedman and Rosales, such as the charges of fraud, unilateral and mutual mistake, fraudulent concealment, and aiding and abetting fraud. Naturally, the court granted Plaintiffs leave to amend their complaints.

Postscript

Since the scandal broke in the press, at least 10 cases have been brought against the gallery and its affiliates. The artist who is believed to have created all of the Rosales forgeries, Pei–Shen

Qian, fled to China from where he had been quoted as saying that "he was duped too". Before the Knoedler legal saga ends, collectors should heed the warning of John Cahill, a New York-based art attorney wrote "[if] impact of the Knoedler scandal will likely have repercussions on the New York art market for years to come, it highlights one of the risks that art purchasers should now be aware of. While maintaining the confidentiality of sellers is an accepted part of the art world, the Knoedler case highlights the importance of actually knowing the identity of the consignor."

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KNOEDLER

Word Mark	**KNOEDLER**
Goods and Services	(CANCELLED) IC 035. US 101. G & S: BUYING AND SELLING WORKS OF ART FOR OTHERS; ACCEPTING WORKS OF ART ON CONSIGNMENT FROM ARTISTS, COLLECTORS, DEALERS, AND OTHERS, FOR SALE ON A COMMISSION BASIS. FIRST USE: 18450000. FIRST USE IN COMMERCE: 18450000
Mark Drawing Code	(5) WORDS, LETTERS, AND/OR NUMBERS IN STYLIZED FORM
Serial Number	72437570
Filing Date	October 5, 1972
Current Basis	1A
Original Filing Basis	1A
Registration Number	0982100
Registration Date	April 9, 1974
Owner	(REGISTRANT) M. KNOEDLER & CO., INC. CORPORATION DELAWARE 21 E. 70TH ST. NEW YORK NEW YORK (LAST LISTED OWNER) 8-31 HOLDINGS, INC. CORPORATION DELAWARE 19 EAST 70TH STREET NEW YORK NEW YORK 10021
Assignment Recorded	ASSIGNMENT RECORDED
Attorney of Record	Alicia Morris Groos
Type of Mark	SERVICE MARK

Register	PRINCIPAL
Affidavit Text	SECT 15. SECT 8 (6-YR). SECTION 8(10-YR) 20040517.
Renewal	2ND RENEWAL 20040517
Live/Dead Indicator	DEAD
Cancellation Date	March 11, 2016

KNOEDLER PUBLISHING

Word Mark	**KNOEDLER** PUBLISHING
Goods and Services	(CANCELLED) IC 016. US 002 005 022 023 029 037 038 050. G & S: Printed materials, namely, books in the field of art, catalogs in the field of art, postcards, calendars and printed certificates; fine art reproductions, namely serigraphs, limited edition prints, mounted and unmounted posters; paintings and photographic reproductions mounted on postcards. FIRST USE: 19700000. FIRST USE IN COMMERCE: 19700000
Standard Characters Claimed	
Mark Drawing Code	(4) STANDARD CHARACTER MARK
Serial Number	78836378
Filing Date	March 14, 2006
Current Basis	1A
Original Filing Basis	1A
Published for Opposition	December 4, 2007
Registration Number	3385452
Registration Date	February 19, 2008
Owner	(REGISTRANT) Knoedler Publishing, LLC LIMITED LIABILITY COMPANY DELAWARE 19 East 70th Street New York NEW YORK 10021 (LAST LISTED OWNER) 8-31 HOLDINGS, INC. CORPORATION DELAWARE 19 EAST 70TH STREET NEW YORK NEW YORK 10021

Assignment Recorded	ASSIGNMENT RECORDED
Attorney of Record	Alicia Morris Groos
Prior Registrations	0982100
Disclaimer	NO CLAIM IS MADE TO THE EXCLUSIVE RIGHT TO USE "PUBLISHING" APART FROM THE MARK AS SHOWN
Type of Mark	TRADEMARK
Register	PRINCIPAL-2(F)
Live/Dead Indicator	DEAD
Cancellation Date	September 26, 2014

Trademarks > Trademark Electronic Search System (TESS)

TESS was last updated on Tue Jan 2 03:47:44 EST 2018

Word Mark F ·A ·O **SCHWARZ** SINCE 1862

Goods and Services IC 009. US 021 023 026 036 038. G & S: Cameras; karaoke machine; karaoke microphones

IC 011. US 013 021 023 031 034. G & S: String Lights; electric warmer to melt and remold colored wax

IC 016. US 002 005 022 023 029 037 038 050. G & S: Books; coloring books; coloring posters; gift bags, wrapping paper, tissue paper, cards, stationary, decorative paper bows for wrapping; packaging; displays and gift boxes; holders specially adapted for holding greeting and holiday cards

IC 025. US 022 039. G & S: Costumes for use in children's dress up play

IC 028. US 022 023 038 050. G & S: Toys; games and children's playthings; stuffed and plush toys; toy construction sets; scale model kits; toy model kit cars and accessories for model kit cars; toy model kit for constructing ferris wheels; toy model kit for constructing roller coasters; toy building blocks; toy laser tag shooting games; train set; remote control toys, namely, vehicles; marble track toys; toy cars; rideable toys and accessories therefor; toy tea sets; toy pianos; portable structures for dance; play tents; toy drones; toy tools and toy workbench; magic tricks; magic kit; toy spy kit; toy rock polishing kit; toy excavation kits; arts and craft paint kits; arts and craft loom kits; arts and crafts crystal growing kit; arts and craft fashion plates kits; play cosmetics and nail adornments; party favors in the nature of small toys, crackers and noisemakers; snow globes; Christmas tree ornaments; holiday and Christmas decorations; Santa evidence kit

IC 030. US 046. G & S: Candy, sweets, ice cream, popcorn, snack mix, trail mix and confectioneries

IC 035. US 100 101 102. G & S: Retail store services featuring candy, sweets, ice cream, popcorn, snack mix, trail mix and confectionaries; wholesale distributorship featuring general merchandise; global sourcing services, namely, locating, competitively negotiating, and procuring for others buyer-specified products on a fully outsourced basis for consumer-branded hard goods companies, namely, by coordinating events which can be attended by potential buyers and potential suppliers and running advertising campaigns; advertising, business management, business administration, demonstration of goods for advertising purposes, distribution of samples, business organization consulting, business management consulting, business research, cost price analysis, direct mail advertising, import-export agencies, promotional marketing, business information and advisory services, global outsourcing services, locating, negotiating, and procuring for others buyer-specified products, business

	management services in the nature of sales management services, retail store services and wholesale ordering services provided via the internet and telephone, and mail ordering services all in the field of general consumer merchandise; retail store services features toys, electronics and clothing, online retail store and wholesale store services featuring toys, electronics and clothing; mail order catalog services
Mark Drawing Code	(3) DESIGN PLUS WORDS, LETTERS, AND/OR NUMBERS
Design Search Code	25.01.25 - Borders, ornamental; Other framework and ornamental borders
Serial Number	87511148
Filing Date	June 29, 2017
Current Basis	1B
Original Filing Basis	1B
Owner	(APPLICANT) F.A.O. Schwarz Family Foundation Alex Millard; Caroline S. Schastny; Eliza Ladd Schwarz; Eric Schwarz; Rae Schwarz; and Molly Wing-Berman charitable trust NEW YORK Trust New York 114 West 47th St. New York NEW YORK 10036
Attorney of Record	Jennifer H. Hamilton
Prior Registrations	2299292;3386501;3901139;AND OTHERS
Description of Mark	Color is not claimed as a feature of the mark. The mark consists of the word FAO with a center dot after the letter "F" and a center dot after the letter "A" with the word SCHWARZ under the word FAO and SINCE 1862 underneath the word SCHWARZ.
Type of Mark	TRADEMARK. SERVICE MARK
Register	PRINCIPAL
Other Data	The name(s), portrait(s), and/or signature(s) shown in the mark does not identify a particular living individual.
Live/Dead Indicator	LIVE

FAO SCHWARZ FIFTH AVENUE

Word Mark	**FAO SCHWARZ** FIFTH AVENUE
Goods and Services	(CANCELLED) IC 028. US 022 023 038 050. G & S: Children's toys and games, namely, plush toys and animals, puppets, rocking horses, baby toys, toy trains, marble games, beads, model cars and toy musical bands, rag dolls, dolls and dolls accessories, beads, children's play cosmetics, soccer balls, volley balls, baseballs, baseball bats and gloves, jump ropes and four square balls; hobby craft kits comprising foam shapes, foam sheets, pipe cleaners, sequins, glitter glue, feathers, confetti, craft sticks, ribbons, fabric trim, yarns, colored poms, beads, wiggle eyes, flower and butterfly dangles and figurative lampshades; children's hobby science kits, lab kits, chemistry kits and educational activity kits comprising children's telescopes, binoculars and microscopes. FIRST USE: 19860930. FIRST USE IN COMMERCE: 19860930 (CANCELLED) IC 035. US 100 101 102. G & S: retail toy store services. FIRST USE: 19851231. FIRST USE IN COMMERCE: 19851231
Mark Drawing Code	(1) TYPED DRAWING
Serial Number	76302929
Filing Date	August 21, 2001
Current Basis	1A
Original Filing Basis	1A
Published for Opposition	September 24, 2002
Registration Number	2662322
Registration Date	December 17, 2002
Owner	(REGISTRANT) TOY SOLDIER, INC. CORPORATION DELAWARE 767 FIFTH AVENUE NEW YORK NEW YORK 10153

	(LAST LISTED OWNER) FAO SCHWARZ FAMILY FOUNDATION TRUST NEW YORK UNITED STATES TRUST COMPANY, 114 WEST 47TH, STREET NEW YORK NEW YORK 10036
Assignment Recorded	ASSIGNMENT RECORDED
Attorney of Record	/James E. Rosini/
Prior Registrations	2299292
Disclaimer	NO CLAIM IS MADE TO THE EXCLUSIVE RIGHT TO USE "FIFTH AVENUE" APART FROM THE MARK AS SHOWN
Type of Mark	TRADEMARK. SERVICE MARK
Register	PRINCIPAL
Live/Dead Indicator	DEAD
Cancellation Date	July 25, 2009

ENTERTAINMENT, ARTS AND SPORTS LAW SECTION ANNUAL MEETING

Take a Bow: What Happens to the Assets After the "Greatest Show on Earth" is Over

I. Trademark Licenses Under US Bankruptcy Code Section 365(n) [11 U.S.C. §365(n)] and Related Provisions:

(a) Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor.

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(c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(1)

(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(B) such party does not consent to such assumption or assignment; or

(2) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor; or

(3) such lease is of nonresidential real property and has been terminated under applicable nonbankruptcy law prior to the order for relief.

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(e)

(1) Notwithstanding a provision in an executory contract or unexpired lease, or in applicable law, an executory contract or unexpired lease of the debtor may not be terminated or modified, and any right or obligation under such contract or lease may not be terminated or modified, at any time after the commencement of the case solely because of a provision in such contract or lease that is conditioned on—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title; or

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement.

(2) Paragraph (1) of this subsection does not apply to an executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(A)(i) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to the trustee or to an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(ii) such party does not consent to such assumption or assignment; or

(B) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor.

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(f)

(1) Except as provided in subsections (b) and (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection.

(2) The trustee may assign an executory contract or unexpired lease of the debtor only if—

(A) the trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

(3) Notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law that terminates or modifies, or permits a party other than the debtor to terminate or modify, such contract or lease or a right or obligation under such contract or lease on account of an assignment of such contract or lease, such contract, lease, right, or obligation may not be terminated or modified under such provision because of the assumption or assignment of such contract or lease by the trustee.

Barry Werbin, Esq., Herrick, Feinstein LLP bwerbin@herrick.com

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(g) Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease—

(1) if such contract or lease has not been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title, immediately before the date of the filing of the petition; or

(2) if such contract or lease has been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title—

> (A) if before such rejection the case has not been converted under section 1112, 1208, or 1307 of this title, at the time of such rejection; or
>
> (B) if before such rejection the case has been converted under section 1112, 1208, or 1307 of this title—
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> > (i) immediately before the date of such conversion, if such contract or lease was assumed before such conversion; or
> >
> > (ii) at the time of such rejection, if such contract or lease was assumed after such conversion.

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(n)
(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—

> (A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by
> virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee
> with another entity; or
>
> (B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to
> such contract, to such intellectual property (including any embodiment of such

intellectual
property to the extent protected by applicable nonbankruptcy law), as such rights existed
immediately before the case commenced, for—

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

(A) the trustee shall allow the licensee to exercise such rights;

(B) the licensee shall make all royalty payments due under such contract for the duration
of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C) the licensee shall be deemed to waive—

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract, or any agreement supplementary to such contract, provide to the licensee any intellectual property (including such embodiment) held by
the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity.

(4) Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract or any agreement supplementary to such contract—

(i) perform such contract; or

(ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity.

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11 USC § 101(35): The term "intellectual property" means—

(A) trade secret;
(B) invention, process, design, or plant protected under title 35; [Patents]
(C) patent application;
(D) plant variety;
(E) work of authorship protected under title 17; or [Copyrights]
(F) mask work protected under chapter 9 of title 17;

to the extent protected by applicable nonbankruptcy law.

<u>NOTE</u>: Trademark rights are NOT expressly covered by this definition. The legislative history of Section 365, however, shows that Congress specifically did not include trademarks because "such contracts raise issues beyond the scope of [the] legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area *and to allow the development of equitable treatment of this situation by bankruptcy courts.*" S. Rep. No. 100-505, at 5 (1988). [Emphasis added]

II. <u>Bankruptcy and Trademark Licenses - Key Cases</u>

Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir.1985)

Pre 365(n) case that compelled Congress to enact that Section. Court permitted a debtor-licensor to reject an intellectual property license it had granted to a licensee, holding that under Section 365, the rejection of an intellectual property license deprived a licensee of rights previously granted under the license, but also constituted a breach. As such, the licensee was entitled to monetary damages under Section 365(g), but could not retain its contractual license rights.

Raima UK Ltd. v. Centura Software Corp., 281 B.R. 660 (Bankr. N.D. Cal. 2002)

In a case of first impression, court rules that Section 365(n) does not protect trademark licensees because it's not an "intellectual property" license as defined in Section 101(35A) of the Code, which only covers works of authorship under Title 17, trade secrets, patent licenses, mask works and other inventions, designs and processes etc. that are protected under Title 35. Thus, the trustee could properly terminate a license.

In re Old Carco L.L.C., 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009)

Court refused to protect trademark licensees due to exclusion of "trademarks" in definition of "Intellectual Property" for Section 365(n).

In re Exide Technologies, *607 F.3d 957 (3d Cir. 2010)*

Court found a license not to be executory and thus not subject to rejection. A concurring opinion noted that Congress likely intended "equitable treatment" of trademark licenses where a court can use its general equitable powers to deny rejection of trademark licenses. This contrasts with the judicial view that no protection exists under 365(n) for non-debtor trademark licensees, including under a court's general equitable powers.

Sunbeam Products v. Chicago American Manufacturing, 686 F.3d 372 (7th Cir. 2012)

Significant 7th Circuit decision on trademark licenses that are rejected in bankruptcy under Sections 365(a) and (g). A debtor's rejection of a trademark (or other IP license in the absence of a 365(n) clause) only absolves the debtor of any obligation to perform and gives rise to a damage claim for breach of contract under 365(g), but does not rescind the underlying contract (license). When the debtor here rejected the agreement, the licensee, CAM, continued to sell branded products, and the debtor filed an adversary proceeding against it to halt such sales.

The Bankruptcy Court judge held that she would allow CAM, which had invested substantial resources in making Lakewood-branded box fans (Lakewood had been acquired by Sunbeam), to continue using the Lakewood marks "on equitable grounds" to sell branded products it had made that were by contract to have been purchased by the debtor, which had rejected the contract. The Circuit did not share this broad "equitable" view, but nevertheless upheld the decision in favor of CAM on the alternative basis that a straight reading of 365(g) speaks only of a “breach” by a debtor upon rejection, not a “rescission,” and the two are mutually exclusive contract remedies. Thus, while the debtor was relieved of the purchase obligation, the license survived and was not terminated.

In re Interstate Bakeries Corporation [Lewis Brothers Bakeries Inc. v. Interstate Brands Corp.] 690 F.3d 1069 (8th Cir. 2012); Reversed En Banc, 751 F.3d 955 (8th Cir. 2014)

En banc panel reversed first panel’s affirmance that an underlying license was executory under 365(n), holding that because the perpetual license was an integrated part of an overall asset purchase agreement, which itself was fully performed, the license was not executory because the parties’ obligations had been substantially performed under both the asset purchase agreement and license, and the debtor’s “failure to perform any of its remaining obligations would not be a material breach of the integrated agreement.”

In Re: Crumbs Bake Shop, Inc., 522 B.R. 766 (Bankr. N.J. 2014)

“Debtors entered into licensing agreements with third parties, which allowed such parties to utilize the Crumbs trademark and trade secrets, and sell products under the Crumbs brand.” The debtors entered into an asset purchase agreement, to sell substantially all its assets to a third party, LFAC. The debtors themselves, however, did *not* move to reject the licenses. Rather, LFAC moved to determine the parties’ respective rights, arguing that “in the event of a rejection, the trademark Licensees would not be protected by § 365(n) based on the sale being free and clear of all encumbrances.” LFAC further argued that the *Exide Technologies* equitable principles should not apply where a third party purchased a debtor’s trademark assets. The court rejected this (at p. 772):

> While some courts have suggested that § 365(n) rights of third parties should succumb to the interests of maximizing the bankruptcy estate in liquidation contexts, this Court finds no basis for such a distinction. Bankruptcy estates, whether reorganizing or liquidating, benefit already from the ability to assume or reject executory agreements. There is no reason to augment such benefits at the expense of third parties and a licensing system which Congress sought to protect by means of preserving certain rights under § 365(n). Indeed, in sale cases, which currently dominate the retail Chapter 11 landscape, monetary recoveries primarily benefit the pre-petition and post-petition lenders and administrative claimants. Minimal distributions to general unsecured creditors are the norm. *It is questionable that Congress intended to sacrifice the rights of licensees for the benefit of the lending community. Rather, as noted by Judge Ambro, Congress envisaged the Bankruptcy Courts as exercising discretion and equity on a case by case basis*….

> LFAC submits that, in the event Licensees were to make an election under § 363(n) to continue using the trademarks, LFAC would be placed in a licensor-licensee arrangement that it never intended to assume. Yet, LFAC or any other purchaser, has come into this transaction with eyes wide-open, after engaging in due diligence, and can adjust their purchase price to account for such existing License Agreements. *The Court does not conclude that Licensees' trademark rights should be vitiated completely to aid in LFAC's recovery under its credit bid*.
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> …………………
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> For the reasons stated above, LFAC's motion is denied. *Trademark Licensees can be protected by § 365(n), notwithstanding the omission of "trademarks" from the Bankruptcy Code definition of "intellectual property." Furthermore, the sale under § 363(f) did not extinguish the rights afforded to Licensees by § 365(n) because Licensees did not consent to the sale*. *To the extent that Licensees' rights under § 365(n) were not vaporized by the sale, Licensees are entitled to elect to continue using the intellectual property granted under their respective License Agreements, for the duration of their terms. Royalties generated as a result of this use are payable to Debtors, because the agreements themselves have not been assumed, assigned or rejected, and thus continue to be Debtors' property*. [Emphasis added]

In re Trump Entertainment Resorts, Inc., 526 B.R. 116 (Bankr. D. Del. 2015)

Bankruptcy Court held that trademark licenses are not assignable by a debtor licensee without the consent of the licensor. The court stated that exclusive and non-exclusive trademark licenses are precluded from being assigned by a licensee without the licensor's consent, even if the original license agreement did not expressly prohibit assignments. When the licensee breached, the licensor sued for breach and termination of the license, but the licensee filed for Ch. 11 staying the case.

While 365(f)(1) provides that a debtor may assume an executory contract, even if the non-debtor objects, the Court nevertheless found exceptions to this rule and held that under federal trademark law, a trademark license agreement is non-assignable without the licensor's consent, stating that: "Because intellectual property and technology licenses are generally executory contracts, a debtor may assume or assign of them under Section 365 of the United States Bankruptcy Code." The Delaware Bankruptcy Court adopted the "hypothetical test," which is a strict interpretation of Section 365(c). The court concluded that because the license agreement was unassignable under non-bankruptcy law, the debtor could not assume it. Under the "hypothetical test," the court found that under federal trademark law, a debtor may not assume an executory contract over the objection of the non-debtor even if the debtor does not have any intentions of assigning the contract.

Note: If this case was filed in a jurisdiction that did not follow the hypothetical test, then Section 365(c) would not have prevented the assumption of the trademark license, and there would have been no relief from the automatic stay. *See In re Trump*, 526 B.R. at 120–21.

In re Tempnology LLC, 559 B.R. 809 (B.A.P. 1st Cir. 2016)

Adopts application of 365(n) by Seventh Circuit in *Sunbeam Products, supra*. While 365(n) excludes trademarks and related distribution and contractual rights, rejection of a trademark license under 365(g) constitutes a breach by the debtor-licensor. A rejection still maintains a licensee's rights and remedies for breach of the license agreement, without necessarily terminating all the licensee's rights under the terms of the agreement and non-bankruptcy law.

III. Trademark Abandonment From Non-Use

A. "Use in commerce": Requires "*bona fide* use of the mark in the ordinary course of trade, and not made merely to reserve a right in a mark." 15 U.S.C. § 1127. The Lanham Act defines "commerce" as all activity that can be regulated by Congress. "Token use" will not suffice. *But see Christian Faith Fellowship v. Adidas AG*, 841 F.3d 986 (Fed. Cir. 2016) (Federal Circuit reversed TTAB's cancellation of ADD A ZERO slogan marks owned by a church, where the church had made a couple out-of-state sales of hats depicting the slogans, thus finding that "de minimis" use in commerce can meet the commerce requirement under the Commerce Clause). See *United Drug v. Theodore Rectanus*, 248 U.S. 90, 97-98 (1918):

> There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed. The law of trade-marks is but a part of the broader law of unfair competition; the right to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business. *Hanover Milling Co. v. Metcalf*, 240 U.S. 403, 412-414.
>
> The owner of a trade-mark may not, like the proprietor of a patented invention, make a negative and merely prohibitive use of it as a monopoly.

B. Lanham Act § 45(1) (15 U.S.C. § 1127(1)): Non-use of a mark for three consecutive years creates a rebuttable presumption of abandonment. *See also Rivard v. Linville*, 133 F.3d 1446 (Fed. Cir. 1998). The focus is on "intent not to resume use":

> Abandonment of mark. A mark shall be deemed to be "abandoned" if either of the following occurs:
>
> (1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark….

C. Test for Abandonment Under Lanham Act: More restrictive than at common law, which generally required "intent to abandon" versus "intent not to resume use." *See Exxon v. Humble Exploration*, 695 F.2d 96 (5th Cir. 1983), where the court emphasized this point and noted that where actual use had ceased, the mark's owner must demonstrate "plans to resume commercial use" of the mark. Otherwise, it would be almost impossible to prove abandonment. Federals courts have adopted this standard.

> There is a difference between intent not to abandon or relinquish and intent to resume use in that an owner may not wish to abandon its mark but may have no intent to resume its use. In factual contexts where there is no issue of a hoarding of a mark, the language "an intent to abandon or relinquish" may be used to express the Lanham Act requirement of an "intent not to resume use."
>
> An "intent to resume" requires the trademark owner to have plans to resume commercial use of the mark. Stopping at an "intent not to abandon" tolerates an owner's protecting a mark with neither commercial use nor plans to resume commercial use. Such a license is not permitted by the Lanham Act.
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> 695 F.2d at 102-03.

See also Silverman v. CBS Inc., 870 F.2d 40, 47 - (2d Cir. 1989):

> A proprietor who temporarily suspends use of mark can rebut the presumption of abandonment by showing reasonable grounds for the suspension and plans to resume use in the reasonably foreseeable future when the conditions requiring suspension abate….But a proprietor may not protect a mark if he discontinues

> using it for more than 20 years and has no plans to use or permit its use in the reasonably foreseeable future. A bare assertion of possible future use is not enough. [*Citations omitted*]

D. Global: Most countries and applicable territories (such as the EU) provide that if a registered mark is not used for three (*e.g.*, Australia, Japan, South Korea, Canada, China, Russia and various Latin American countries) or five (various EU countries), consecutive years it can be canceled for non-use if a third party challenges it. Note that under the EUTM, use in any one EU member state is sufficient.

E. Intervening Factors/Residual Good Will: May interrupt use but not constitute abandonment. This could include intervening negative market conditions, bankruptcy for reorganization purposes, licensing and permitting changes in regulated industries that take time to comply with, temporary unavailability of raw materials, etc. *See, e.g.:*

(i) *Crash Dummy Movie v. Mattel Inc.*, 601 F.3d 1387 (Fed. Cir. 2010), finding no abandonment where Mattel, while not yet selling products under the "Crash Dummies" marks from 1997 - 2003, had intended to resume use of the marks but needed adequate time to re-tool production, and research and develop a market, for the toys after acquiring the marks from the original owner.

(ii) *Wells Fargo & Co. v. ABD Ins. & Financial Services, Inc.*, 758 F.3d 1069 (9th Cir. 2014), finding no abandonment of financial insurance company's service mark despite purchaser's intent to re-brand the company, where purchaser continued to use the mark in marketing and customer solicitation presentations so as to benefit from the residual goodwill and mark recognition that had been associated with the company."

(iii) *Macy's Inc. v. Strategic Marks LLC*, Nos. 11-6198, 15-0612, U.S. Dist. LEXIS 11676 (N.D. Cal. Feb. 1, 2016). Macy's sued Strategic Marks, which exploits "zombie" brands, for seeking to register and use various regional store brands that had previously been converted to the Macy's brand, including Abraham & Straus, Filene's, The Broadway, Jordan Marsh, The Bon Marche, Robinson's, Bullock's, May Company, and others. Macy's held prior registrations for eight of these disputed marks and had continued to sell shirts depicting the marks on a dedicated "Heritage" brands website. The Court granted Macy's partial summary judgment, finding that "the disputed marks are well-known marks that were specifically chosen by Strategic Marks precisely because they are well-known and there remains favorable consumer recollection and feelings towards the brands….Additionally, on the [Macy's] shirts, the marks are followed by 'TM,' clearly indicating to the consumer that the mark is being used as a trademark."

> []Strategic Marks's primary argument is that because Macy's no longer operates the regional brands, the marks have been

> abandoned and can now be used by any other individual. Thus, Strategic Marks seems to contend that principles of abandonment should be used to inform consumer perception, *i.e.*, whether a consumer would view the disputed marks purely as ornamental rather than also source-identifying. However, Strategic Marks admits that it knows of no specific case in which a court has found that as a matter of law, consumers would no longer associate a mark with the source after a store is closed, and the Court could not find any….
>
> This is not surprising. Simply because a store has ceased operations does not mean that its proprietor or owner does not maintain a valid interest in the registered trademark of the business. A trademark can still exist and be owned even after a store closes. If an accused infringer uses the mark, a consumer may still be confused as to whether the owner of the trademark authorized or licensed the infringer [*citations omitted*].

(iv) *Hornby v. TJX Companies Inc.,* 87 U.S.P.Q.2D 1411 (TTAB 2008): TTAB rejected trademark cancellation challenge by former famous model/actress "Twiggy" against registrant of TWIGGY marks because "petitioner cannot rely on her use of the mark TWIGGY for clothing between 1967 and 1970 to establish her priority over respondent, and her later use was subsequent to respondent's filing date, and was also abroad and insufficient to establish trademark rights in the United States. Because petitioner cannot prove priority of use of the mark TWIGGY, her likelihood of confusion claim must fail."

F. Licensee Use: Trademark rights licensed to others inure to the benefit of the licensor and qualify as use "by" a licensor, provided the license is not a "naked" license where the licensor has relinquished or failed to provide any quality control oversight. In that case, the entire trademark can be invalidated. *See Eva's Bridal Limited v. Halanick Enterprises*, 639 F.3d 788 (7th Cir. 2011) (in dispute over license to bridal shop, court found the plaintiffs had, and exercised, no authority over the appearance and operations of defendants' business, including what inventory to market and sell, resulting in a "naked license" and abandonment of the mark).

G. Case study: Usquaebach Scotch whisky. *Cobalt Brands, LLC v. Gowling LaFleur Henderson LLP*, 2010 FC 260 (Canadian Fed. Ct. 2010) (the author represented Cobalt Brands with Canadian counsel). Court rejected abandonment claim despite non-use of USQUAEBACH registered mark in Canada for six-years (Canada has a three year non-use initial presumption of abandonment, subject to "special circumstances") where there were intervening bankruptcies and deaths affecting prior owners of the mark, and Cobalt (as purchaser) had undertaken material steps to re-introduce the regulated whisky brand to Canadian and other world markets, including soliciting orders from the Quebec Liquor Authority.

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Handling US trade mark licensees in bankruptcy

Oliver Herzfeld and Richard R. Bergovoy*

An envelope arrives from the bankruptcy court. You open it and realize with a shock that one of your trade mark licensees has filed a bankruptcy petition and listed you as a creditor. Over the last two years, this has become an increasingly common event. But from a trade mark licensor's point of view, a licensee entering bankruptcy is not always the disaster it might appear to be.

This article will provide an overview of the main issues faced and decisions to be made by a trade mark licensor whose licensee has filed for bankruptcy.

The authors

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This article

- The article provides an overview of the main issues faced and decisions to be made by a trade mark licensor whose licensee has filed for bankruptcy in the USA.
- It covers the following four scenarios: (i) if the licensee seeks to assume and the licensor consents, (ii) if the licensee seeks to assume and the licensor objects, (iii) if the licensee seeks to reject and the licensor consents, and (iv) if the licensee seeks to reject and the licensor objects. The article also covers trade mark licence agreement performance after a bankruptcy filing.

US bankruptcy and trade mark law

First, here is a brief outline of bankruptcy and trade mark law in the USA. Bankruptcy is a process for adjusting the debts and adjudicating the property of a bankrupt debtor's estate. Trade marks are distinctive names, logos, designs, symbols, or other indicators to identify to consumers that the products or services on which the trade mark appears originate from a unique source, and to distinguish the trade mark owner's products or services from those of other entities. The Lanham Act, which codifies US trade mark law, does not address or even mention bankruptcy and the Bankruptcy Code, which codifies US bankruptcy law, does not address or even mention trade marks. Nonetheless, it is well understood that valid trade mark licence agreements are considered assets of the debtor subject to the provisions of the Bankruptcy Code.

The two main categories of business bankruptcy in the USA are Chapter 7 and Chapter 11. Chapter 7 is a so-called liquidation bankruptcy, in which a trustee carves up the debtor, liquidates its assets, and then distributes the proceeds to creditors according to a priority scheme contained in the Bankruptcy Code. Chapter 11 is a so-called reorganization bankruptcy, in which the debtor itself restructures its affairs, and pays off creditors a portion of what it owes them, usually from a combination of loans, selected asset sales, stock issuance, and current revenues. Chapter 11 bankruptcies are carried out according to a plan that must be voted on by creditors and holders of equity interests, and approved by the bankruptcy court. Reorganizations under Chapter 11 sometimes fail and convert to Chapter 7 liquidations, or sometimes are intentionally utilized by the debtor to liquidate its assets, similar to a Chapter 7 trustee.

Executory contracts

The Bankruptcy Code treats a valid licence agreement as a special kind of asset called an 'executory contract'. There is no definition of executory or executory contracts in the Bankruptcy Code, but the most commonly accepted definition in the case law is an agreement where substantial performance remains due by both parties. Most unexpired trade mark licences will meet the definition of executory contract because, typically, the licensee is required to observe the quality

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specifications of the licensor and pay royalties to the licensor, while the licensor is required to maintain quality control of the licensed product and refrain from suing the licensee for trade mark infringement.

Automatic stay

Most executory contracts are subject to the automatic stay provisions of the Bankruptcy Code.[1] That means that, once a licensee files for bankruptcy, the licensor is prohibited from taking any action to collect a debt from the licensee without the express approval of the bankruptcy court.

> The automatic stay is one of the fundamental debtor protections provided by the bankruptcy laws. It gives the debtor a breathing spell from his creditors, stopping all collection efforts, all harassment, and all foreclosure actions. It permits the debtor to attempt a repayment or reorganization plan, or simply to be relieved of the financial pressures that drove him into bankruptcy.[2]

As part of the automatic stay, the licensor is forbidden to make any attempt to terminate the licence agreement. Boilerplate provisions that state the licence agreement is automatically terminated if the licensee files for bankruptcy are so-called ipso facto clauses that are automatically invalid in bankruptcy.[3] A licensor should therefore definitely resist the impulse to send its bankrupt licensee a termination notice with a demand for immediate payment of all royalties due since such an action could be a violation of the automatic stay and put the licensor in contempt of the bankruptcy court.

Licensee must assume or reject

Another consequence of a licence agreement being executory is that the Bankruptcy Code requires the licensee to choose whether to 'assume' the licence agreement (ie accept it in full, both benefits and responsibilities, and render performance according to its original terms) or 'reject' it (ie terminate the agreement and excuse itself from any further performance obligations).[4] The rationale behind this right goes to the heart of bankruptcy law, namely to maximize the value of the bankruptcy estate by allowing the debtor to retain useful, profitable, and advantageous agreements, and reject unprofitable and disadvantageous ones. The licence agreement may be a revenue producer that is critical to the licensee's Chapter 11 reorganization efforts, or the licensee may wish to sell (assume and assign) the licence agreement to a third party as part of either a Chapter 11 or Chapter 7 asset sale.

A Chapter 7 licensee (or, more precisely, the trustee of its bankruptcy estate) must elect to assume an executory licence agreement within 60 days of the bankruptcy filing unless it obtains an extension from the bankruptcy court, or the licensee is deemed to have automatically rejected the agreement.[5] The Chapter 7 licensee (or the trustee) would typically notify the licensor by serving notice of a motion to assume executory agreements. A Chapter 11 licensee has until confirmation of its plan of reorganization (which is usually at least six months after the bankruptcy filing but could be longer—sometimes more than a year) to elect to assume or reject the licence agreement.[6] However, many Chapter 11 licensees make that decision much earlier—often as part of a pre-confirmation asset sale—and send their licensor a notice of intention to assume as part of the sale.

So what can a trade mark licensor do when a licensee makes its election to assume or reject?

If licensee seeks to assume and licensor consents

Trade mark licensors would normally want their licensees to assume licence agreements, especially if the licensees are in default of their agreements, which bankrupt licensees almost always are. The reason is that in order for a licensee in default to assume, the Bankruptcy Code requires it to

(A) cure, or provide adequate assurance that it (or the trustee) will promptly cure, such default;

(B) compensate, or provide adequate assurance that it will promptly compensate, a party other than the debtor to the licence, for any actual pecuniary loss to such party resulting from such default; and

(C) provide adequate assurance of future performance under such licence.[7]

1 s 362(a) of the Bankruptcy Code.

2 Notes of Committee on the Judiciary, Senate Report No 95–989.

3 ss 365(e)(1) and 541(c) of the Bankruptcy Code.

4 s 365 of the Bankruptcy Code. Technically speaking, s 365(d)(2) of the Bankruptcy Code states that a Chapter 11 debtor 'may' assume or reject until the confirmation of its plan of reorganization, but see n 6 and its text.

5 See s 365(d)(1) of the Bankruptcy Code.

6 Although not required to do so, in actuality most Chapter 11 debtors either make an affirmative election to assume or reject, or their contractual counterparties file motions to compel them to do so.

7 s 365(b)(1) of the Bankruptcy Code.

Among other things, this means that the licensor must receive 100 cents on the dollar of what it is owed, as well as assurances that the licensee will meet payment and all other contractual obligations in the future.

But even if the licensor is prepared to accept the assumption of the licence agreement, it should carefully review the notice of intention to assume, and file an objection in bankruptcy court if it believes the licensee has not met its burden under any of these factors. Obviously, under (A) above, the licensor should determine whether the licensee has listed the correct cure amount for any arrears, both pre- and post-petition. Under (C), the licensor should determine whether the licensee has shown that it or any proposed assignee has the resources available to continue performing all contractual obligations. And the good news for licensors is that under (B), if the licence contains an attorneys' fees provision that applies to bankruptcy proceedings and is valid under state law, the licensor can request to be compensated for its reasonable attorneys' fees arising out of its filing of such objection (although whether as an unsecured creditor it can actually collect will depend on the law of that judicial district).[8]

If licensee seeks to assume and licensor objects

In contrast, the licensor may believe that the licensee or its proposed assignee is incapable of properly performing the licence agreement. One of the fundamental principles of US trade mark law is that a licensor must control the quality of the goods and services provided by the licensee under the licensed mark. This rule is designed to fulfil the public policy objective of consumer protection, in that trade mark laws help prevent the public from being misled as to the quality of branded products and services. A prohibited 'assignment in gross of a mark'[9] or other failure to maintain quality control standards could give rise to a so-called naked licence claim.[10] The consequences of such a claim can be quite severe. In particular, 'a court may find that the trade mark owner has abandoned the trade mark, in which case the owner would be estopped from asserting rights to the trade mark'.[11]

To prevent such damage from occurring, the licensor may object to a licensee's assumption or assumption and assignment of a licence agreement on the following four grounds:

1. The licence agreement was terminated prior to the bankruptcy filing. A licence agreement that has been terminated prior to the licensee entering bankruptcy is no longer executory, and therefore not subject to assumption, provided that all the conditions for termination have occurred prior to the bankruptcy filing (including, in the event of a material breach, the expiration of any permitted remedy or cure periods);
2. The licence agreement is not executory. If either party to a licence agreement has substantially performed its material obligations under the agreement, the licence may no longer be considered executory. For example, the Third Circuit recently held a perpetual, exclusive, and royalty-free trade mark licence entered into in connection with an asset purchase agreement to be non-executory, because the licensee had no royalty payment obligations, and none of its other obligations could be considered material;[12]
3. The licensee cannot possibly fulfil its requirements for assumption, in the case of a defaulted contract. In other words, the licensee cannot satisfy its burden of proof that it is capable of promptly curing all defaults, compensating third parties for their pecuniary losses, and providing adequate assurances of future performance by the licensee or its assignee;[13] or
4. The licence agreement is not assumable and/or assignable. By its literal language, the Bankruptcy Code prohibits a debtor from *assuming* an agreement without the consent of the other party when the debtor does not have the explicit right to *assign* the agreement under 'applicable law' in the absence of a bankruptcy.[14] 'Applicable law' is often interpreted to mean state law and federal common law prohibitions on assignments of agreements that are 'personal' in nature. The two courts that have directly considered the issue of when a trade mark licence is assignable under non-bankruptcy

8 See *Travelers Casualty & Surety Co. v Pacific Gas & Electric Co.*, 549 US 433 (2007) (no blanket prohibition in the Bankruptcy Code against recovery of attorneys' fees). But compare *Ogle v Fidelity & Deposit Co. of Maryland*, 586 F.3d 143 (2d Cir. 2009) and *In re SNTL Corp.*, 571 F.3d 826 (9th Cir. 2009) (unsecured creditors permitted to recover attorneys' fees) with *Adams v Zimmerman*, 73 F.3d 1164 (1st Cir. 1996) and *Waterman v Ditto*, 248 BR 567 (BAP 8th Cir. 2000) (unsecured creditors not permitted to recover attorneys' fees).

9 s 1060 of the Lanham Act.

10 *Barcamerica Int'l USA Trust v Tyfield Importers*, 289 F.3d 589, 596, 62 USPQ.2d (BNA) 1673 (9th Cir. 2002).

11 id.

12 See *Exide Technologies v EnerSys Delaware Inc.*, 607 F.3d 957 (3d Cir. 2010).

13 See s 365(b)(1) of the Bankruptcy Code and above text at n 8.

14 See s 365(c)(1)(A) of the Bankruptcy Code.

law concluded that non-exclusive trade mark licences are unassignable without the licensor's consent. The first court reasoned that 'the grant of a non-exclusive license is an "assignment in gross" under the Lanham Act, that is, one that is personal to the assignee and thus not freely assignable to a third party'.[15] The second court reasoned that 'copyright and trade mark licensors share a common retained interest in the ownership of their intellectual property – an interest that would be severely diminished if a licensee were allowed to sub-license without the licensor's express permission'.[16] Other courts have permitted the transfer of trade mark licences without the licensors' consent, but usually without full analysis of precisely what is 'applicable law' as required by the Bankruptcy Code.[17] Further, as may be inferred from the statutory language above, the non-assignability of the licence may affect not only the licensee's ability to assume it and assign it to a third party, but also merely to assume it and continue performance itself as prior to the bankruptcy.[18]

If licensee seeks to reject and licensor consents

What happens if the licensee decides not to accept, but rather to reject an executory licence agreement? As mentioned above, an executory agreement in a Chapter 7 bankruptcy is deemed automatically rejected if the licensee does not announce its intent to assume within 60 days of the bankruptcy filing. In a Chapter 11 bankruptcy, the motion to assume will normally state that any agreements not listed as being assumed will be deemed rejected.

A rejected licence agreement is treated as a breach of contract effective as of the date of the bankruptcy filing, and the licensor would normally file a claim for damages on that basis. Usually, the claim will be an unsecured one, meaning that the licensor will have to stand in line with all the other general unsecured creditors and probably receive no more than the proverbial '10 cents on the dollar', at least as to amounts due as of the bankruptcy filing date (but see below regarding post-petition amounts).

If licensee seeks to reject and licensor objects

If the licensor is opposed to the licensee's rejection, it can in theory file an objection, but judges will usually not overturn the licensee's decision to reject if it was made in good faith and with reasonable business judgment as to what is most beneficial to the bankruptcy estate.

Licence agreement performance after the bankruptcy filing

As mentioned above, in the absence of a court order, usually by way of a licensor's motion to lift the automatic stay or to compel the licensee's assumption or rejection of an executory agreement, the licensee is permitted to exercise its rights under the licence agreement after the bankruptcy filing, unless and until the agreement is rejected. An important clarification is necessary: the licensor's prospect, as described above, between receiving 100 cents on the dollar if the licensee assumes versus only cents on the dollar if the licensee rejects, applies only to amounts owing as of the bankruptcy filing date. A different set of rules applies as to amounts due during the limbo period after the filing date, but before assumption/rejection goes into effect.

Specifically, the Bankruptcy Code requires the debtor to reimburse creditors for the benefits that they provide to the bankruptcy estate during such limbo period.[19] In the licence context, this is commonly interpreted to mean that the licensee must pay all post-filing running royalties.[20] The debtor in a

15 *In re Travelot Co.,* 286 BR 447 (SD Ga 2002).

16 *N.C.P. Marketing Group, Inc. v BG Star Productions, Inc. et al.*, 279 Fed. Appx. 561 (9th Cir. 2008).

17 *In re Varisco*, 16 BR 634 (Bankr. MD Fla 1981); *In re Rooster, Inc.*, 100 BR 228 (Bankr. ED Pa 1989); *In re Sunrise Restaurants, Inc.,* 135 BR 149 (Bank. MD Fla 1991).

18 The Third, Fourth, Ninth, and Eleventh Circuits and several bankruptcy courts have interpreted this rule to mean the debtor cannot assume the agreement in bankruptcy without the other party's consent *regardless* of whether the debtor intends to assume the agreement for itself and not actually assign it to a third party (ie the hypothetical test). Thus, licensors in a 'hypothetical' jurisdiction will probably be able to block either the debtor's assumption or assumption and assignment of a non-exclusive trade mark agreement. However, the First and Fifth Circuits and several bankruptcy courts have interpreted this rule to mean the debtor cannot assume the agreement in bankruptcy without the other party's consent only if the debtor actually intends to assign it to a third party (ie the actual test). This disagreement between the circuits has existed for several years and, even though the US Supreme Court was recently presented with a clear opportunity to resolve the conflict, it declined to do so. See *N.C.P. Marketing Group, Inc. v BG Star Productions, Inc. et al.*, No 08–463 (23 March 2009).

19 s 503(b)(1)(A) of the Bankruptcy Code.

20 Cf *In re Dak Industries, Inc.*, 66 F.3d 1091 (9th Cir. 1995), an unusual Ninth Circuit opinion which appears to hold that if a software licence agreement is structured to contain minimum guaranteed royalty payments, it should be treated as a sale, not a licence, for bankruptcy purposes, and that any guarantee payments scheduled to be paid after the bankruptcy filing should be treated entirely as pre-petition general unsecured claims, even if the licensee continues to use the software after filing. (The wiser course would have been to allow administrative expense claims to the extent of the post-filing running royalties, and treat any

Chapter 11 bankruptcy will sometimes pay post-filing royalties voluntarily, especially for a licence agreement that it plans to assume but, more often, the licensor in both Chapter 7 and Chapter 11 bankruptcies is required to file a so-called administrative expense claim for post-filing royalties. Sometimes courts allow filing of such claims on the same pre-printed form as an unsecured claim with no motion required, but more frequently, they require a separate motion to be filed. Since the administrative expense claim is treated as one of the most preferred of 'priority' claims in business bankruptcies,[21] the licensor will usually receive 100 cents on the dollar, or something close to it, rather than the general unsecured claimant's cents on the dollar.

Post-shock realization

After the initial shock of the licensee's bankruptcy wears off, licensors may realize that such an event puts them in an even better position than they were previously. But trade mark licensors should retain an attorney knowledgeable about the intersection of bankruptcy and trade mark law to help guide them through an arcane and specialized process and assist them in maximizing the likelihood of a positive outcome.

excess payments required by the minimum guarantees as general unsecured claims.) As a precaution, a trade mark licensor that is owed substantial minimum guaranteed royalties in the post-filing 'limbo' period should seek advice from its bankruptcy attorney.

21 See ss 503(b)(1)(A) and 507(a) of the Bankruptcy Code.

Federal Court | Cour fédérale

Date: 20100305

Docket: T-1054-09

Citation: 2010 FC 260

Ottawa, Ontario, March 5, 2010

PRESENT: The Honourable Mr. Justice Martineau

BETWEEN:

COBALT BRANDS, LLC

Applicant

and

GOWLING LAFLEUR HENDERSON LLP

Respondent

<u>REASONS FOR JUDGMENT AND JUDGMENT</u>

[1] The appellant, Cobalt Brands LLC (Cobalt), appeals the decision of the Registrar of Trade-Marks (the Registrar) to expunge from the Trade-Mark register (the register), registration number TMA219908 for the USQUAEBACH trade-mark and design (the USQUAEBACH mark) as a result of the appellant's failure to file evidence of use pursuant to subsection 45(3) of the *Trade-marks Act*, R.S.C. 1985, c. T-13, as amended (the Act).

[2] For the reasons that follow, the appeal will be allowed, the decision of the Registrar will be set aside, and the Registrar will be ordered to reinstate on the register, the appellant's USQUAEBACH mark bearing the registration number TMA219908.

[3] Section 45 of the Act provides the Registrar with the power to expunge any registered trade-mark from the register, where the registered owner is unable to show that the ware or service specified in the registration of their trade-mark was in use in Canada during the three-year period immediately preceding notice by the Registrar. This section also provides, however, that a registered trade-mark will not be expunged if it "appears" to the Registrar that the absence of use was due to special circumstances.

[4] For ease of reference, Section 45 of the Act provides the following:

45. (1) The Registrar may at any time and, at the written request made after three years from the date of the registration of a trade-mark by any person who pays the prescribed fee shall, unless the Registrar sees good reason to the contrary, give notice to the registered owner of the trade-mark requiring the registered owner to furnish within three months an affidavit or a statutory declaration showing, with respect to each of the wares or services specified in the registration, whether the trade-mark was in use in Canada at any time during the three year period immediately preceding the date of the notice and, if not, the date when it was last so in use and the reason for the absence of such use since that date.	**45.** (1) Le registraire peut, et doit sur demande écrite présentée après trois années à compter de la date de l'enregistrement d'une marque de commerce, par une personne qui verse les droits prescrits, à moins qu'il ne voie une raison valable à l'effet contraire, donner au propriétaire inscrit un avis lui enjoignant de fournir, dans les trois mois, un affidavit ou une déclaration solennelle indiquant, à l'égard de chacune des marchandises ou de chacun des services que spécifie l'enregistrement, si la marque de commerce a été employée au Canada à un moment quelconque au cours des trois ans précédant la date de l'avis et, dans la négative, la date où elle a été ainsi employée en dernier lieu et la raison de son défaut d'emploi

depuis cette date.

(2) The Registrar shall not receive any evidence other than the affidavit or statutory declaration, but may hear representations made by or on behalf of the registered owner of the trade-mark or by or on behalf of the person at whose request the notice was given.

(2) Le registraire ne peut recevoir aucune preuve autre que cet affidavit ou cette déclaration solennelle, mais il peut entendre des représentations faites par le propriétaire inscrit de la marque de commerce ou pour celui-ci ou par la personne à la demande de qui l'avis a été donné ou pour celle-ci.

(3) Where, by reason of the evidence furnished to the Registrar or the failure to furnish any evidence, it appears to the Registrar that a trade-mark, either with respect to all of the wares or services specified in the registration or with respect to any of those wares or services, was not used in Canada at any time during the three year period immediately preceding the date of the notice and that the absence of use has not been due to special circumstances that excuse the absence of use, the registration of the trade-mark is liable to be expunged or amended accordingly.

(3) Lorsqu'il apparaît au registraire, en raison de la preuve qui lui est fournie ou du défaut de fournir une telle preuve, que la marque de commerce, soit à l'égard de la totalité des marchandises ou services spécifiés dans l'enregistrement, soit à l'égard de l'une de ces marchandises ou de l'un de ces services, n'a été employée au Canada à aucun moment au cours des trois ans précédant la date de l'avis et que le défaut d'emploi n'a pas été attribuable à des circonstances spéciales qui le justifient, l'enregistrement de cette marque de commerce est susceptible de radiation ou de modification en conséquence.

(4) When the Registrar reaches a decision whether or not the registration of a trade-mark ought to be expunged or amended, he shall give notice of his decision with the reasons therefor to the registered owner of the trade-mark and to the

(4) Lorsque le registraire décide ou non de radier ou de modifier l'enregistrement de la marque de commerce, il notifie sa décision, avec les motifs pertinents, au propriétaire inscrit de la marque de commerce et à la personne à la

person at whose request the notice referred to in subsection (1) was given.	demande de qui l'avis visé au paragraphe (1) a été donné.
(5) The Registrar shall act in accordance with his decision if no appeal therefrom is taken within the time limited by this Act or, if an appeal is taken, shall act in accordance with the final judgment given in the appeal.	(5) Le registraire agit en conformité avec sa décision si aucun appel n'en est interjeté dans le délai prévu par la présente loi ou, si un appel est interjeté, il agit en conformité avec le jugement définitif rendu dans cet appel.

I. BACKGROUND

[5] The appellant, Cobalt, is a limited liability company under the laws of the state of New Jersey, U.S.A. that was created for the purpose of managing the production, marketing, bottling, labelling, shipping, importing and exporting blended Scotch Whiskey. In 2007, Cobalt purchased all the ownership rights and goodwill associated with the global USQUAEBACH mark including, but not limited to, the registration of the mark in Canada.

[6] The USQUAEBACH mark was originally registered in Canada on April 7, 1977, by Twelve Stone Flagons Ltd. (Twelve Stone), a manufacturer and retailer of blended Scotch Whiskey based in Pennsylvania, U.S.A. This trade-mark was registered for use in association with blended Scotch Whiskey. Between 1976 and 1997, Twelve Stone registered the USQUAEBACH mark in over twenty countries worldwide.

[7] In 2003, after the death of Mr. and Mrs. Stankiwicz, who collectively owned 95% of Twelve Stone, the production and sales of products associated with USQUAEBACH mark were suspended.

In April of 2003, all the global rights and interests in the USQUAEBACH mark were assigned to a Dutch liquor company and creditor of Twelve Stone, Van Caem International, B.V. (Van Caem), by order of the U.S. District Court for Western Pennsylvania. Van Caem then assigned all of their rights to their Belgian subsidiary, Van Caem Belgium, BVBA (Van Caem Belgium).

[8] On May 7, 2003, the Registrar amended the register to reflect Van Caem Belgium as the new registered owner of the USQUAEBACH mark in Canada

[9] Due to unforeseen circumstances, namely the death of Van Caem's principal owner in late 2003, by early 2004, Van Caem and its subsidiaries were forced to liquidate. Starting in 2005, Mr. Shai Perry, the President of Cobalt, negotiated with the Van Caem liquidators for the purchase of the USQUAEBACH mark. After incorporating Cobalt in 2006, Mr. Perry presented a formal written Asset Purchase Agreement and Bill of Sale for the USQUAEBACH mark in January 2007. This agreement included the purchase of the Canadian registration in question, and on March 28, 2007, the liquidators in charge of Van Caem's assets signed said agreement and had it notarized in accordance with applicable Dutch and Belgian law. The agreement became official on April 5, 2007 when Mr. Perry accepted on behalf of Cobalt, however due to a lien on the trade-mark file, it was not until mid-September 2007 that Cobalt had uninhibited control over the use of the USQUAEBACH mark.

[10] On May 23, 2007, this second assignment was communicated to the Registrar who entered Cobalt as the registered owner of the USQUAEBACH mark bearing the registration number TMA219908.

[11] On November 21, 2008, the respondent sent a letter to the Registrar requesting that a notice pursuant to section 45 of the Act be sent to the appellant. On December 15, 2008, the Registrar purportedly sent the appellant and its Canadian representatives, Blaney McMurtry LLP, a notice pursuant to subsection 45(1) of the Act, requesting that within three months, the appellant, as the registered owner, furnish an affidavit or statutory declaration showing whether the wares listed in association with the USQUAEBACH mark had been used in Canada at any time within the preceding three years.

[12] Both the appellant and their representatives submit that they never received said notice.

[13] The Registrar notified the appellant and their representatives by way of a letter dated April 28, 2009, that as a result of a failure to submit evidence of use or evidence of special circumstances that justify a lack of use, the registration for the USQUAEBACH mark was to be expunged from the register, pursuant to subsection 45(4) of the Act. The appellant, as well as its Canadian representatives, acknowledge receipt of this second notice. As a result, the appellant filed this application pursuant to section 56 which provides a right of appeal from any decision of the Registrar under the Act:

56. (1) An appeal lies to the	**56.** (1) Appel de toute décision

Federal Court from any decision of the Registrar under this Act within two months from the date on which notice of the decision was dispatched by the Registrar or within such further time as the Court may allow, either before or after the expiration of the two months.	rendue par le registraire, sous le régime de la présente loi, peut être interjeté à la Cour fédérale dans les deux mois qui suivent la date où le registraire a expédié l'avis de la décision ou dans tel délai supplémentaire accordé par le tribunal, soit avant, soit après l'expiration des deux mois.
(2) An appeal under subsection (1) shall be made by way of notice of appeal filed with the Registrar and in the Federal Court.	(2) L'appel est interjeté au moyen d'un avis d'appel produit au bureau du registraire et à la Cour fédérale.
(3) The appellant shall, within the time limited or allowed by subsection (1), send a copy of the notice by registered mail to the registered owner of any trade-mark that has been referred to by the Registrar in the decision complained of and to every other person who was entitled to notice of the decision.	(3) L'appelant envoie, dans le délai établi ou accordé par le paragraphe (1), par courrier recommandé, une copie de l'avis au propriétaire inscrit de toute marque de commerce que le registraire a mentionnée dans la décision sur laquelle porte la plainte et à toute autre personne qui avait droit à un avis de cette décision.
(4) The Federal Court may direct that public notice of the hearing of an appeal under subsection (1) and of the matters at issue therein be given in such manner as it deems proper.	(4) Le tribunal peut ordonner qu'un avis public de l'audition de l'appel et des matières en litige dans cet appel soit donné de la manière qu'il juge opportune.
(5) On an appeal under subsection (1), evidence in addition to that adduced before the Registrar may be adduced and the Federal Court may exercise any discretion vested in the Registrar.	(5) Lors de l'appel, il peut être apporté une preuve en plus de celle qui a été fournie devant le registraire, et le tribunal peut exercer toute discrétion dont le registraire est investi.

[14] The appellant filed a motion on consent to have the respondent's Notice of Appearance struck out. This motion was granted by way of an order dated September 21, 2009, by Prothonotary Milczynski. While they remain a party to these proceedings, the respondent has not opposed this appeal and has not appeared before or filed any submissions with the Court.

II ISSUE

[15] The appellant does not contest that the mark in question fell into disuse. Rather, the question before the Court is whether there exist special circumstances that excuse the absence of use of the USQUAEBACH mark for the purposes of section 45 of the Act.

III ANALYSIS

[16] In the case at bar, the appellant failed to adduce any evidence before the Registrar. According to the appellant, this is because neither it nor its Canadian representatives ever received the Registrar's notice under subsection 45(1). Subsection 56(5) permits the appellant to adduce before the Federal Court, evidence in addition to that adduced before the Registrar. It has been clearly established in the jurisprudence that the appellant will not be prohibited from adducing evidence before the Federal Court simply because none was produced before the Registrar. This is especially so since pursuant to subsection 45(3), a registered owner of a trade-mark may have their trade-mark expunged for a "failure to furnish any evidence". In order to give registered owners a meaningful right of appeal, subsection 56(5) must be interpreted so as to enable a registered owner the same opportunity to file evidence before the Court as he or she had before the Registrar. This

interpretation is also in line with the principle that the Federal Court be allowed to exercise any discretion vested in the Registrar (*Austin Nichols & Co., Inc. v. Cinnabon Inc.*, [1998] 4 F.C. 569 at paragraphs 11 and 13 (C.A.) (*Austin Nichols*)).

[17] It is the owner of a registered trade-mark who has the obligation, under section 45 of the Act, to furnish affidavit evidence in support of their position. That said, the registered owner is entitled to furnish more than one affidavit and there is no rule prohibiting these affidavits from being sworn by third parties (*Canada (Registrar of Trade Marks) v. Harris Knitting Mills Ltd.* (1985), 60 N.R. 380 at page 383, [1985] F.C.J. No. 226 (F.C.A.) (QL) (*Harris Knitting*)). In determining this appeal therefore, the Court has given consideration to all of the evidence filed by the appellant, which includes the following four affidavits and their corresponding exhibits:

1. the affidavit of Shai Perry, President of the appellant
2. the affidavit of Arien Kroon, previously a manager of Van Caem Belgium
3. the affidavit of Colin Halpern, Vice President of Halpern Imports Limited (Halpern)
4. the affidavit of Aroujan Arman, a law student working at Blaney McMurtry

[18] Since the evidence which forms the record before the Court was not before the Registrar, the normal deferential standard of review does not apply. Normally, where new evidence is adduced before the Court that would materially affect the Registrar's decision, the applicable standard of review is correctness (*Molson Breweries v. John Labatt Ltd.*, [2000] 3 F.C. 145 at paragraph 51 (C.A.)). Because the evidence before the Court was not before the Registrar, the same standard

should apply in the present application (*3082833 Nova Scotia Co. v. Lang Michener LLP*, 2009 FC 928 at paragraph 29).

[19] The proceedings under section 45 are designed to remove the "dead wood" from the Trade-Marks Register in that they are intended to be a "simple, summary and expeditious procedure for cleaning up the trade-mark register of trade-marks that have fallen into disuse" (*Osler, Hoskin & Harcourt v. United States Tobacco Co.* (1997), 139 F.T.R. 64, [1997] F.C.J. No. 1671 at paragraph 21 (QL) (*Osler*)). The proceedings are not meant to be contentious as is evidenced by the fact that the requesting party is not entitled to file evidence and is not entitled to cross-examine the registered owner on their affidavits (*Osler*, above, at paragraph 17). Similarly, the proceedings under section 45 do not impose a heavy burden on the registered owner. While a bald assertion is not enough, the registered owner must simply demonstrate before the Registrar, or before the Court, that the trade-mark in question was used during the relevant period or that any disuse is due to special circumstances (*Osler*, above, at paragraph 16; *Swabey Ogilvy Renault v. Golden Brand Clothing (Canada) Ltd.*, 2002 FCT 458 at paragraph 7).

[20] The Federal Court of Appeal in *Scott Paper Ltd. v. Canada (Attorney General)*, 2008 FCA 129 (*Scott Paper*) recently shed light on what is meant by the phrase "special circumstances". According to the Court of Appeal at paragraph 22 of its decision, the general rule is that in the absence of use, a trade-mark will be expunged. While an exception to this general rule exists where the absence is due to special circumstances, what are considered to be special circumstances must be circumstances that are not found in most cases of absence of use of a

trade-mark. Finally, the special circumstances, which excuse the absence of use of a trade-mark, must be the circumstances to which the absence of use is due. It is important to highlight that the Federal Court of Appeal states that the inquiry into whether special circumstances exist is an inquiry into the reasons for the non-use and that an intention to resume use cannot be used to support a finding of special circumstances (paragraphs 25 and 35).

[21] In *Scott Paper*, the Federal Court of Appeal was explaining its earlier decision in, *Harris Knitting*, above. In the latter decision, the Court stated that while it is impossible to enumerate what circumstances would constitute "special circumstances", in making such a determination, the decision maker should consider the duration of the absence of use and the likelihood of its continuation, along with the extent to which the absence of use is due solely to a deliberate decision on the part of the registered owner or to factors outside his or her control.

[22] With the foregoing in mind, and with no reason to discredit the evidence submitted by the appellant, I believe that the appellant has demonstrated that the non-use of the USQUAEBACH mark is excused by the existence of special circumstances.

[23] First and foremost, the period of non-use must be determined in order to examine the cause. It is clear that the appellant did not obtain the rights to the USQUAEBACH mark in Canada until April 5, 2007. The appellant submits that in the case of an assignment of a trade-mark, the period of non-use, with regard to the present registered owner, should be considered from the date the owner acquired the mark (*Re Rainbow Jeans Co. Ltd.*, [1994] T.M.O.B. No. 152 (QL)). For the purposes

of the present application, I do not think it matters whether the Court considers the period of time since the appellant acquired the USQUAEBACH mark or the period since the mark was last used in Canada.

[24] The last use of the USQUAEBACH mark in Canada is likely attributable to the business carried out by Twelve Stone. At the time the evidence was filed by the appellant, Cobalt had not yet resumed use of the USQUAEBACH mark in Canada. Furthermore, according to the evidence submitted, there was never any business related to the sale of blended Scotch Whiskey bearing the USQUAEBACH mark between Van Caem Belgium and any wholesaler or other licensed entity in Canada. While the evidence on record shows that as late as September 2003 the Liquor Control Board of Ontario (LCBO) had listed for sale blended Scotch Whiskey products with the USQUAEBACH mark, there is no evidence to support that this stock was received by way of any business transaction with Van Caem Belgium. On the contrary, according to Mr. Halpern, the Vice President of Halpern Imports Limited, who acted as the import agent for Twelve Stone with respect to the various USQUAEBACH blended Scotch Whiskey products imported into the province of Ontario, the last shipment of products containing the USQUAEBACH mark was 75 cases of blended Scotch Whiskey which had been ordered by the LCBO in 2001. Therefore, the stock listed by the LCBO was likely part of the last sale carried out while Twelve Stone was the registered owner of the USQUAEBACH mark, which means that the last use of the mark would have been in or around 2001.

Special Circumstances

[25] As mentioned above, in 2001, Mr Stankiwicz and his wife, who collectively owned approximately 95% of Twelve Stone, passed away, resulting in the suspension of all sales of USQUAEBACH blended Scotch Whiskey. The death of the partners in charge of the business meets the criteria of special circumstances (*Re I.D. Fashions Ltd.*, [1998] T.M.O.B. No. 109 at paragraph 12). While this incident alone may not constitute special circumstances that are capable of justifying the absence of use of the USQUAEBACH mark over the last nine years, as is discussed below, the history of the ownership of this mark is plagued by a series of unfortunate events.

[26] The USQUAEBACH mark was assigned to Van Caem, and subsequently Van Caem Belgium, pursuant to a U.S. Court order in 2003. At the end of 2003, the principal owner of Van Caem died, resulting in the suspension of all business and ultimately a lengthy liquidation process that started in 2004 and, according to the appellant, lasted a number of years. While the affidavit of Mr. Kroon states that efforts had been made to find a producer of Scotch Whiskey in Scotland, the death of the principal owner put an end to any possibility of marketing, producing or distributing USQUAEBACH blended Scotch Whiskey in Canada.

[27] The duration of the absence of use between the last shipment of USQUAEBACH products to Ontario in 2001 and the date the appellant acquired the USQUAEBACH mark (April 5, 2007) was approximately six years. Given the fact that within these six years two registered owners of the USQUAEBACH mark were forced to discontinue carrying on their businesses as a result of the

deaths of their principal owners, I think it can be said that the absence of use within this time period was due to special circumstances. As is required by the decision in *Scott Paper*, the evidence demonstrates that the absence of use by these registered owners was directly related to the deaths in question. Furthermore, these incidents constitute circumstances that are not faced in most circumstances of non-use of a trade-mark and they cannot be said to be the result of a deliberate decision on the part of the registered owner.

[28] With regard to the period of time since Cobalt acquired the USQUAEBACH mark, Mr. Perry submits that he immediately began taking steps to re-commence the production and distribution of USQUAEBACH blended Scotch Whiskey products in Canada. These steps included, *inter alia*: finding a Scottish distiller that could match the quality of the USQUAEBACH products sold by previous owners; ensuring that each label associated with the different varieties of USQUAEBACH blended Scotch Whiskey complies with the labelling regulations; negotiating distribution deals in each province Cobalt wished to serve, namely Quebec, Ontario, Nova Scotia and New Brunswick; ensuring that Cobalt complies with local liquor regulations in the various jurisdictions it planned on serving (which in Canada would require Cobalt to ensure compliance with each individual province's liquor regulations); and finding a licensed importer in Canada. Given that the production and labelling of Scotch Whiskey must also comply with Scottish law, it is not surprising that this process would likely take a significant amount of time to complete.

[29] It is clear from the evidence that Mr. Perry was not dealing with the acquisition of an ongoing business with existing supply and distribution networks. As a result of the troubled history

of ownership over the USQUAEBACH mark, Mr. Perry was required to rebuild the production and distribution of USQUAEBACH Scotch Whiskey from the ground up.

[30] The record before the Court establishes that as early as July 2008, Mr. Perry was corresponding with the Société des alcools du Québec (SAQ) via e-mail. In one e-mail dated May 11, 2009, the SAQ agrees to purchase a total of 50 cases of USQUAEBACH blended Scotch Whiskey products. At the time this evidence was submitted to the Court, Mr. Perry stated that these shipments were expected to be delivered in October or November of 2009.

[31] While it has been made clear in *Scott Paper*, above, that the intention to resume use may not be used to support a finding of special circumstances, it is not the intention demonstrated through the appellant's actions which excuse the absence of use in the present case. It is relevant that the immediate resumption of use of the USQUAEBACH mark by Cobalt was impeded by the nature of the liquor industry, and more specifically, the regulatory schemes that must be complied with in each Canadian province. Even more importantly, however, is the fact that due to the two deaths between 2001 and 2007, USQUAEBACH blended Scotch Whiskey had not been in production for six years, requiring the appellant to start from beginning. The Court finds that in light of the foregoing, there is a basis to conclude that the absence of use of the USQUAEBACH mark since April 2007 was also due to special circumstances that are not normally faced in circumstances of non use and are not due to the deliberate decision of the registered owner.

[32] Furthermore, the evidence demonstrates that Cobalt intends to resume use of the USQUAEBACH mark and while this does not excuse the absence of use, it is a good indication that the period of non-use is likely close to an end.

[33] Given that the purpose of section 45 of the Act is to provide a means to have expunged from the register trade-marks which have not been used and for which there is no reasonable prospect that they will be used (*Rideout and Maybee v. Sealy Canada Ltd.* (1999), 87 C.P.R. (3d) 307 at paragraph 50), the Court finds that the USQUAEBACH mark should not be expunged from the register.

[34] In light of the foregoing, the appeal will be allowed, the decision of the Registrar must be set aside, and the USQUAEBACH mark under registration number TMA219908 must be reinstated.

[35] While the appellant has not asked for its costs, it has requested that the Court specify that such an order is not a waiver by and is without prejudice to the parties' rights to pursue any claims they may have against each other, including the legal costs relating to this proceeding. Such an order will be provided.

JUDGMENT

THIS COURT ORDERS AND ADJUDGES THAT:

1. The appeal is allowed without costs;

2. The decision of the Registrar of Trade-Marks dated April 29, 2009, with respect to the USQUAEBACH mark bearing the registration no. TMA219908 is set aside;

3. The Registrar of Trade-Marks is ordered to reinstate the appellant's trade-mark registration no. TMA219908 on the Trade-Marks Register;

4. The foregoing costs order is a not a waiver by and is without prejudice to the parties' rights to pursue any claims they may have against each other, including recovery of legal costs relating to this application proceeding.

"Luc Martineau"

Judge

FEDERAL COURT

NAME OF COUNSEL AND SOLICITORS OF RECORD

DOCKET:	T-1054-09
STYLE OF CAUSE:	**COBALT BRANDS, LLC and GOWLING LAFLEUR HENDERSON, LLP**
PLACE OF HEARING:	Toronto, Ontario
DATE OF HEARING:	March 3, 2010
REASONS FOR JUDGMENT AND JUDGMENT:	Martineau J.
DATED:	March 5, 2010

APPEARANCES:

Mr. Peter Kappel	FOR THE APPLICANT
No appearance	FOR THE RESPONDENT

SOLICITORS OF RECORD:

Blaney McMurtry LLP Toronto, Ontario	FOR THE APPLICANT
Fasken Martineau DuMoulin LLP. Toronto, Ontario	FOR THE RESPONDENT

KEY PROVISIONS IN TELEVISION DISTRIBUTION DEALS

FOR BENEFIT OF COPYRIGHT OWNER/LICENSOR

GRANT OF RIGHTS

i. Exclusive right to exhibit the finished tapes of the Licensed Episodes via basic cable linear television by any means of transmission only to authenticated subscribers, provided such transmission is linear television ("**Television Rights**").

ii. In connection with the Television Rights, the non-exclusive right within the Territory to stream (not download) each Licensed Episode via a free video-on-demand catch up window ("**FVOD**") on a branded platform of the linear Network of the Licensee commencing as of the television premiere date of each such Licensed Episode for up to seven (7) days.

Any such internet and/or wireless and/or mobile exploitation with respect to the Licensed Episodes granted hereunder shall be geo-filtered to prevent such exploitation outside the Territory and Licensee shall have appropriate security, digital rights management and copy protection in place in accordance with industry standards.

RESERVATION OF RIGHTS

All rights not specifically granted to Licensee in this Agreement are hereby reserved by Owner, including without limitation, the right to exploit the Licensed Episodes via the internet, wireless, and/or any and all digital media, whether now existing or hereafter invented. For the avoidance of doubt, SVOD and /or AVOD/FVOD (except on a catch-up basis) rights are not being granted hereunder; and Licensee cannot exhibit the Licensed Episodes via a stand-alone SVOD and/or OTT site (*e.g.*, Hulu/Netflix/Amazon) even if the Licensed Episodes are organized under Licensee's branded environment.

FOR BENEFIT OF DISTRIBUTOR/LICENSEE

PRIOR EXPOSURE/EXCLUSIVITY

i. *Prior to* the commencement of the Term, the Program shall only be exploited via theatrical, non-theatrical, airlines, traditional home video, electronic sell-through/download to own (i.e., a permanent copy is retained for a fixed fee per program download), Pay-Per-View/Video On Demand per the definition below, and pay cable television and the subscription video-on-demand **("SVOD")** service, which is branded the same as the pay cable television service to authenticated subscribers (e.g., Showtime On Demand is acceptable if the Program has already been licensed to Showtime prior to Licensee's License Period), provided a periodic subscription fee is charged.

ii. The Program shall be exclusive to Licensee during the License Period in the English language against all media except theatrical, non-theatrical, traditional home video, download to own (i.e., a permanent copy is retained for a fixed fee per program download), and Pay-Per-View/Video On Demand per the definition below.

"Pay-Per-View/Video On Demand" – Grantor shall be permitted to exploit the Program during the Term via pay-per-view as scheduled by a pay-per-view service or "video-on-demand" (i.e., where a per-viewing fee is charged to the consumer for viewing an exhibition of any Program for a twenty four (24) hour viewing period or up to seventy two (72) hours if required under VOD/PPV Agreements at a time selected by the consumer) ("**VOD Exploitation**"); and is not offered on a FVOD or SVOD service, subject to the following terms and conditions:

(a) Any service offering such VOD Exploitation shall not be commercially supported/sponsored once a Program has been selected by the viewer (i.e., no commercial ads prior to, during or after such Program and commercials are not integrated into such Program itself), but banner ads can appear on the overall service itself;

(b) Such VOD Exploitation shall not be named, marketed or branded in a manner similar or the same as a cable or broadcast network ; and

(c) Viewers of any VOD Exploitation must be charged a per-exhibition transactional fee in the range customarily charged by providers of PPV/VOD services for the viewing of programs that are comparable in age to the Program.

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August 2011
(updated December 2012)

<u>Client Alert</u>: *Who Wants To Be A Millionaire?*

By Ezra Doner*

In an integrated production, distribution and broadcast company like ABC/Disney, which division makes the profits?[1]

Contestants who appear on *Who Wants To Be A Millionaire* play to win a million dollars. Now Celador Productions, the show's creator, has successfully upheld a jury verdict in its favor of more than $319 million against the ABC Network.

<u>Background</u>

In 1999, Celador, a U.K. production company, licensed North American format rights in *Who Wants To Be A Millionaire* to the ABC television network and Buena Vista Television, both of which are owned by The Walt Disney Company. ABC's U.S.-produced *Millionaire* exploded out of the gate. One-time Disney Chairman Michael Eisner placed the value of *Millionaire* to ABC at "$1B, wild guess, maybe more."

Disney's accounting statements, however, reported Celador's 50% profit participation in the U.S. series as not a billion, nor a million, but . . . zero. In 2004, Celador proceeded to bring suit, and in 2010, a federal jury awarded Celador damages of $270 million, which, together with prejudgment interest, amounted to almost $320 million.

How did Disney determine Celador's profits to be zero, what happened to ABC's billion dollars in value, and what does this mean for revenue participants and television companies that produce, distribute and exhibit their own shows?

<u>Whose Revenues?</u>

In the jargon of filmed entertainment, people often ask about the "gross" of a movie, the "profits" of a TV show, the "sales" of a videogame. The follow up question they should be asking is, whose gross, whose profits and whose sales? The answer can be crucial.

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[1] *Celador Int'l v. Walt Disney Co.*, 347 F.Supp.2nd 846 (C.D. Cal. 2004); affirmed, *Celador Int'l v. Am. Broad. Cos.*, 499 Fed.Appx. 721 (9th Cir. 2012).

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* Ezra Doner is an entertainment and copyright lawyer who focuses on the film, TV and other content sectors. He has worked both as an in-house business and legal executive and as a private lawyer. He did not represent any of the parties in this case.

In the case of *Millionaire,* Disney designated little-known Valleycrest Productions Inc., an affiliate, to produce the episodes; then arranged for Valleycrest to license the episodes to ABC at cost; and then reported profits to Celador at the Valleycrest level – that is, the production company level. Under this structure, it was a legal certainty that in the initial broadcast cycle, there would be zero profit to Valleycrest and, hence, zero profit to Celador.

Of course, had Disney produced *Millionaire* for CBS, NBC or FOX, it is inconceivable that the deal would have been designed to yield zero profit from the first cycle. Either Valleycrest as producer, Buena Vista Television as distributor, or a Disney company acting for either or both, would have bargained for at least the possibility of profits.

Good Faith And Fair Dealing

Every contract carries with it an implied obligation of good faith and fair dealing. At trial, Disney argued it acted in good faith, but that's not how the judge and jury saw it. In this case, good faith and fair dealing meant that a contracting party, like Disney, which had the ability to manipulate financial outcomes, could not do so unfairly.

Renegotiation Anyone?

On successful television shows, it is not unusual for fees to production companies, show runners and on-screen talent to be periodically renegotiated, even if there isn't a contractual requirement to do so.

After *Millionaire'*s breakout success, the Disney companies raised the per episode fee to Regis Philbin, the show's star host, and improved the commission to William Morris Agency, the show's packager, which had represented Celador in the *Millionaire* negotiations. But Disney did not revisit Celador's participation formula, which locked Celador at zero profits from the initial run.

Measure of Damages

At trial, Celador's experts testified regarding typical license fee increases for successful TV shows, and projected what Celador's 50% profit participation might have looked like if episode license fees had been increased to fair market value. Of the alternate projections presented by Celador's experts, the valuation to which the jury came closest operated as follows.[2]

For the first 107 episodes, the experts assumed that license fees would have stayed flat; that is, each of those episodes would have continued to yield zero profit to Celador. Starting at episode 108, however, the license fee would have risen to something like $2.4 million per episode, a big jump over ABC's actual license fee to its corporate cousin Valleycrest.

[2] Since the jury was not required to report details of how it assessed damages, this is an attempt to reconstruct the jury's calculation by reference to information in the court file.

Whose Profits Anyway?

Disney, as an integrated production, distribution and exhibition television company, had the practical ability to shift profits between its production, distribution and broadcast divisions. It could have favored Buena Vista Television, by increasing its distribution fee. Or it could have favored Valleycrest Productions by increasing its license fee (and, indirectly, Celador's profits). But the massive inflow of advertiser dollars, together with a more or less flat license fee, made ABC the big winner. And, in the participation reports, that made Celador the loser.

The Lesson

If you have the unilateral ability to structure a participant's outcomes, think carefully before you report a breakout success as a total loser. Because a jury may restructure that outcome for you.

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August 2012

<u>Client Alert</u>: Another $300 Million for *Guitar Hero* Purchase; When is a Statement Final?

By Ezra Doner*

Eager buyers often overpay for entertainment assets. Add a problematic earn-out[1] and the possibility of overpayment increases.

In the latest *Guitar Hero* case[2], the problem was that an earn-out statement became final against Viacom, the purchaser of videogame company Harmonix Music Systems, notwithstanding a sudden, rapid decline in the value of Harmonix's game inventory.

If you're in the position of Viacom, ideally, your earn-out and participation statements will not be final until you say they're final. In fact, even if your earn-out statement is final vis-à-vis Harmonix, you don't want it to be final for you. As the accounting party, you want the opportunity to revise, revisit, rethink and recalculate your statements.

In the arbitration underlying this latest *Guitar Hero* case, an earn-out statement was held to be final against Viacom in part because it was final against the selling shareholders of Harmonix. In the case itself, the reviewing court affirmed an arbitration award to the selling shareholders of close to $300 million.

<u>The Initial Transaction</u>

Harmonix is one of the companies behind such videogame franchises as *Guitar Hero* and *Rock Band*, iconic properties of the first decade of this century. Viacom wanted to be in that space and, in September 2006, it bought Harmonix for $175 million in cash plus an earn-out for the years 2007 and 2008. For each of those years, the earn-out formula was gross sales of Harmonix's games, less manufacturing and sales costs, less a flat $45 million; then 3.5 times the remainder[3].

<u>The 2007 Earn-Out</u>

In September 2008, Viacom paid $150 million as the earn-out for 2007, the first earn-out year. In calculating the first year earn-out, Viacom did not deduct the costs of goods that were unsold at year-end. At the time of this earn-out payment, Viacom, per evidence in the case, was

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[1] An earn-out is future compensation to the seller of a business, based on the business' post-sale performance.
[2] *Viacom Int'l v. Winshall*, 2012 WL 3249620 (Del.Ch. Aug. 09, 2012), affirmed 76 A.3d 808 (2013)
[3] The court's decision does not explain the rationale behind this formula.

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* Ezra Doner is an entertainment and copyright lawyer who focuses on the film, TV and other content sectors. He has worked both as an in-house business and legal executive and as a private lawyer. He did not represent any of the parties in this case.

"delighted to have Harmonix 'in the family' and thrilled with the progress of the *Rock Band* franchise." But that same month, Lehman Bros. filed for bankruptcy. Soon, the economy was in a tailspin. Had Viacom overpaid?

The 2008 Earn-Out

In March 2010, Viacom delivered to Harmonix a final earn-out statement for 2008 which, despite some $768 million in sales, showed no earn-out due. In preparing this statement, Viacom deducted not only cost of goods sold, but also the cost of unsold goods at year-end 2008.

The Earn-Out Formula and Inventory Cost

The Harmonix earn-out formula apparently did not permit deduction of costs of unsold goods. If it were otherwise, a purchaser like Viacom could load up on inventory during the earn-out period, burdening the selling shareholders with excessive inventory cost. Then, after the earn-out period, Viacom, having recovered the cost of goods, could sell free and clear of the earn-out participation.

The Arbitration

Harmonix objected to the 2007 and 2008 earn-out calculations, and the parties, pursuant to their underlying agreement, proceeded to arbitration. In the arbitration, Viacom not only argued for deduction of costs of unsold year-end inventory but, in a variant of that position, argued that it was entitled to deduct an inventory write-down for 2008. Viacom pointed to an inventory write-down in its corporate financial statements, and claimed the right to make a parallel write-down in the earn-out statement.

In a December 2011 award, the arbitrators, siding with Harmonix, rejected both arguments, and determined the 2008 earn-out to be $298.8 million. In another part of the arbitrators' decision which wasn't challenged in court, the arbitrators added $84.4 million to the $150 million earn-out previously paid for 2007.

The Reviewing Court's Decision

The arbitrators' decision meant that Viacom couldn't charge either the cost of unsold goods, or a write-down for their lost inventory value, to the earn-out. Viacom re-raised both arguments in the judicial review, but the reviewing court rejected them, affirming the arbitrators' award of $298.8 million for the 2008 earn-out.

What This Case Means For You

If the Harmonix earn-out provision had been more sensitive to inventory risk, Viacom might have been in a better position to respond to the sudden and rapid decline in inventory value. Moreover, in participation agreements (if not earn-outs), the incontestability provision frequently makes statements final against the participant but not necessarily against the accounting party, and a provision along these lines might have provided more leeway to Viacom to revise the Harmonix earn-out statements.

Of course, this is hindsight, and since the text of the earn-out provision is not part of the reviewing court's decision, we don't know the precise state of play. From all appearances, the selling shareholders were able to negotiate highly favorable earn-out terms.

More generally, since inventory risk exists in every entertainment "hard goods" distribution arrangement, whether for DVDs, CDs, merchandise, physical books, and so on, it should be carefully considered in revenue participation agreements of all kind.

Coda

The total price Viacom paid for Harmonix, including upfront cash and earn-outs, was over $708 million. There may have been other costs as well.

Yes, Viacom apparently overpaid. The earn-out was cranked up to eleven! (See *This is Spinal Tap!*) Within a few years of the sale, *Guitar Hero* and *Rock Band* were (excuse the puns) played out, and Viacom ultimately sold the company back to the founders, reportedly for a song . . . plus a spot of sympathy from the Taxman[4].

[4] News outlets have reported that the sale yielded substantial tax benefits to Viacom. One of Harmonix's top games was *The Beatles: Rock Band*; hence the *Taxman* reference.

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December 2012

<u>Client Alert</u>: *Napoleon Dynamite* litigation: Pick the Correct Video Royalty

By Ezra Doner*

Participation reporting for certain media and uses can be idiosyncratic.

<u>Multiple Choice Question</u>:

Cult phenomenon *Napoleon Dynamite* generated a phenomenal $139 million in DVD sales in its first few years of release. What percentage of this amount did distributor Fox Searchlight share with the movie's producers?

A. 100%
B. 31%
C. 12.88%
D. 10%
E. zero

For the answer, keep reading.

<u>The Business Context</u>

After a successful theatrical release in June 2004, *Napoleon Dynamite*, a quirky, independent, low budget film, went on to generate a staggering $139 million in DVD sales *at the distributor level*.

As happens, success became a magnifier for differences of opinion.

Following an audit, in 2011, the movie's producers sued, claiming (among other things) that Searchlight underpaid by $10 million because the studio applied a wrong DVD royalty rate. At the end of November, however, a judicial referee, in a preliminary round, took the studio's side on this big ticket issue.

What was the correct DVD rate, and what can be learned from the producers' handling of their claim?

<u>Accounting for Home Video</u>

The usual notion of a movie distribution accounting is: there are revenues; there are costs; revenues are credited; costs are debited; and the balance is the "net" – that is, profit.

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Whatever the merits of this notion in general, when it comes to DVD and related media, that's not how it usually works.

In DVD accountings, as a rule, not all revenue is credited, and many costs are not debited. Instead, crediting is limited, by contract, to a negotiated percentage of revenue, commonly referred to as the "royalty rate" or, simply, the "royalty". And the distributor absorbs certain ordinary costs, such as duplication and freight, from the revenue that it retains and doesn't credit.

Royalty Rate in this Case

The documentation for Fox Searchlight's distribution of *Napoleon Dynamite* has two royalty rates: 31.66% of revenue from high price sales (sales of so-called "rental priced units"), and 10% from sale of "sell-through" units. Where did one category end and the other begin? In this case, that was a $10 million question.

From its DVD gross of $139 million from high price and sell-through combined, Searchlight credited only $17.9 million to the producers' account as contractually defined revenue. In other words, despite $139 million in total sales, the accounting statement treated only $17.9 million as monies in which the producers might share – 12.88% of the true gross. This 12.88%, the effective royalty, was a weighted average, based on a small portion of revenue at 31.66%, and the lion's share of revenue at 10%.

The claim ultimately made by the producers, however, was that Searchlight should have applied the higher rate, 31.66%, across-the-board, to all DVD revenue. This would have increased the amount to be shared by the producers from $17.9 million to $44.1 million, a jump of $26.2 million. After deduction of a 25% distribution fee (which was uncontested), the asserted increase would have been $19.6 million.

Since the producers shared profits with Searchlight on a 50/50 basis, their share of the $19.6 million would have been $9.8 million. So, this claim, rounded up, was worth $10 million.

If all of these figures are a bit confusing, suffice it to say that, when you start with $139 million in distributor's gross, even a moderate shift in a royalty rate can put a lot of money in play.

Audit Process and the Claim

At key points in the distribution and audit process, the producers, their sales agent and their auditor didn't challenge the dual royalty rate structure of 31.66% for rental priced DVDs and 10% for sell-through. They questioned at what unit prices these rates should apply, but not the two rates as such. Indeed, the auditor's report that was marked "final" expressly acknowledged the two rates.

Fifteen months after his final report, though, and on the eve of trial, the auditor issued a supplemental report in which he rejected the 10% sell-through rate category, on the basis that it wasn't properly part of the governing contract. This supplemental report claimed, apparently for the first time, that the full 31.66% rate should apply to sales of DVDs at *all* conventional price points.

The Referee's Report

In her "Proposed Statement of Decision"[1] which, on this issue, favors Searchlight, the judicial referee homed in on the auditor's change of position. She noted that for almost seven years, the film's producers and their sales agent had conducted themselves as if the Searchlight documentation, which included the dual rates, was in effect. Their conduct, she concluded, demonstrated that they "intended to be governed by" the dual rates.

Although the referee didn't expressly use this terminology, her analysis is analogous to the principle of "practical construction" – the notion that how a contracting party performs can be an important indicator of a contract's meaning, especially if that party later asserts a meaning inconsistent with their actions. Or, put differently, actions speak louder than words.

Timing

Although the precise text of the contract was fixed on signature, once accounting statements started to flow, and prior to audit and litigation, the producers and their team had the opportunity to argue that the contract called for the high price royalty rate only, but they didn't. Later, when the audit process began, and prior to their auditor's "final" report, they had another opportunity to take the "one rate fits all" position; this time they were slow off the mark. When they eventually took this position, it was well after issuance of the final audit report, and on the eve of trial.

The Answer

The answer to the multiple choice question is C: 12.88%. The referee, in her report, rejected the producers' challenges to this effective rate[2].

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[1] *Napoleon Pictures v. Fox Searchlight Pictures*, No. SC 113978 (Super. Ct. Cal. Nov. 29, 2012); affirmed 2015 WL 1594299 (Cal. Ct. App. Apr 14, 2015)

[2] The *Napoleon Dynamite* dispute occurred in the context of the transition, in the late 1990's and early 2000's, from a DVD rental to sell-through business model. The home video sector, of course, is now undergoing another major transition – from physical units (DVDs and Blu-rays) to a digital model.

What This Case Means for You

In your business, if you commence an audit, develop your “final” position before you approve a final audit report. And if you see litigation on the horizon, assert your final position early, and often.

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February 2014

<u>Client Alert</u>: *Crash* Profits Restated; Court Responds with "Big Interest"

By Ezra Doner*

Can a film company issue a participation statement, then later revise and reissue it, making major changes in its favor? If the changes are decidedly wrong, can there be consequences?

Profit definitions typically give film companies an express right to correct mistakes, even retroactively. After all, mistakes get made.

But on January 31, a California appellate court, in a long running litigation over profits of the film *Crash*, rejected a film company's revised profit participation statements to key talent[1]. Calling the changes "bogus", the Court confirmed a $2.5 million interest add-on to a judgment for more than $9 million of unpaid profits.

<u>How it Started</u>

Crash, Oscar winner for Best Picture of 2005, was a box office success, especially in relation to its production cost. When the film company issued its first profit statements, the filmmakers' auditor claimed that profit participations had been underpaid. In response, the film company, citing its own newly discovered "mistakes", claimed that, to the contrary, it had overpaid the participations. Litigation ensued.

<u>The Underlying Contracts</u>

The filmmaker group, which included Paul Haggis, Bobby Moresco and Brendan Fraser, wrote, produced, directed and starred in *Crash*, pursuant to agreements with companies controlled by film financier Bob Yari (herein, collectively, "Yari")[2]. Starting at a defined breakeven, the filmmaker group and Yari had agreed to share defined profits on a 50/50 basis.

"Gross Receipts" were defined in the agreements as all monies actually received by or on behalf of, or credited to, Yari, and "third party participations" were a permitted deduction in determining profits. The meaning of these defined terms was a principal focus of the litigation.

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[1] *Paul Haggis, Inc. v. Persik Prods. No.* B240556 (Cal. App. Jan. 31, 2014). Because the opinion was not certified by the court for publication, it may not be cited or relied upon in any other case. Nevertheless, readers may find the Court's analysis instructive.

[2] The Court found that the defendant entities were all under the ultimate control of Bob Yari and his holding company, Davand Holdings LLC. In a separate ruling, however, the Court held that a late amendment of the judgment adding Yari, as an individual, had been improper.

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*Ezra Doner is an entertainment and copyright lawyer who focuses on the film, TV and other content sectors. He has worked both as an in-house business and legal executive and as a private lawyer. He did not represent any of the parties in this case.

What Is A "Third Party Participation"?

When Yari restated profits to correct its own "mistakes", one of the changes was to re-characterize return on investment to a co-financier[3] as a "third party participation". As a participation, payments to the co-financier would be ahead of the filmmakers, reducing the profit pool in which the filmmakers shared. On the other hand, if the payment to the co-financier stayed as a return on investment, it would be borne by Yari, and not reduce the filmmakers' share.

The trial court, in rejecting Yari's revision, noted that neither sides' contract negotiators, nor an expert witness, had understood "third party participations" to mean or include payments like those to the co-financier.

Whose Revenues are Gross Receipts?

Another "correction" put forward by Yari was the exclusion, from Gross Receipts, of certain picture revenues which, per the financing agreements, were initially routed to the co-financier. In prior profit statements, however, Yari had treated these revenues as Gross Receipts. Excluding these revenues would have also reduced the pool of profits in which the filmmakers shared.

The Court, in rejecting this revision of the participation statements, pointed to provisions in the Yari / co-financier agreement that the financiers would pool receipts and pay talent participations from the entire pool.

Practical Construction

In scrutinizing the alleged corrections, the Court looked to Yari's "predispute, post-contracting conduct" – the initial profit statements – as "powerful evidence" of the true meaning of the agreements. This legal principle is sometimes known as "practical construction" – the notion that how a contracting party performs a contract can be an important indicator of the parties' real intentions, before a revisionist impulse clicks in.

The Price Of A Bad Faith Claim

In the *Crash* case, the dispute had been pending for so long, and the underpayment of profits had been so substantial, that prejudgment interest, on the underpayment itself, was a hefty $2.5 million. Were the filmmakers entitled to this much interest?

Under the general rule in California, a prevailing plaintiff in a contract case may not be entitled to prejudgment interest if the amount owed is not readily determinable because of a genuine dispute as to the method of calculation. In this case, however, the Court awarded interest under a bad faith exception. In particular, the Court cited findings of the trial court that Yari's contractual interpretations were "bogus", and that Yari had engaged in "creative accounting",

[3] The co-financier was German media fund Apollo.

"an intentional scheme to withhold money" and a "diversion of funds" – pointed language that one does not often see in legal decisions.

<u>What This Case Means For You</u>

Judges may or may not know the difference between third party participations and return on investment, or excluded revenues and accountable gross. But they do know when litigants change positions. Reading between the lines, this Court was seemingly more circumspect about the Yari companies' positions than it might have been if those positions hadn't been changed.

Changed positions were similarly a factor in the *Napoleon Dynamite* case, which I wrote about at http://donerlaw.com/client-alert-napoleon-dynamite-litigation-choose-the-correct-dvd-royalty-rate. In that case, it was the participant's auditor and counsel who changed positions, but the general point I made there applies equally here. If you are a film company with a breakout picture, develop a good faith, best case position before you issue a first profit statement.

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May 2014

Client Alert: Harlequin e-Books Royalty Case: A Dollar or a Dime?

By Ezra Doner*

In entertainment and media, sometimes business practices evolve more quickly than standard contracts.

As recently as 2004, Harlequin Enterprises, the leading publisher of romance novels, did not specify a royalty rate for e-books in its author agreements. Rather, e-book sales were lumped into an "other rights" category originally intended for book clubs and other activities handed off to third parties, with revenue under this category shared between publisher and author on a 50/50 basis.

Multiple Choice Question:

Even though Harlequin has now taken much of its e-book activity in-house, this 50/50 revenue arrangement, unless amended, continues to apply to e-publishing of older titles. But under the original agreements made in 2004 and earlier, what percentage of e-book revenue is Harlequin *actually* reporting to and sharing with authors? Specifically, under these older agreements, does Harlequin report and share:

A. 100% of gross e-book sales, or
B. 70%, or
C. 50% or
D. between 6% and 8%?

For the answer, keep reading.

The Lawsuit

In *Keiler v. Harlequin Enterprises*, a class action lawsuit, authors are challenging Harlequin's accounting for e-book revenue under publishing agreements from 2004 and earlier (herein, "*Keiler* agreements"). After an initial dismissal on technical pleading grounds, an appeals court, in a revealing decision, recently revived the suit. See *Keiler v. Harlequin Enterprises*, 751 F. 3rd 64 (2d Cir. 2014).

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* Ezra Doner is an entertainment and copyright lawyer who focuses on the film, TV and other content sectors. He has worked both as an in-house business and legal executive and as a private lawyer. He did not represent any of the parties in this case.

Business Context for the Dispute

From 2008 to 2012, U.S. e-book sales grew from $64 million to over $3 billion annually, a startling increase of over *4,700 percent*. And since distribution costs for e-books are so much less than for print (no paper, ink, warehousing or freight), e-books are especially profitable for publishers. Harlequin, like other publishers, has benefited from this explosion in e-book sales.

The rise of e-books, however, has exposed an inconsistency in Harlequin's royalty accounting practices. When it comes to print books, Harlequin has typically applied a modest 6% royalty against author advances and, once the advance is earned out, paid a royalty in that amount to the author. But for e-publishing of back catalog, older agreements continue to provide that 50% of e-book revenue will be credited against author advances and, once an advance is earned out, will be paid outright.

Now, authors in the *Keiler* case claim that Harlequin, through abusive arrangements with its subsidiaries, is trying to minimize the amount of shared e-book revenue.

Related Company Provisions

Under the *Keiler* agreements, Harlequin has the right to enter into agreements with companies that it owns – so-called "related companies". But if e-book and "other rights" are licensed to a related company, then per specific contract language, the amount paid by one Harlequin company to another must be "equivalent to the amount reasonably obtainable" from an unrelated company.

For the *Keiler* authors, how much e-book revenue has Harlequin actually moved from one Harlequin company to another? And if Harlequin had licensed e-book rights to an unrelated company, could it have obtained more e-book revenue than the amount it actually reported to the authors?

Harlequin Business Structure

Some years ago, Harlequin, seeking tax efficiencies, started designating Swiss subsidiaries as the nominal "publisher" in its author contracts. While, for practical purposes, Parent Harlequin continued to function as publisher in both print and (later) e-book media, Parent paid the nominal publisher only 6% to 8% of e-book revenue. The nominal publisher then reported this 6%-8% to authors as a "new 100%" – that is, as the *entire pool* of revenue which author and publisher were to share on a 50/50 basis.

So, the answer to the Multiple Choice Question at the top of this post is "D". Under these older agreements, Harlequin does not report 100% of its e-book sales, or 70%, or even 50% to authors under the *Keiler* agreements. Instead, Harlequin reports between 6% and 8% of e-book sales, and of this amount only 3% to 4% actually accrues to the author.

Ten Times Multiple

In an *amicus* (friend-of-court) brief in the case, the Romance Writers of America and the Authors Guild characterize the 6%-8% intercompany e-book royalty as an "unprecedented artifice" to deprive authors of the real benefit of the 50/50 e-book revenue sharing arrangement. They believe that, because of its dominance in the romance novel genre, Harlequin, in reality, would be able to obtain license fees of 50% to 70% of retail e-book sales, which at the high end is as much as ten times the 6%-8% that Parent Harlequin remits to Swiss Harlequin, the affiliated nominal publisher.

In everyday language, if Jack at Parent Harlequin can make a dollar from e-books, may Jill at Swiss Harlequin tell authors that they only made a dime?

Status of the Case and Key Issue

To be clear, so far, the Court in *Keiler* has not ruled that Harlequin has done anything wrong, much less that the company is liable for damages. In its recent decision, the Court merely held that the authors' pleadings are technically sufficient for the case to go forward.

Postscript

On May 2, the day after the *Keiler* case was revived, Harlequin announced a $420,000,000, all cash sale of the company to Rupert Murdoch's News Corp, which owns publisher Harper Collins. Presumably, the announcement had been held pending the Court's decision, and deal terms of the sale take into account possible outcomes in the litigation.

Post Postscript

April 2016 – Documents in the docket for this case seem to indicate that this case is on a path to settlement.

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March 2015

<u>Client Alert</u>: *The Walking Dead*: Is AMC's License Fee "Improper" and "Outrageous"?

By Ezra Doner*

What is a fair deal between a captive TV production company and a network parent? That may depend on who you ask.

In a pending lawsuit, writer/director Frank Darabont, creator of mega TV series *The Walking Dead*, along with talent agency Creative Artists Agency, claim that AMC Entertainment and affiliates artificially lowballed license fees via a "sweetheart deal" between related companies. The alleged result of this arrangement was to shift profits from AMC Entertainment, which the plaintiffs would share, to AMC Networks, which they wouldn't share, leaving the series hopelessly in deficit[1].

Darabont and CAA claim the related company license fees are "improper", "outrageous", "abusive" and "unconscionably low".

Below, I analyze certain of Darabont and CAA's related company claims. But first, a look at the customary TV production / distribution scenario.

<u>Production Companies and Networks</u>

In the typical scenario, a television production company (Prodco) contracts with a showrunner (a series originator such as Darabont) to create and produce a TV series. Compensation to the series creator typically includes fixed fees, paid from production budgets, plus contingent fees (a/k/a revenue participations) which are a percentage of series revenues.

If the TV production company is a standalone company, unaffiliated with the network or other end user of the series, then the participation interests of a series creator such as Darabont are aligned with those of the Prodco. A standalone Prodco would want to license the series to the highest bidder, because the more revenue the series generated, the more revenue for the creator and the Prodco to share.

[1] *Darabont et al v. AMC Network Ent. et al*, No. 654328 (NY Sup. Ct. 2013)

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Captive Production Company

But what if the TV production company isn't a standalone but, rather, is affiliated with and controlled by a TV network, so that the Prodco can't sell the series to the highest bidder? In other words, what if the Prodco is a captive production company? In that scenario, the Prodco is typically not a separate profit center but, instead, a stand-in for the network. In that case a creator such as Darabont or a packager such as CAA can find themselves directly in conflict with the network over calculation of network license fees.

That's what is alleged in this litigation.

Plaintiffs Frank Darabont and Creative Artists Agency

Plaintiff Frank Darabont, the creator of *The Walking Dead*, together with series packager CAA, claims just such a captive relationship and resulting misalignment of interests. The case is still in the discovery phase, the plaintiffs have not proven their claims, and the defendants have denied the truth of the claims. But a close reading of the complaint is a useful guide to the pitfalls of the production and licensing arrangement used by the AMC defendants for this series.

Darabont Develops *The Walking Dead*

The Walking Dead, which is set amidst a zombie apocalypse, started out as a black and white graphic novel by Robert Kirkham initially published in 2003. Frank Darabont, the acclaimed writer/director of such films as *The Shawshank Redemption* and *The Green Mile*, brought the property to NBC, which commissioned him to write a pilot episode but, ultimately, did not proceed to series. Darabont then took the project to AMC, the formerly sleepy classic movies channel originally known as American Movie Classics, which, thanks to *Mad Men* and *Breaking Bad* (both produced by independent TV companies), had become the hottest network on basic cable.

AMC and Darabont reached agreement in general terms and, while Darabont began revising the pilot script, AMC began preparing an agreement. The draft agreement provided for a revenue participation to Darabont of up to 12.5% of profits of an unaffiliated company that AMC would designate. But after receiving Darabont's new work, AMC decided instead to produce the series via an affiliated rather than an unaffiliated company.

Imputed License Fee

Because AMC's captive arrangements called for its affiliated production company to produce the series for the AMC Network, the Prodco would not be putting the project on the market to objectively establish a license fee. So how would the license fee be set?

Per allegations in the complaint, AMC was permitted to "impute" a license fee on "monetary terms comparable to the terms on which [AMC] enters into similar transactions with unrelated third party distributors for comparable programs." In other words, the license fee was to be set at fair market value.

The Profits Definition and Actual License Fee

The above language of the agreement established the principle of fairness, but lacked a mechanism to put it into effect. The net profits exhibit which AMC subsequently provided, however, set the related companies' license fee as a percentage of production cost at a level that Darabont and CAA allege is "unconscionably low" and has "no regard for what AMC or any network would pay in an arms' length agreement for the right to broadcast such a comparable highly successful series."

Multiple Choice Question

What is the percentage of production cost at which AMC allegedly set the imputed license fee?

A. 90%
B. 65%
C. 33⅓%
D. 10%

The Answer

The percentage is B – 65%. But, per the complaint, at the time the net profits exhibit, including the 65% license fee, was first circulated, the first season finale had already aired and the series was a certified hit. Moreover, the imputed license fee was capped at $1,450,000 per episode (with 5% bumps in subsequent seasons), leading to an effective rate well below 65%. Finally, the fee arrangement was also perpetual, and didn't provide an opportunity for a re-set at the end of the fourth season which would have been customary in an arm's length license.

At the end of season two, AMC's accounting to Darabont showed no profits, but instead a loss on the series of $55 million, rising to $71 million when interest and overhead are factored in. The plaintiffs highlight these numbers to show the economic unreality of the related party arrangements.

The Future of This Lawsuit

To be clear, evidence has not yet been presented or tested in this case, by way of a motion for summary judgment or a trial. The plaintiffs have also made other claims, among them, that Darabont was wrongly fired as executive producer in the second season, to avoid the vesting of certain valuable contract rights. So I have no view as to the merits or the likely disposition of the dispute. But if the allegations are sustained, AMC may well want to change its practices (and indeed, may already have) so that it specifies related company license fees earlier in the contracting process. Because if you are the network and you're late, you may end up with a license fee or profit calculation set by a jury. See my Client Alert at http://www.donerlaw.com/client-alerts/?p=18 regarding the profits of reality TV phenomenon *Who Wants To Be A Millionaire*. In that case, the jury did indeed make the plaintiffs millionaires – 320 times over!

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September 2015

Client Alert: Glen Larson TV Profits Dispute: If You Wait to Sue, How Long is Too Long?

By Ezra Doner*

Glen Larson produced some of the most successful television shows of the 1970s and 80s, including *Quincy M.E.*, *McCloud*, *Knight Rider* and *Battlestar Galactica*. In 2011, he sued Universal Television, claiming that despite Universal's having made "hundreds of millions of dollars" on shows which he produced, the company hadn't paid him a penny in profits. But had Larson waited too long?

That question was addressed in a recent court decision, *Glen Larson Prods.* v. *Universal City Studios Prods.*, No. BC465172 (Super. Ct. Cal. Sep. 2, 2015).

Multiple Choice Question

Per the Court's decision, just how long could Larson wait without unequivocally losing his right to sue?

A) one year
B) 33 months
C) four years
D) 20+ years

For the answer, keep reading.

No Audit / Timeliness

Larson didn't audit Universal's accounts prior to suing and claimed he wasn't aware of reporting issues until 2010, after Jack Klugman, the star of *Quincy, M.E.*, took Universal to court over profits of that series. Universal, while denying that it did anything wrong, responded that Larson could and should have brought his claims years before, and having failed to do so, his claims were timed out.

Sitting On Your Hands

In general, the law doesn't permit an aggrieved person to sit on his or her hands indefinitely. If you have a claim but don't act on it, at some point, under statutes of limitation and related common law principles, you'll be "time-barred", meaning you will have lost the right to sue. Frequently, entertainment industry agreements expressly limit claims periods even further.

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*Ezra Doner is an entertainment and copyright lawyer who focuses on the film, TV and other content sectors. He has worked both as an in-house business and legal executive and as a private lawyer. He did not represent any of the parties in this case.

The rationale behind limitations periods is that over time, memories fade, business records are lost, and at some point the books should be closed. While statutes of limitations vary by jurisdiction and type of claim, typical periods range from one to six years.

When Does the Clock Start?

Of course, the length of a statutory limitations period isn't necessarily the real question. In many cases, it isn't when the period ends, it's when it *begins*.

Suppose, for example, that a plaintiff failed to act because he or she didn't know they had a claim? In that scenario, applying the so-called "discovery rule", the limitations period wouldn't start to run until the plaintiff "discovered" the wrong. That might be the date the plaintiff actually knew of the wrong, or suspected it, or should have suspected it, or was on inquiry notice. The discovery rule can thus serve as a counterbalance to harsh and mechanical application of limitations principles.

Suspicions?

Determining when a plaintiff should have known or suspected something, though, can be fact-intensive and complicated. In the *Larson* case, Universal claimed that between 1983 and 1994, it issued six accounting statements to Larson, each reporting zero profits, using the very methods of calculation to which Larson objected in the lawsuit. For his part, Larson didn't acknowledge receipt of *any* of these statements.

The Judge's Decision

In response to Universal's motion for summary judgment, the judge in the *Larson* case ruled that whether Larson had waited too long should be decided by a jury as a question of fact and not simply by the court as a matter of law. In particular, the judge declined to hold that Larson was under a legal obligation to "verify" Universal's accountings via audit or otherwise. Using forceful language, the judge wrote:

> A defendant cannot expect relief from its own alleged deceit and punish the plaintiff for not discovering the lie earlier . . . A failure to discover falsity is excusable as reasonable when the falsity is not clear on the face of the representations made to the plaintiff.

Answer to Multiple Choice Question

So the answer to the question of just how long Larson could wait, without unequivocally losing his right to sue as a matter of law, is –

D: 20+ years.

But to be clear, the judge in the *Larson* case didn't definitively decide that Larson's lawsuit was timely. She merely ruled that the case wouldn't end solely by reason of the date suit was filed, and that timeliness could go to a jury along with other questions of fact. Trial is now scheduled for January 2016.

Sadly, Glen Larson died in November 2014, so the jury won't have the benefit of his in-person testimony.

How Much Money is Involved?

In the case files I've seen, there's no information as to how much Glen Larson's shows generated in total license fees, how much the shows cost to produce, or the difference between the two. But in 2008, Jack Klugman told a reporter that on $250 million in license fees for *Quincy, M.E.,* Universal reported to him a net loss of $66 million. Query whether Universal's internal financial (as opposed to participant) reporting yielded the same results.

What This Case Means for You

If you're a distributor or other company which is accounting to a revenue participant, the more you disclose, the less vulnerable you may be to a claim that the participant didn't know or couldn't discover key facts. If you're a participant, don't wait the way Larson did. Best advice: audit early, and often.

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December 2015

Client Alert: *Bones* Complaints: Did Fox Properly Account for Hulu monies?

By Ezra Doner*

Twentieth Century Fox produces the hit TV series *Bones* for its broadcast network and also makes the series available on Hulu of which it is a one-third owner.

Did Fox properly report and share monies it received from its license of *Bones* to Hulu? Two complaints recently filed by revenue participants claim it did not.[1]

The Big Picture

As new media technologies and services continue to develop, revenue participants want the opportunity to shape corresponding licensing practices. This is especially true when a distributor, such as Fox, licenses to a new media company, such as Hulu, which Fox co-owns. These new *Bones* cases raise issues I previously explored in posts about *The Walking Dead* and Harlequin Books.

Bones, the Series

Bones, a one-hour crime procedural, debuted on the Fox broadcast network in September 2005 and is now in its 11th season, making it Fox's longest running one-hour drama ever. As of the date of this writing, a remarkable 220 episodes have aired.

The TV series is based on the "Temperance Brennan" book franchise by Kathy Reichs, a forensic anthropologist. The stars of the series are Emily Deschanel as Brennan and David Boreanaz as Agent Booth. Barry Josephson, an originator of the series, has been an executive producer since inception.

The Plaintiffs

Reichs, Deschanel and Boreanaz are plaintiffs in one of the recent complaints, and Josephson is the plaintiff in the other. Per the complaints, the plaintiffs' profits participations are: Reichs, 5%; Deschanel and Boreanaz, 3% each; and Josephson, a "significant" but unspecified percentage. While the two lawsuits are separate, there's a fair amount of overlap, and I'll discuss the allegations in them together, without specifying in which complaint specific allegations appear.

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[1] The cases are *Temperance Brennan et al* v. *Twenty-First Century Fox et al*, No. BC602548 (Super. Ct. Cal.) and *Wark Ent.* v. *Twentieth Century Fox Film Corp. et al*, No. BC602287 (Super. Ct. Cal).

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* Ezra Doner is an entertainment and copyright lawyer who focuses on the film, TV and other content sectors. He has worked both as an in-house business and legal executive and as a private lawyer. He did not represent any of the parties in this case.

Overall Series Performance

The plaintiffs claim that Fox Television has taken in over $1.1 *billion* in revenues on the series, from domestic broadcast licenses, syndication revenues, subscription video on demand (SVOD) services such as Netflix, and networks and platforms abroad; and that Fox's owned and operated stations and networks which have exhibited the series have received "hundreds of millions of additional dollars" in ad revenues. Yet according to the complaints, despite this level of success, Fox is reporting the show to be deeply in the red, with deficits that are increasing over time. Specifically, the plaintiffs allege that the first *Bones* profits statements, issued during season 3, show Fox in an overall loss position of roughly $70 million; the next statements put the Fox loss at over $80 million; and more recent statements put the Fox loss at either approaching, or exceeding, $100 million, depending on the plaintiff.

Much to Fight Over

With this much in receipts but a growing loss, there can be a lot to fight over. The plaintiffs allege a multitude of wrongs, ranging from simple breach of contract to strong arm tactics and even fraud, involving tens of millions of dollars or more. But in this brief post, I focus solely on claims relating to Hulu, the streaming service which is one-third owned by Fox and which, at least for purposes of Fox programming, may function as a Fox affiliate.

Hulu and the Hulu Claims, in General

Hulu offers viewers three tiers of service: a free, ad-supported service, and two tiers of subscription services, one with limited and the other with no commercials. In contrast to cable channels, Hulu is delivered via the internet.

The nub of these plaintiffs' Hulu claims is that because Hulu is an affiliate, Fox's license agreements with Hulu must be on terms comparable to those on which Hulu enters into agreements with unrelated third parties. But, the plaintiffs claim, the Hulu licenses for *Bones* do not reflect such an arm's length standard.

Challenges to Hulu Arrangements

The plaintiffs specifically claim that Fox licensed *Bones* to Hulu at "below market rates" under agreements that "differ markedly" from Hulu's agreements with third parties, and that Fox has not fully reported Hulu's payments to them, and in some cases has not passed through Hulu payments at all. By way of example, the plaintiffs allege that while many program suppliers insist on cash guarantees in their Hulu licenses, Fox licensed *Bones* to Hulu for a "speculative" percentage of Hulu's ad sales and monthly subscriber fees. This claimed arrangement presumably flows from Fox's shareholder status, as it would be unusual for an unaffiliated series licensor to share in subscriber and ad revenue.

Stacking of Episodes

As a second example of wrongdoing, the plaintiffs claim that Fox improperly "stacks" current season episodes on Hulu. "Stacking" is a strategy of making available all or many episodes of a series at the same time across multiple platforms, such as broadcast, broadcaster websites, cable on demand services, paid subscription services and (as in this case) the free Hulu service. The problem for participants in plaintiffs' shoes is that Fox apparently does not report revenues from Hulu for current season episodes and Netflix pays lower license fees – perhaps as much as 30% lower – for current season episodes which have been "stacked". See Wall Street Journal article at http://www.wsj.com/articles/streaming-era-sets-off-battle-over-tv-rights-1448793184.

The *Bones* plaintiffs imply that Fox placed current season episodes on Hulu, at the expense of potential fees from Netflix, because of Fox's self-interest.

Out-Of-Date Agreements?

Of course, whether Fox properly licensed to Hulu and accounted to the plaintiffs depends, first and foremost, on the governing agreements. But it may be that the plaintiffs' agreements with Fox, which date from 2004, 2005 or 2006, don't adequately take into account digital technologies and services, as these agreements pre-date not only Hulu but commercial streaming and SVOD services generally.

Next Steps

Assuming the *Bones* lawsuits proceed, the plaintiffs in these cases will likely try to discover and establish market rate fees which Hulu pays under agreements with unaffiliated licensors for comparable programs. And they may also try to establish the full economic value to Fox of its Hulu arrangements, which may well be higher than actual market rate licenses. If the *Bones* profit participants succeed in latching on to a share of subscription and ad monies, this would be big win for them.

Other Claims, Other Lawsuits

Even if the plaintiffs don't win on the Hulu issues, they still have many other claims to pursue against Fox. And if the plaintiffs succeed in capturing a share of subscription and ad monies, it may have consequences for Fox on other shows and other deals. Because of that potential risk to Fox, in this case, for these plaintiffs, their Hulu claims are especially powerful.

Disclaimer

Since this dispute is only at the complaint stage, there haven't yet been judicial findings or rulings. This Alert is based solely on the claims of one side.

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<u>Client Alert:</u> Did Relativity Media Run a $100M "Romance Scam" on a Film Investor?

RKA Film Financing has sued a group of film executives and financiers claiming that they schemed with much-hyped film distributor Relativity Media to pull off a $100 million-plus fraud.

Putting movie industry context side, RKA's fraud allegation, in key respects, looks like a classic "Romance Scam", in which the scammer:

** posts great-looking photos

** claims he or she is trapped and

** begs cash to escape and join the "mark" (the victim of the scam).

Is this alleged fraud a new twist on an old scam?

<u>The Complaint</u>

In its complaint, RKA Film Financing alleges that the defendants promoted a massive financial fraud to prop up beleaguered Relativity Media.[1] RKA believed it was making *low-risk* loans to be used solely for release prints and advertising buys ("P&A Costs") of studio-level motion pictures. But, RKA claims, Relativity instead used the loans for working capital. In July 2015, Relativity filed for bankruptcy, leaving RKA almost totally underwater on a slate of films.

<u>P&A vs. Working Capital Loans</u>

Some film investors favor P&A loans over working capital loans. Why? Loans for P&A Costs are typically made on a "LIFO" basis: loan advances are "Last In", but are repaid "First Out" from specific revenues of the released picture. By contrast, working capital loans are typically repaid out of a company's general revenues pursuant to a very different formula.

Use of Loan Advances

Per the complaint, each of RKA Film Financing's P&A loan advances should have been routed to a separate, special purpose entity ("Film SPE") set up by Relativity for each of the films, and used by such Film SPE solely for the P&A Costs of the film owned by that SPE. For example, RKA's P&A loan advance for the film *Solace* should have been routed to RML Solace Films, LLC for that film's P&A Costs. Same for other films for which RKA advanced P&A Costs, such as *November Man*, *Best of Me*, *Beyond the Lights*, *Woman in Black 2*, *Black or White*, *Lazarus Effect*, *Solace*, *Masterminds*, *Before I Wake*, and *Disappointments Room*.

But some films in the slate were barely released domestically, others not at all, and per the complaint, Relativity used the P&A loans, instead, for working capital. Then, as Relativity headed toward bankruptcy, its senior lender, One West Bank (under the then-stewardship of Steve Mnuchin, the new Treasury Secretary) swept Relativity's bank accounts, seizing RKA loan advances and applying them to One West debt.

But why did RKA Film Financing give loan proceeds to Relativity in the first place? Why didn't RKA advance the loans directly to the SPEs?

Claimed Problem #1: Film Vendor Discounts were Restricted

RKA alleges that it wanted to disburse P&A loans straight to specific Film SPEs, but that:

> [Relativity Chairman Ryan] Kavanaugh told RKA that it could and should not send funds directly to the Film SPEs because Relativity's contracts with its vendors were only with Relativity, which received benefits and discounts from those vendors by virtue of its purchasing power.

But was it true that Relativity's vendors would only have honored volume discounts if paid directly by Relativity, not by affiliates? And if true, couldn't there have been a workaround?

Claimed Problem #2: Separate Bank Accounts would be Burdensome

Per the complaint, defendants also told investor RKA that:

> it would be too logistically and legally cumbersome to set up individual bank accounts for each Film SPE, and that the funds would instead be earmarked in a Relativity account for P&A on each film.

But, again, was it true that managing a separate bank account for each Film SPE would have been unduly burdensome? And wasn't a workaround possible?

The Classic Romance Scam

With that background, let's return to the elements of a classic Romance Scam. In a Romance Scam, the scammer:

1. posts great-looking pictures

2. claims he or she is trapped and

3. begs cash to escape and join the mark.

The scammer often starts by posting the great-looking pictures to an online dating site. Once online affections are kindled, the scammer then claims a costly obstacle to meeting in person, such as a transcontinental flight or an onerous exit visa. And when the unwitting mark offers to directly pay the cost of the obstacle, the scammer says, "No, you can't do it yourself, the only way is to give me the cash, and I'll do it . . . *Believe me*." Then, when the cash arrives, the scammer disappears.

Comparison to Defendants' Alleged Fraud

How does the classic Romance Scam compare with the fraud alleged by RKA Film Financing?

1. The relationship between RKA and the defendants was built around great-looking pictures; in this case, great-looking *motion* pictures, starring the likes of Pierce Brosnan, Michelle Monaghan, Kevin Costner, Olivia Wilde, Colin Farrell, Kristen Wiig, Zach Galifianakis, Kate Bosworth, Gugu Mbatha-Raw and Kate Beckinsdale. Handsome and beautiful people . . .

2. Relativity lacked necessary funds to release the films. Absent P&A loans, the films were trapped.

3. Relativity begged cash for release of the pictures, with a promise that RKA would be rewarded. But *the only way* to do this was for RKA to disburse the cash straight to Relativity. There was no other way. *Believe me . . .*

What This Means for You

When lending or investing, be alert for things that don't ring true. If your would-be counterparty tells you something that doesn't make sense, pursue it. If your counterparty says "This is the only way business can be done in my industry", but that structure increases your risk, make your counterparty find a workaround. If, out-of-the-gate, your counterparty keeps saying "*Believe me*", don't!

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<u>Client Alert</u>: *The Walking Dead:* Should AMC be paying less than $2 Million Per Episode for this Mega Series, or more than $20 Million?

Writer/director Frank Darabont is the creator of mega series *The Walking Dead* (the "Series"); talent agency Creative Artists Agency is the Series' packager; and AMC Studio is the producer and distributor of the Series, and licenses it for broadcast to the AMC Network[i].

Plaintiffs Darabont and CAA, who share in the profits of AMC Studio, claim that the AMC Studio and the AMC Network together improperly set a below market, "sweetheart" license fee for the Series of less than $2 Million per episode, thereby shortchanging the plaintiffs.

By contrast, plaintiffs' expert, whose report was recently made public, puts the fair market value of the license fee not at $2 Million per episode, but at more than $20 Million – at first blush, an astounding number.

<u>Multiple Choice Test</u>

Which of these data points did plaintiffs' expert incorporate into his valuation?

A. After renegotiation, the average license fee for the AMC series *Mad Men* and *Breaking Bad*, produced by unaffiliated studios, was $3.32 Million per episode.

B. NBC and CBS pay the NFL $45 Million per game for *Thursday Night Football.*

C. One-third of AMC's annual revenue of $1.3 Billion is attributable to *The Walking Dead.*

D. All the above.

Here's the detailed answer (shorter answer follows at the end).

Arm's Length Negotiations

When a television studio licenses a series to an unaffiliated network, the per episode license fee is typically set by means of arm's length negotiations. The studio wants as much as it can get, the network wants to pay as little as possible, and a spirited negotiation ensues. But where, as here, the studio and the network are affiliated (that is, under common ownership), by definition, the negotiation is not at arm's length.

Operative Language

The profits definition in the agreement which Darabont signed does not designate a specific per episode license fee for *The Walking Dead,* or even a specific formula. Instead, the signed agreement provides that the per episode license fee will be on "monetary terms comparable to the terms on which [AMC] enters into similar transactions with unrelated third party distributors for comparable programs."

The Rate Set By AMC

Per allegations in the case, after Darabont signed his agreement, AMC unilaterally set the per episode license fee for the Series at 65% of production costs, with a cap of $1,450,000 per episode (subject to cumulative 5% season-to-season bumps). In contrast to a "negotiated license fee" (that is, a fee set via arm's length negotiation), a fee between related companies is sometimes called an "imputed license fee". When revenue participants claim that a deal between related entities shortchanges them, they often call such an arrangement a "sweetheart deal".

The Expert's Approach

The plaintiffs engaged economist James Dertouzos to examine whether the imputed license fee set by AMC reflects the fair market value of the Series. The expert framed his analysis with these questions:

"What has AMC paid for 'comparable' programs in transactions with unaffiliated third parties?" The expert calls this path of investigation "Comparable Sales to AMC Network".

"What have other networks paid to acquire successful programs in the past?" The expert calls this path "Comparable Sales to Other Networks".

"What is the value of *The Walking Dead* to AMC"? The expert calls this the "Value Method" and analogizes it to the "income method" for valuing businesses.

Comparable Sales to AMC Network

Plaintiffs' expert Dertouzos put forward these (and other) data points regarding comparable sales to AMC Network.

** After renegotiation with independent studios following season four, the combined average license fee for AMC Network's *Mad Men* and *Breaking Bad* was $3.32 Million per episode. (Lionsgate is the studio for *Mad Men*, while Sony Pictures Television is the studio for *Breaking Bad*.)

** Before renegotiation, the combined average live plus same day rating for these series was 0.59 in the 18-49 year-old demographic. ("Rating" is the percentage of TV households that watches a show; a rating of 1.0 means that 1% of U.S. households tuned in.)

** Accordingly, AMC was paying $5.62 Million per rating point for these series ($3,320,000 divided by 0.59 = $5,620,000)

** The average comparable rating of *The Walking Dead* in the first through fourth seasons was 5.11 points.

** Applying the episode license fee price per ratings point paid for *Mad Men* and *Breaking Bad*, the per episode price of *The Walking Dead,* after renegotiation, would have been $28.7 Million (5.11 points multiplied by $5.62 Million per point = $28.7 Million).

Comparable Sales to Other Networks

Plaintiffs' expert Dertouzos put forward these (and other) data points re: comparable sales to networks other than AMC:

Based on other hour dramas in the marketplace (including megahit *ER*), the plaintiffs' expert developed an imputed license value of more than $23 Million per episode for *The Walking Dead*. Plaintiff's expert then opined that the $45 Million per game license fee for *Thursday Night Football* is consistent with that value for *The Walking Dead*. He got to this result as follows:

$45 Million per game for *Thursday Night Football* translates to $15 Million per game hour; the 2015 upfront spot rate for *Thursday Night Football* was $465,000; and football had no meaningful rerun value and only limited benefits in terms of affiliate revenues from cable service providers. By contrast, AMC's 2015 spot rate for *The Walking Dead* was $500,000, it has numerous reruns of each episode. And, per plaintiffs' expert, for every $5 in advertising sales and other program revenues, AMC can expect as much as $4 in affiliate revenues – that is, fees paid by cable and satellite service providers such as Comcast, Cox and Direct TV to carry networks like AMC. So, in the view of plaintiffs' expert, adding the value of Series' reruns and allocated affiliate revenues to a $15 Million base price supports a $23 Million per episode value for the Series.

Value Method

Plaintiffs' expert Dertouzos offered yet a third way to generate an imputed license fee for *The Walking Dead*, which he calls the value method. In 2016, AMC's gross revenues were projected to reach $1.3 Billion. Per Dertouzos' calculations, at that time, 26% of AMC's total viewership was directly attributable to *The Walking Dead*, and a further 7% was indirectly attributable via the "tentpole effect" of the Series. On this basis, the combined 33% share of Network viewing generated by *The Walking Dead* meant that one-third of AMC's gross revenues, or $433 Million, was attributable to the Series. Allocating this $433 Million over 16 episodes amounts to $27 Million per episode which, in the expert's view, "represents a conservative upper bound to the fee that AMC Network would be willing [to] pay for a program with properties of *The Walking Dead.*"

This $27 Million is roughly in line with the imputed license fees which Dertouzos developed using his other methods.

Answer to the Multiple Choice Test

So the short answer to the Multiple Choice Test question about data points is: All of the above. In other words, all of the given data points formed part of the expert's opinion.

How did the Parties Get Here?

A key element of this case is that Darabont and CAA claim that they never agreed to AMC's imputed license fee formula based on 65% of production costs. They assert that AMC did not even propose this formula until after the Series' first season. If that formula had appeared in the text of the agreement that Darabont signed, this litigation might never have happened.

What This Means for You

In the filmed entertainment sector, it's not unusual for at least some price terms to be left to later determination. Depending on the transaction, that may make sense. But if you don't timely nail down a foreground price term like a per episode license fee, you run the risk that a court or jury may set that term for you.

Caveat #1

This Client Alert is obviously an oversimplification of Dertouzos' expert report. My limited objective here is to introduce certain of the expert's calculations and concepts (for what they're worth).

Caveat #2

If AMC Network were to pay a $20 plus Million per episode license fee for *The Walking Dead*, economically, much less than the full $20 plus Million would function as a real expense. AMC would essentially be making bookkeeping entries in which its Network was debited by, and its Studio was credited with, equal amounts. The real economic expense would be limited to the amount of the incremental profit shares of Darabont, CAA and perhaps others who participate in profits at the AMC Studio level.

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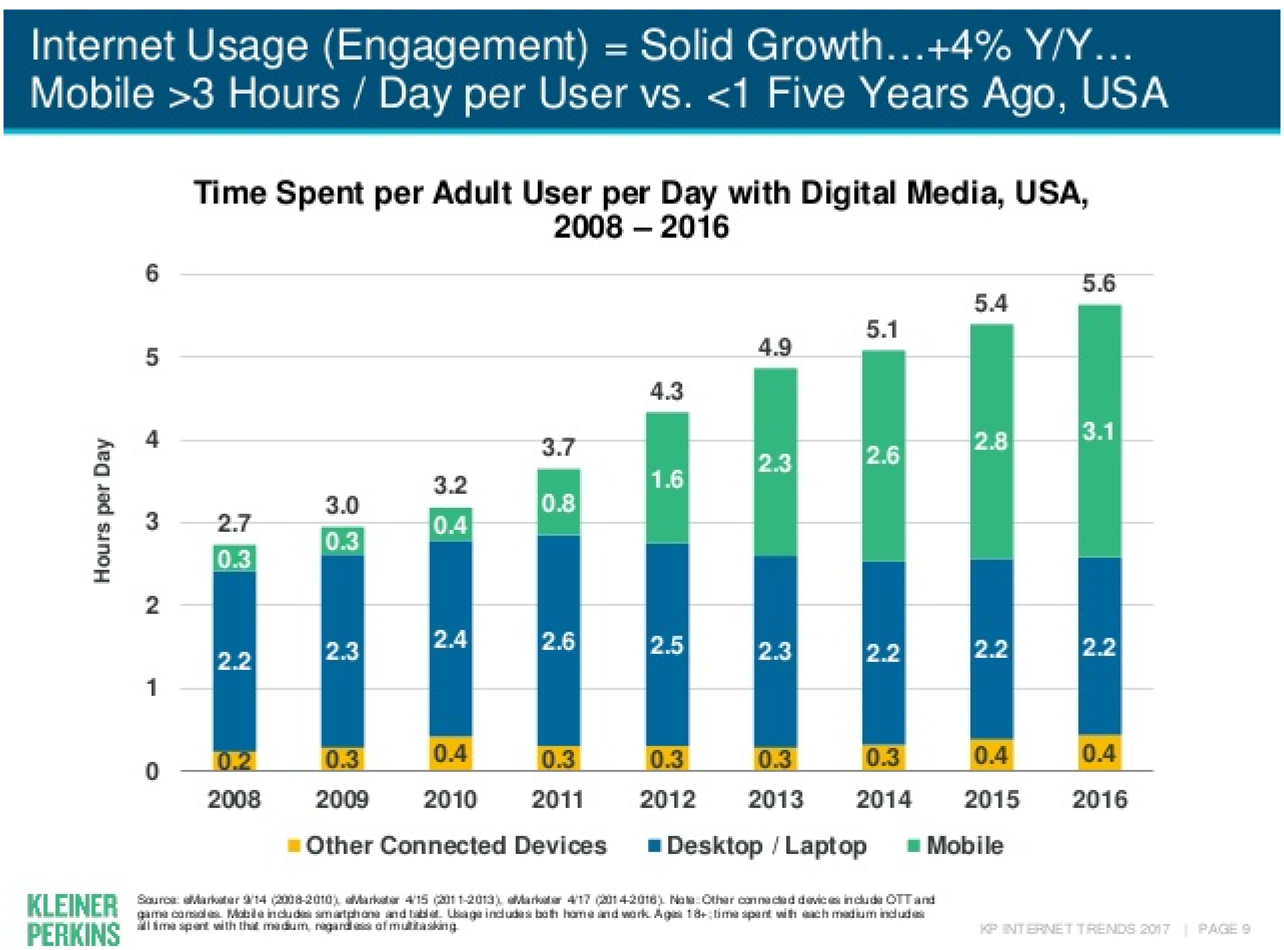
The eagerly awaited 2017 edition of Mary Meeker's Internet Trends has just been released. Meeker's report is generally viewed by industry insiders as the most comprehensive compilation of data and surveys available. Some general observations this year are:

- Total Internet growth will register a 10 percent gain over 2016.
- Social media and video will continue their dramatic growth.
- Gaming is highlighted as the most compelling form of social media.

A more detailed analysis reveals:

Digital Media Use Continues to Grow

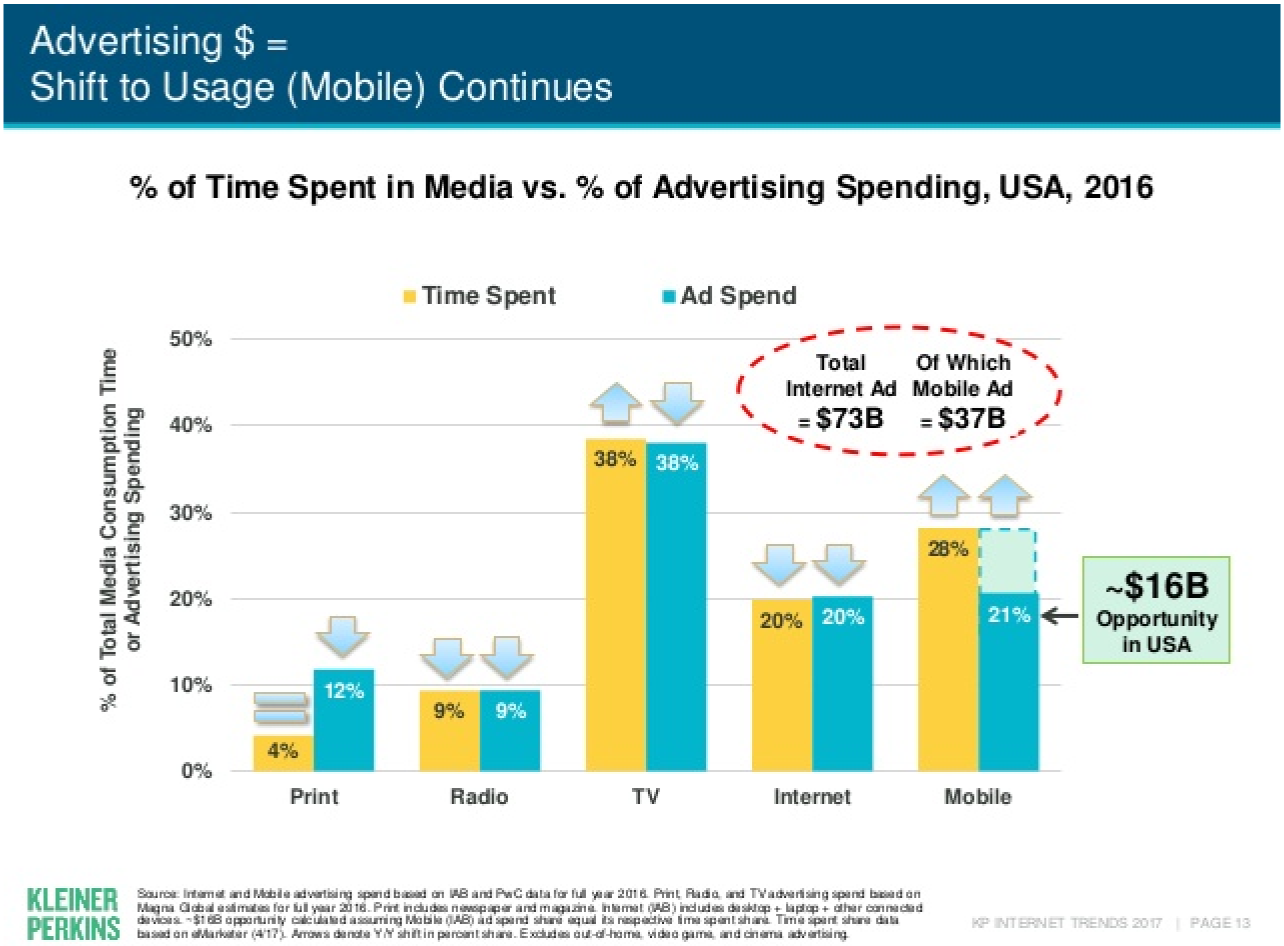


The amount of time adults spent with digital media in 2016 grew from the previous year, with average time increasing to 5.6 hours a day—up from 5.4 hours in 2015. Of that, mobile accounted for 3.1 hours (increasing from 2.8 in 2015) while desktops stayed flat at 2.2 hours. Other connected devices made up the remaining 0.4 hours.

Internet Ad Spending has Surpassed TV Ad Spending

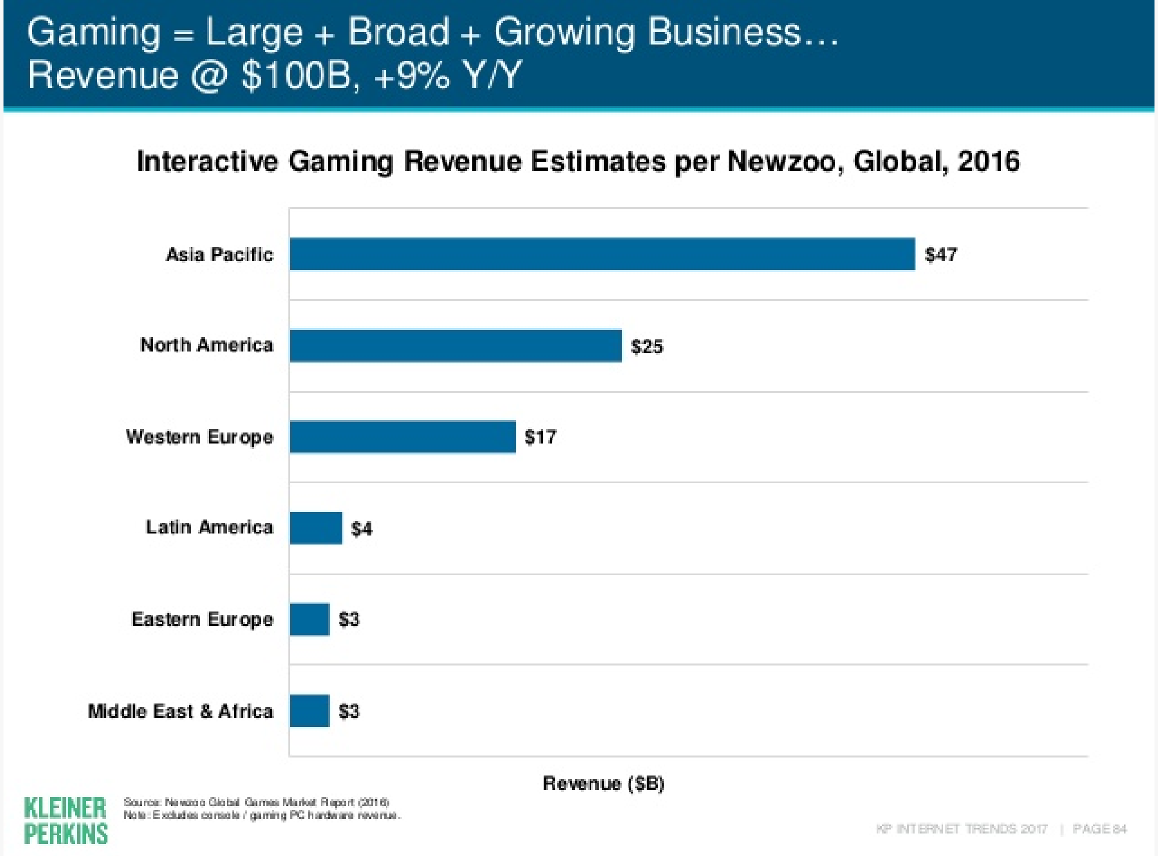
While internet and TV companies continue their fierce competition for advertising dollars, new media finally outpaced old media in 2016. The total amount of global ad dollars last year for the Internet and TV combined was around $180 billion, with internet spending expected to outpace TV this year.

Of the Internet ad spending, Google and Facebook remained well ahead of the pack, accounting for 85 percent of all growth in the U.S. Last year, Google was up 20 percent versus its 2015 revenue, while Facebook grew by 62 percent.



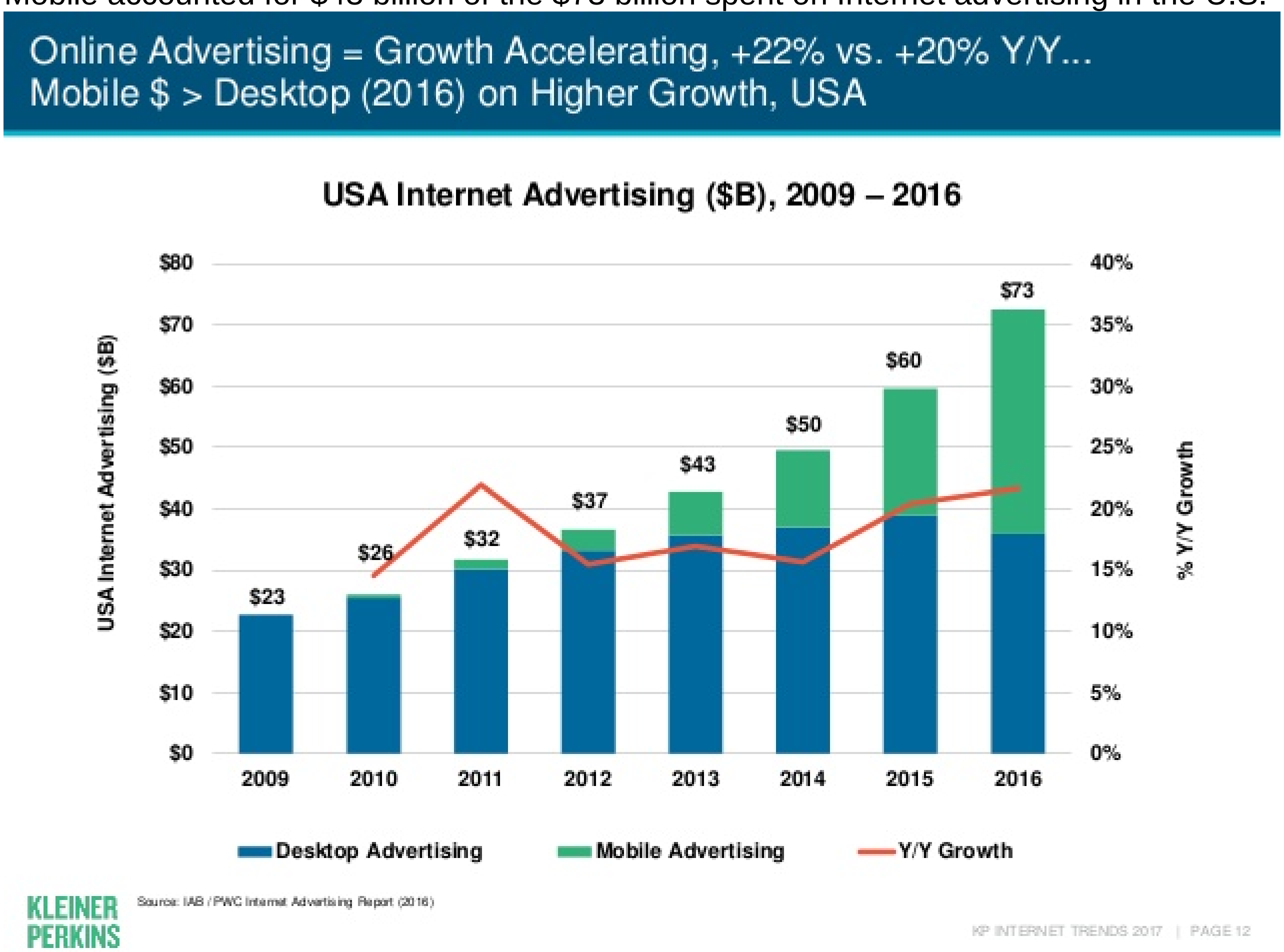
The Gaming Business is Exploding

Global revenue for interactive gaming stands at $100 billion reflecting a nine percent gain from 2015.When gaming is compared with other digital media, it beats out other popular platforms in terms of the amount of time users spend with it. People spend 51 minutes on average playing console games every day, edging out Facebook (50 minutes), Snapchat (30 minutes) and Instagram (21 minutes).



Mobile Advertising Dollars Continues to Rise

Mobile advertising made significant gains last year with billing rising to 22 percent from 20 percent in 2015. Mobile accounted for $43 billion of the $73 billion spent on Internet advertising in the U.S.



Desktop advertising decreased slightly but remained at about $30 billion. This figure is around $8 billion less than in 2014. The report also notes that time spent with media on mobile devices is still increasing at a faster rate than ad spending, while other platforms such as radio and television are about equal.

Internet Trends, 2017
Adweek, June 2, 2017
Washington Post, June 3, 2017

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SNL Kagan Has Outlined Wide Ranging Media Trends for 2017; Our Selected Summary:

- For the past two years, total U.S. spending on media entertainment fell 1.5.
- The greatest amount was spent on cable pay TV, followed by video services from DBS and telco.
- HSD (high speed data) video took third place and was 89.4% of the amount spent on cable.
- The biggest growth category was paid online video at 24.1% growth year over year, while the slowest increase came from home video with a 12.5% decline.
- The growth of digital video was related in part to losses from the home video sector.

Key Highlights by Category:

CABLE NETWORKS

Cable network subscribers:

Results from second-quarter 2017 indicate video subscriber trends point to continuing falling numbers. . AT&T Inc., Comcast Corp., Charter Communications Inc. and Verizon Communications Inc. collectively lost 475,000 traditional video customers in the second quarter, effectively doubling the decline from the year-ago period.

CPMs

With weakening ad revenue growth many cable networks are pushing for higher CPMs to stabilize their top and bottom lines.

INTERNET:

E-commerce

E-commerce sales in the U.S. continued to move higher in 2016 and could likely see further gains through 2026 because in part retailers are now offering same-day delivery in many major U.S. markets and a widening inventory of goods.

Digital advertising projections

Digital advertising revenues in the U.S. are likely to see more dramatic gains, although growth in 2015 and 2016 has been somewhat lopsided and concentrated largely with Alphabet Inc.'s Google Inc. and Facebook Inc. which dominate the digital ad market by a wide margin.

Social advertising

The U.S. social ad sector continue to perform well in the first quarter, powered by demand for video ad inventory and continued strength from Facebook Inc. Combined U.S. ad revenues for Facebook, Twitter Inc., Snap Inc. and LinkedIn Corp. have logged annual gains of about 40% to nearly 60% since the beginning of 2016, with Facebook leading the category by a wide margin.

MULTICHANNEL (CABLE, TELCO, DBS):

Multichannel video sub projections

The downward trend of traditional multichannel subscribers in the U.S. continues to increase due to streamed bundles, online subscription services, self-aggregation and even over-the-air delivery are playing more prominent roles.

Broadband subscriber projections

Broadband subscriptions are on track to surpass 80% of U.S. households in 2017 and enjoy growing appeal in the five-year outlook. However, like the U.S. multichannel segment before it, continued cord cutting is a major threat to this sector...

Broadband only homes

The seasonal deceleration in broadband subscriber gains did little to slow down broadband-only home growth, with the segment logging its second-largest quarterly net add since we began tracking it.

Wireline phone subscribers

Cable's first-ever voice subscriber losses added pressure on wireline phone in the period ended June 30, with the universe logging its largest quarterly drop since the third quarter of 2013.

ONLINE VIDEO/OTT:

OTT viewing

The fourth quarter of 2016 saw mixed desktop viewing results among a group of U.S. OTT services. Netflix Inc. topped the list in year-over-year increases in average monthly content minutes viewed during the fourth quarter and 2016 as a whole. Hulu LLC, the group's only other realistic contender to Netflix showed a decrease in the fourth quarter compared to the same quarter in 2015, but was up strongly overall for 2016.

Online video projections

While multichannel video operators endure subscriber losses, online video services are likely to continue to see growth both as consumers move to different platforms and as others supplement their TV needs with OTT services.

Online video – Ad-supported

While momentum in recent years in the OTT video space has tilted toward the subscription (SVOD) and virtual service provider (VSP) models, the ad-supported video market continues to generate significant revenues. A vast array of short-form and long-form video content is available through the ad-supported model, with additional digital video ad inventory coming online from VSPs as well as from growing TV Everywhere accessibility of live linear programming from broadcast networks and cable networks for authenticated users.

PREMIUM NETWORKS:

Premium subscribers

For the fifth straight quarter, premium networks recorded losses in multichannel units. However, significant gains from OTT amounted to an overall rise in total units, reaching 106.7 million. Looking at the first half of the year for the past decade, premium returned mostly growth with the exception of 2009. The first half of 2017 delivered the second decline in multichannel homes, losing some 2.1 million units. On the plus side, OTT added 2.4 million units for a net gain of some 305,000 units.

Premium network projections

Over the next decade it appears that the number of multichannel video subscribers with full-premium units will drop from 103.4 million at the end of 2016 to 82.5 million in 2027 for the main players.

VIDEO:

Home video projections

The domestic home video market continued to evolve from an optical disc market to a digital delivery market in 2016. Total consumer spending on DVDs and Blu-rays dropped by more than $1 billion for the 10th year in a row, down 12.5% from $9.12 billion in 2015 to $7.98 billion in 2016, while more and more people migrate to digital services.

WIRELESS

Connected devices

Nearly 1 billion video playback devices could be in use by 2020 in the U.S., ranging from smartphones to smart TVs. We estimate that 785.1 million such devices are in use in 2016 in the U.S., or about eight per broadband home. While they boast the smallest screen, now and going forward, we estimate smartphones will have the largest share of devices in use for video playback, followed by smart TVs/Blu-ray players and computers.

Smartphone projections

Over the last decade, the tiny screens in our pockets have gone from an early adopter's toy to probably the most important consumer electronics device we own. Kagan estimates that by year end, 75% of Americans will have a smartphone.

Wireless subscribers

Keeping up a multi-quarter trend, "connected devices" was the fastest-growing mobile subscription type in the U.S., up 12.4% year over year to 71.0 million for the second quarter.

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OTT Growth Surging With Over 200 Services Available in the U.S.

According to a just released industry report, 60 companies have introduced over-the-top video services since the beginning of 2016. During that same period, only seven OTT providers in the U.S. have ceased operations...

Noting the increased number of competitors in the programming marketplace, Parks Associates points to the fact that there are currently more than 200 OTT services challenging the existing pay TV operators. Another indication of OTT's ascendance is that 53% of U.S. broadband households subscribe to both pay TV and at least one OTT service.

Also outlined in the report is the strategy that finds many OTT services evolving to be complementary to the market's largest players, instead of trying to compete directly against the likes of Netflix, Amazon and Hulu. Conversely consumers are adopting primary entertainment content sources and supplementing those sources with complementary video options.

Other key findings:

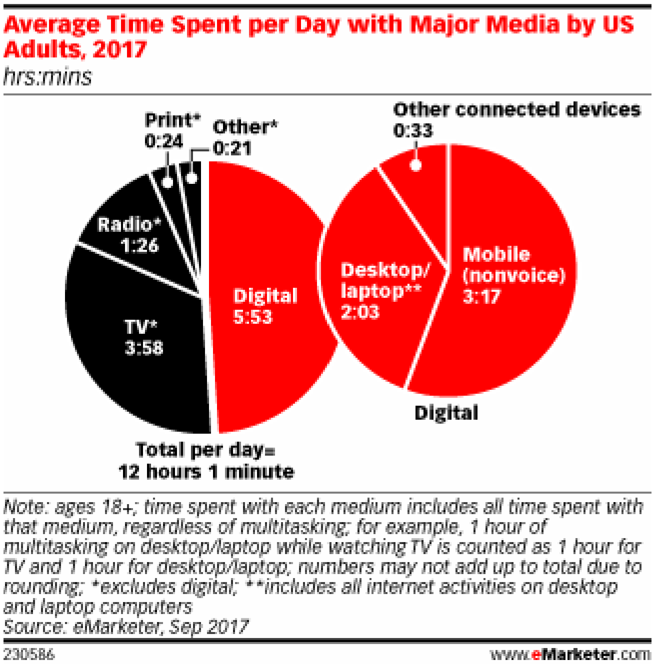
- There is a growing amount of collaboration in the OTT market. As an example, Roku is reportedly talking to Apple and Google about extending its operating environment to smartphones. Pay TV operators, meanwhile, are aggressively looking to aggregate OTT services like Netflix and Hulu into their programming bundles.
- Several factors are driving an increase in partnerships with and among OTT video services, including fragmentation of content, the success of bundling, polarization in the OTT subscription market, a low threshold for OTT service survival, and low awareness of many OTT service brands.
- 87% of U.S. OTT services offer some kind of subscription opportunities while TV Everywhere awareness only stands at around 34% nearly eight years after it was introduced...

Fierce Cable, October 26, 2017

Read the Entire Artlcle:
http://www.fiercecable.com/cable/more-than-200-ott-services-active-u-s-market-research-group-says?mkt_tok=eyJpIjoiTWprNE1qUTBPV0V6TlRrMSIsInQiOiIzeHVxTUlwV2t5dUNlRjJ3ekpDMVdyaFg3WDYzR0tVTVRUeStRNWJrbmpVNlEwSUdWYlRoTVk2Vm5nZkpMSmNJVzV3RWgxQW9wWVwvK3ZHSUNPZkNcL1wvM2NTWGMwM2FDam44TXJDZGJYYTNQVDB1WDBkYWJOKytEZFpvTkd5RlkyZiJ9&mrkid=49680617&utm_medium=nl&utm_source=internal

Adults Will Spend Half Of Their Media Day Accessing Digital Content in 2017

A recent report from eMarketer indicates that people spend the equivalent of half a day consuming media. Adults will devote an average of 12 hours, 1 minute per day with major media this year. Also noted is that people have become more efficient at multitasking, thanks largely to mobile devices (excluding voice), which will take up more than one-quarter of total media time.



The report counts each minute of media consumption time regardless of whether it's simultaneous with any other media. Therefore, total media consumption time continues to grow, even as the number of hours in a day remains the same. In 2017, the average US adult will spend an additional two minutes per day with media over figures from 2016, and 24 minutes more than was spent in 2012.

Other key findings:

- Multitasking via mobile is primarily responsible for the overall increase in time spent with media. Consumers are spending more time on mobile devices with activities like video viewing and mobile gaming, but also with less visual activities like audio listening that enable continuous media intake.

- US adults will spend 3 hours, 17 minutes per day on nonvoice mobile activities in 2017—an increase of more than an hour since 2013.

- The growth of the amount of attention that an individual can provide to media is slowing. Time spent with mobile nonvoice will rise by 12 minutes in 2017, and will be offset by declines in time spent with desktops/laptops, print, radio and—most of all—TV.

- TV will still remain the most time-consuming traditional medium for US adults. The format will account for 3 hours, 58 minutes of daily time this year; however, that's down 7 minutes from 2016. It's also lower than eMarketer's previously published forecast of 4 hours, 19 minutes per day.

eMarketer, October 9, 2017

Read the Entire Article:

https://www.emarketer.com/Article/eMarketer-Updates-US-Time-Spent-with-Media-Figures/1016587

Eriq Gardner (Senior Editor, The Hollywood Reporter)

Written CLE Materials for 2018 Annual Meeting
New York State Bar Association/Entertainment, Arts & Sports Law Section

Content Distribution in the 21st Century: Traditional TV, VOD, Streaming and More

Top Ten Cases of 2017 (Five Down and Five To Go)

A. Five Significant Decisions in 2017

1. FCC Votes to Repeal Net Neutrality Rules

(a) FCC Action December 14, 2017 (FCC 17-166)
https://www.fcc.gov/document/fcc-takes-action-restore-internet-freedom

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/fcc-votes-repeal-net-neutrality-rules-1067667

2. Google Stuck With Worldwide Injunction in Canadian Legal Fight; New Suit in California

(a) Google Inc. v. Equustek Solutions Inc. (Supreme Court of Canada, 2017 SCC 34)
https://scc-csc.lexum.com/scc-csc/scc-csc/en/item/16701/index.do

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/google-stuck-worldwide-injunction-canadian-legal-fight-1017407

(c) Google Inc. v. Equustek Solutions Inc. (U.S. District Court, N.D. Cal, San Jose Div.) Case 5:17-cv-04207
https://assets.documentcloud.org/documents/3900043/Google-v-Equustek-Complaint.pdf

(d) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/google-has-a-big-canadian-problem-getting-desperate-1024149)

3. European Court Rules ISPs Can Be Forced to Block Pirate Bay

(a) Stichting Brein v. Ziggo BV, XS4ALL Internet BV (Case C-610/15, rel. 2/8/17)
http://curia.europa.eu/juris/document/document.jsf;jsessionid=9ea7d2dc30d6948b75e6d81a476f8b42cd6adb2daf8c.e34KaxiLc3qMb40Rch0SaxyLchb0?text=&docid=187646&pageIndex=0&doclang=en&mode=req&dir=&occ=first&part=1&cid=565267

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/european-court-rules-isps-can-be-forced-block-pirate-bay-1013993

4. Appeals Court Rules TV Streamers Don't Get Compulsory License to Broadcast Networks

(a) Fox Television et al v. Aereokiller (FilmOnX), 851 F. 3d 1002 (9th Circuit, 2017)
http://cdn.ca9.uscourts.gov/datastore/opinions/2017/03/21/15-56420.pdf

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/appeals-court-rules-tv-streamers-dont-get-compulsory-license-broadcast-networks-987614

5. Rock Band Wins First Amendment Appeal Over "Disparaging" Trademarks

(a) Matal v. Tam (Slants), 137 U.S. Supreme Court 1744 (2017)
https://www.supremecourt.gov/opinions/16pdf/15-1293_1o13.pdf

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/rock-band-wins-first-amendment-850689

B. Five Pending Cases Worth Watching

6. Justice Department Files Lawsuit to Block AT&T-Time Warner Merger

(a) United States of America v. AT&T et al (US District Court, D.C. Cir.)
Case 1:17-cv-02511
https://www.justice.gov/opa/press-release/file/1012896/download

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/justice-department-files-lawsuit-block-at-t-time-warner-merger-1058483

7. Fox News Appears to Have Edge in Showdown That Could Curtail Sharing of Clips

(a) Fox News Network v. TV Eyes (appeal from SDNY pending at 2nd Circuit)
https://www.scribd.com/document/316896277/Fox-News-Network-v-TVEyes-Brief-for-Fox-News-Network-2nd-Circuit-Redacted

(b) Fox News Network v. TV Eyes, 124 F.Supp.3d 325 (U.S. Dist. Court, SDNY, 2015)
https://docs.justia.com/cases/federal/district-courts/new-york/nysdce/1:2013cv05315/415525/173

(c) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/fox-news-appears-have-appellate-edge-showdown-could-curtail-sharing-clips-983955

8. Vizio Can't Dodge Claims Its TVs Spy on Viewers

(a) In Re Vizio, Consumer Privacy Litigation (U.S. Dist. Ct., CD California)
Case 8:16-ml-02693-JLS-KES
https://www.documentcloud.org/documents/3901160-Vizio-725.html

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/vizio-cant-dodge-claims-tvs-spy-viewers-1024438

9. U.S. Government, Hollywood Studios Weigh in on Dispute Exploring Reach of U.S. Copyright Law

(a) Spanski v. Telewizja Polska (appeal from U.S. Dist. Ct., D.C. Cir, pending DCCA)
USCA Case 17-7051

Appellant's Brief: https://www.documentcloud.org/documents/4081747-TVP.html
CO Amici Brief: https://www.copyright.gov/rulings-filings/briefs/spanski-enters-v-telewizja-polska-sa-no-17-7051-dc-cir-2017.pdf

(b) Spanski v. Telewizja Polska (U.S. District Court, D.C. Circuit)
2/14/17 https://ecf.dcd.uscourts.gov/cgi-bin/show_public_doc?2012cv0957-85
(Memorandum Opinion currently on appeal)
9/30/17 https://ecf.dcd.uscourts.gov/cgi-bin/show_public_doc?2012cv0957-95
(re attorney fees in copyright infringement action)

(c) Gardner/THR re Spanski
https://www.hollywoodreporter.com/thr-esq/us-govt-hollywood-studios-weigh-dispute-exploring-reach-us-copyright-law-1046433

(d) Gardner/THR re related story
Dish Claims Univision Breached Contract by Streaming Soccer Matches on Facebook
https://www.hollywoodreporter.com/thr-esq/dish-claims-univision-breached-contract-by-streaming-soccer-matches-facebook-1025006)

10. Olivia de Havilland Gets Judge's Green Light in 'Feud' Lawsuit Against FX

(a) De Havilland v. FX Networks et al, California Superior Court, Los Angeles
Case No. BC 667011
https://pmcdeadline2.files.wordpress.com/2017/06/olivia-de-havilland-feud-suit-2.pdf
Complaint (6/30/17)

(b) Gardner/THR
https://www.hollywoodreporter.com/thr-esq/olivia-de-havilland-gets-judges-green-light-feud-lawsuit-fx-1044359

[Date]

[Artist]

Dear Artist:

The following letter agreement, together with the other schedules attached hereto (collectively referred to as the "Agreement") will confirm the understanding between you ("you" or "Artist") and ___________________"Company" with respect to the terms and conditions of your employment and shall supersede all prior oral or written understandings and agreements between Company and Artist. The parties agree as follows:

1. Company hereby employs Artist during the Term (as hereinafter defined) as an on-air personality and/or in any other capacity, on any programs or in connection with any other content, whether or not such programs are originally produced for exhibition on one or more sites owned by Company, or included within the owned, operated or controlled network of Company (collectively, the "Company Properties"). Artist shall report to the manager as is designated by Company from time to time. Artist shall also provide other services for Company as directed by Company. Artist's initial assignment is set forth on Schedule B. Artist also agrees to accept temporary or trial assignments including substituting when others are on vacation or absent due to illness or work assignment or emergencies, as Company may direct. Artist agrees that during the term of this Agreement, Artist will perform all such duties in accordance with the highest standards of competence, skill, integrity, efficiency and professionalism, subject to Company's direction and control and shall devote substantially all of Artist's professional time to the performance of such duties unless expressly agreed otherwise in writing executed by Company. Artist hereby accepts such employment and will complete and perform all of the agreements and obligations entered into by Artist. Artist's services to Company as described in this Agreement shall be exclusive (i.e. Artist shall not provide the same or materially similar services to or on behalf of any third party, and shall not engage in any activity or undertaking that is, in the reasonable opinion of Company, competitive with Company (including, without limitation, any Company Property)).

2. Artist acknowledges and agrees that this Agreement and Company's obligations hereunder are expressly contingent upon Artist completing all standard forms and

meeting such other requirements as designated by Company including without limitation, an employment application, required tax forms, releases for the authorization of background checks, each as applicable.

3. Programming may be produced live or prerecorded, as Company may determine, and may be distributed and/or made available for sale or download in any manner and media, and by means of any technology, platform or distribution system now known or hereafter devised. Company shall have the right to reproduce, distribute, display, perform, modify, adapt, create derivative works, license, market, advertise, promote, exhibit and otherwise exploit all rights in and to all results and proceeds of Artist's services, in perpetuity throughout the universe in all languages, media and formats by any and all means with no further obligation or compensation to Artist. Company shall have no obligation to use the results and proceeds of Artist's services, including, without limitation, any programming or other content created or produced by Artist, or featuring Artist's image or likeness. Artist acknowledges and agrees that the programming, if any, produced by Company featuring Artist may contain the names, logos, trademarks, products and services of companies other than Company, and that any product tie-ins, integrations or sponsorships of such programming, and/or any mere use or verbal mention by Artist of such product or service shall not constitute an endorsement for purposes of this Agreement. Company shall retain all proceeds and profits derived from the programming for its own account with no duty to account to Artist. Company shall have the perpetual right to use, and to authorize others to use, in any and all media now or hereafter known or devised, Artist's name, image, voice, likeness, and biography in connection with the production, distribution, exhibition, marketing, advertising, promotion, merchandising and/or other exploitation of all programming or other content featuring Artist. The compensation payable to Artist pursuant to this Agreement includes full and complete consideration for the rights granted to Company under this Section, and Artist shall not be entitled to receive any additional compensation therefor. Notwithstanding the foregoing, Company acknowledges that it has no right to use Artist's services for the purpose of endorsing any third party product or service.

4. Artist's services shall be performed at such times and places during the Term as Company may designate.

5. (a) The term of this Agreement (the "Term") shall commence as of ____________ (the "Effective Date") and shall continue, subject to suspension, extension or termination as hereinafter provided, for a period of ____________ thereafter. At the sole option of Company and upon thirty (30) days prior written notice to Artist, the Term may be continued for an additional __________ period until __________ (the, "Option").

(

b) You agree that the Company has no obligation to exercise the Option, and you expressly acknowledge that no promises or understandings to the contrary have been made or reached.

6. (a) The Company may terminate your employment and this Agreement for Cause, in which case you will be entitled to payment of any accrued but unpaid salary due to you through the date of termination and any accrued but unpaid vacation solely to the extent required by law. "Cause" includes, but is not limited to:

(i) Your failure or refusal to perform your duties or other breach of the terms of this Agreement;

(ii) Your misconduct, including but not limited to fraud, embezzlement, misappropriation of funds or property and/or breach of fiduciary duty or loyalty to Company;

(iii) Your material failure to comply with any policy applicable to Company employees, as such policies may be amended from time to time, including, without limitation, Company editorial policies and/or guidelines, and/or policies set forth in the Company Employee Handbook;

(iv) Your commission of any act or involvement in any situation or occurrence (including but not limited to a conviction or guilty plea to a felony or crime involving moral turpitude), whether before or during the Term, which brings you into widespread public disrepute, contempt, scandal or ridicule, or which justifiably shocks, insults or offends a significant portion of the community, or your being subject to publicity for any such conduct or involvement in such conduct;

(v) Your engaging in professional activities that conflict with or compromise your obligations under this Agreement or are competitive with or otherwise could have a detrimental impact on the reputation or financial condition of Company or any affiliate of Company.

(vi) Your disparagement of Company, any its affiliated entities or any sponsor of Company programming or other content; or

(vii) Your gross negligence or willful misconduct in the performance of your duties or obligations hereunder.

(b) Prior to any termination for Cause, the Company may choose to provide you with notice setting forth the reasons that Cause exists, in which case you will have an opportunity to cure to the Company's satisfaction, provided a cure is reasonably possible and timely effected, and the event(s) giving rise to such notice is/are not related to a matter that was the general subject matter of an earlier cure notice given to you. It is expressly understood that the Company's ability to terminate for Cause is not an exclusive remedy, and further that nothing in this Agreement prevents the Company from obtaining any and all appropriate remedies for any injury that arises out of or is related to any breach of this Agreement.

7. As full compensation for the services to be rendered by Artist hereunder and in consideration of the rights granted by Artist and subject to full performance by Artist of Artist's obligations hereunder, Artist's compensation hereunder shall be as set forth on Schedule C.

8. Artist shall be considered a full-time employee and entitled to paid vacation time and such other employee benefits, in each case in accordance with Company policy as in effect for all similarly situated employees of the Company. The scheduling of such vacation shall be mutually agreed upon between the Company and Artist, but in the event of a failure to agree, the Company shall designate the vacation period, and endeavor to accommodate Artist. Artist shall be entitled to participate in Company's wardrobe program for on air talent, to the extent that such program exists. In the event of a corporate transaction requiring a change in the application to Artist of any Company benefit, equity or other program(s), such changes shall be dictated by the terms and conditions of the existing and applicable Company plans and the availability of newly defined programs.

9. (a) During the Term of this agreement, Artist will not directly or indirectly:

(i) Own or hold any equity or ownership interest in, or participate as a co-venturer, partner, proprietor, manager or employee of, or consultant or freelancer to or for, any Company Competitor (as defined below); provided, however, that this provision shall not apply to interests held as a result of (X) investments in an automatic investment plan, so long as Artist does not elect to purchase an interest in a Company Competitor on an individual basis, (Y) investments in accounts over which the Artist has no direct or indirect influence or control (e.g. a blind trust) or (Z) investments of one percent (1%) or less in any company listed on a national securities exchange or quoted on an automated quotation system;

(ii) Solicit or attempt to solicit business from or for any Company Competitor;

(iii) Use, or authorize the use of Company Marks (defined below) or the trade names, trademarks, or other marks of Company's affiliated entities for any purpose without Company's prior written consent in each instance (which Company will grant or withhold in Company's sole discretion). Artist's unauthorized use of Company Marks shall constitute a material breach of this Agreement, and, in addition to all other remedies available to Company for such breach, Artist shall pay to Company a royalty for such unauthorized use at a rate to be determined by Company in its sole but reasonable discretion, which Company may deduct from any compensation due to Artist hereunder. As between Company and Artist, the parties agree that (i) the names, titles and/or logos of Company, any programming or other content produced, developed or created hereunder, of Company's websites, digital and linear television networks, programs and series, and any other trade names, trademarks, or other marks of Company (collectively, the "Company Marks") are owned by Company and are Company's sole and exclusive property unless otherwise licensed to Company by third parties and (ii) Artist shall not acquire or own any right, title or interest of any kind or nature in the Company Marks or the trade names, trademarks, or other marks of Company's affiliated entities;

(iv) use (or enable or permit any third party to use) any visual or audiovisual recording devices at Company's and/or the production company's offices, sets or locations without Company's prior written consent, which Company will grant or withhold in Company's sole discretion. Should Company grant such written consent, the copyrights in all photographs and/or audiovisual recordings created by Artist or Artist's representatives or permitted invitees at Company's and/or the production company's offices, sets or locations shall belong solely to Company, and Artist shall not publicly display, exhibit, or distribute, or authorize the public display, exhibition, or distribution of, any such photographs or audiovisual recordings, unless otherwise agreed by Company in writing;

(v) Give or agree to give any person or entity directly and/or indirectly associated with the services provided by Artist hereunder anything of value in exchange for Artist's engagement for such services. Further, Artist will not accept any money, services or other valuable consideration other than the compensation provided for in this Agreement for the inclusion of any item in any programming or other content produced or developed under this Agreement or for the endorsement of any company, product or service in such programming or other content. In addition, Artist will not visibly wear any product name or logo while rendering services hereunder without Company's prior consent. If Company approves the inclusion in the programming or other content produced or developed hereunder of any logo or trademark that is proprietary to Artist, then Artist hereby grants Company the worldwide, perpetual, irrevocable right to include such logo or trademark in connection with the exploitation of the Program or all platforms and by any means and modes of transmission, whether now existing or hereinafter created; or

(vi) Solicit, induce or attempt to induce any employee or freelancer of Company to terminate his or her employment with or retention by Company. This prohibition shall survive the expiration or earlier termination of this Agreement for a period of twelve (12) months thereafter.

(vii) Enter into any advertising, marketing or promotional relationship with any advertiser or sponsor that (i) currently advertises in or sponsors any programming or other content featuring Artist on any Company Property or any website, channel or outlet of any company affiliate, (ii) was engaged in bona fide negotiations with Company or any Company affiliate within during the twelve (12) month period immediately preceding the launch of the most recent programming or other content featuring Artist, to advertise in or sponsor programming or other content featuring Artist on any Company Property or any website, channel or outlet of any Company affiliate or (iii) advertised in or sponsored any programming or other content featuring Artist on any Company Property or any website, channel or outlet of any company affiliate, for a period of six (6) months following termination of such advertiser or sponsor's agreement with Company or the applicable Company affiliate. Artist shall also not enter into any agreements which in any way prohibit or limit any third party's rights or ability to enter into agreements or otherwise do business with Company or any Company affiliate.

(viii) Enter into any advertising, marketing or promotional relationship with any third party without the prior written consent of Company, which consent shall not be unreasonably withheld, provided that (i) actual or potential conflict between the relationship proposed by Artist and an existing or potential advertising, marketing or promotion relationship between Company and a third party with respect to any programming or other content featuring Artist (e.g. Artist seeks to enter into an endorsement deal with Pepsi while Company has an actual or potential ad sales deal to bring Coke in as a sponsor of content featuring Artist).

(b) For purposes of this Agreement, the term "Company Competitor" means (i) the companies identified on Schedule D attached hereto, as the same may be amended in writing by Company from time to time, and their respective parent and affiliated companies and (ii) any programming network or other creator or producer or lifestyle-based content for distribution on any platform (whether now existing or hereinafter devised), in any category/genre for which Company then creates or produces (directly or indirectly) content.

10. Subject to the terms and conditions set forth in Schedule E, Company encourages the development by Artist of new video content and YouTube channels (i.e., not relating to or competitive with the services being provided by Artist to Company and subject, in any event, to Company's approval which may be given or withheld in Company's sole discretion). Accordingly, Artist acknowledges and agrees that (i) the terms and conditions set forth in Schedule E shall govern the development and exploitation by Artist of any and all video content and/or YouTube channel(s) outside the scope of his or her employment by Company.

11. Any and all publicity, paid advertisements, press notices, interviews or other information with respect to any programming content or services provided by Artist hereunder shall be within Company's sole control, and Artist shall not release, issue or authorize any statements, interviews, publicity, press notices or other information relating thereto without Company's prior written consent in each instance; provided, however, that subject to Artist's confidentiality obligations as set forth herein, Artist may make accurate, incidental, non-derogatory, non-disparaging references to the services provided under this Agreement solely in Artist's biographical materials, and then only after Company has issued an initial press release or other public announcement regarding the services or applicable content. During the Term, Company shall have the

right to require Artist to make himself/herself available to participate in publicity and promotional appearances for any programming other content, or services provided by Artist hereunder, and to contribute online or mobile-based publicity and marketing related thereto, including, without limitation, through use of Twitter, Instagram, Snapchat, Facebook and other platforms, applications or devices, whether now existing or hereinafter devised.

12. Without limiting any exclusivity requirements and/or consent or approvals required in this Agreement, in the event that Artist (or any business owned or partially owned by Artist) enters into any merchandising, publishing and/or other licensing agreement (collectively, "Merchandising Agreements") for the exploitation of any items (i) designed by Artist, in whole or in part, or at Artist's direction, (ii) bearing Artist's name, image, likeness or other right of publicity, and/or (iii) bearing Artist's business name, logo or trademark, Company shall receive xxxx percent (**xx**%) of the gross compensation or any kind, payable to Artist therefrom for the period commencing on the first day of the Term of this Agreement, and continuing through the date that is one (1) year after the later to occur of (i) Company ceases to regularly exhibit programming or other content in which Artist is featured and (ii) expiration or earlier termination of this Agreement**.** Artist shall render to Company periodic statements showing the calculation of all Adjusted Gross Sales Revenue and Increase in Gross Sales Revenue, which shall be accompanied by Company's share thereof, if any. Statements shall be rendered on a quarterly basis, within sixty (60) days after the end of the applicable quarter; provided, however, that no statements need be rendered for any accounting period in which no Gross Revenues are received. Company may, at its own expense, audit Artist's records relating solely hereto for the purpose of verifying the payments made to Company hereunder.

13. Artist hereby represents and warrants that (i) he/she has the right to enter into this Agreement and to grant the rights herein granted, that he/she neither has made nor will make any contractual or other commitments which would conflict with the performance of her/his obligations hereunder or the full enjoyment by Company of the rights herein granted, (ii) he/she is not entitled to receive any compensation of any kind under any union, guild or other collective bargaining agreement, or any compensation other than the compensation set forth in Schedule C hereto, and this Agreement is not and will not be subject to any claim against Company for fees or commissions by any agent or representative of Artist or any other person.

14. Artist shall indemnify and hold the Company, its affiliates and each of their officers, directors, employees, agents and representatives harmless from and against any and all claims, causes of action, damages, liabilities, costs and expenses (including, without limitation, reasonable attorneys' fees) arising out of or from (i) Artist's activities and (ii) any matter involving Artist's breach of this Agreement or any representation, warranty or obligation of Artist hereunder. Except to the extent that Artist's indemnification obligations apply, Company will indemnify, defend (at Artist's request) and hold harmless Artist from and against any claims, causes of action, damages, liabilities, costs and expenses (including, without limitation, reasonable outside attorneys' fees) arising out of or from Company's development, production, distribution, modification or other exploitation of the programming or other content developed or

produced pursuant to this Agreement. The obligations under this Section shall survive the termination or expiration of this Agreement.

15. The original and continuing effectiveness of this Agreement is contingent upon Artist remaining at all times, under applicable law, eligible to perform the services contracted for hereunder in the United States and/or in any other location in which Artist may be required to perform services pursuant to this Agreement.

16. Artist's remedies in the event of a breach of this Agreement by Company shall be limited solely to the right to recover money damages, if any, in an action at law, and in no event shall Artist be entitled to terminate or rescind this Agreement or enjoin or restrain Company's exploitation of the Content and/or any results and proceeds thereof. Artist agrees that the services provided by Artist hereunder and the results and proceeds thereof are of a special, unique, unusual, extraordinary and intellectual value and character, the loss of which would cause Company irreparable harm that could not be adequately compensated by money damages in an action at law. Artist hereby expressly agrees that Company shall be entitled to seek injunctive and other equitable relief to restrain, enjoin or prevent any breach or threatened breach of Artist's obligations herein, in addition to any other rights that Company may have in equity or at law. In the event Company incurs any damages as a result of Artist's breach of this Agreement, Company shall have the right, in addition to any other remedies, to withhold and offset any payments due Artist under this or any other agreement between the parties in an amount reasonably necessary to satisfy Artist's indemnity obligations hereunder and/or any damages incurred by Company. The prevailing party in any action at law between Company and Artist shall be entitled to recover reasonable outside attorney fees and disbursements.

17. All notices required to be given hereunder shall be given in writing and sent by certified mail, courier service, express mail service or personal delivery to Company's and Artist's respective addresses as set forth in this Agreement (or such other address as a party may designate from time to time by written notice to the other party). Notices shall be deemed given (i) as of the date of receipt, with written confirmation, if delivered via courier service, express mail service or personal delivery, or (ii) five (5) days after mailing if sent postage prepaid via certified mail, return receipt requested. Notices given to Company shall be sent to the attention of ___________________.

18. This Agreement is a personal contract, and Artist shall not sell, transfer, assign or pledge any of Artist's respective rights, interests or obligations herein. Company shall have the right to assign or otherwise transfer this Agreement in whole or in part to any third party.

19. Such provisions that explicitly or by their nature should survive, shall survive expiration and/or termination of this Agreement, as well as termination of Artist's employment, in accordance with their terms. This Agreement shall constitute the entire agreement between the parties with respect to the subject matter hereof, all prior understandings being merged herein. All questions with respect to this Agreement shall

be determined in accordance with the laws of the State of New York without reference to principles of conflicts of laws. Artist waives any objection that Artist might have now or hereafter with respect to jurisdiction, venue or forum. This Agreement may not be changed, modified, renewed, extended, or discharged except as specifically provided herein or by an agreement in writing signed by the parties hereto. No failure or delay by either party in exercising any right under this Agreement shall operate as a waiver of such right. A waiver by either party in any instance shall not be construed as a continuing waiver or a waiver in any other instance. If any term or provision of this Agreement is held invalid or unenforceable for any reason, such invalidity or enforceability shall not affect any other provision, and the Agreement shall be interpreted as if such term or provision had never been contained in the Agreement. An electronic version of this Agreement executed by the parties shall have the same force and effect as an original. The parties have read and understand this Agreement and have had the opportunity to consult with counsel and/or personal representatives with respect hereto. The parties acknowledge and agree that there shall be no presumption against any party on the ground that such party was responsible for preparing this Agreement or any part thereof.

THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK

This Agreement may be executed by each of the parties hereto in separate counterparts, each of which shall be deemed to be an original and both of which taken together shall constitute one and the same Agreement. If this Agreement is not executed by Artist and received by Company on or before June __, 2017, the offer of employment contained herein shall be automatically withdrawn unless Company agrees otherwise.

Please indicate your acceptance of and agreement with the foregoing by signing where indicated below.

Very truly yours,

COMPANY

______________________________ ______________________________

Print Name: Title

ACCEPTED AND AGREED:

______________________________ ______________________________

Date

ACKNOWLEDGEMENT:

I ACKNOWLEDGE THAT I HAVE BEEN GIVEN THE OPPORTUNITY TO CONSULT WITH COUNSEL AND THAT I HAVE READ AND UNDERSTAND EACH OF THE FOLLOWING ATTACHED DOCUMENTS:

Exhibit A
Acknowledgement of Intellectual Property, Confidentiality and Property Rights

Schedule B
Initial Assignment

Schedule C
Compensation

Schedule D
Company Competitors

Schedule E
Development of New Video Content and Channels

Employee Signature: ____________________________

Employee name (print): ____________________________

Date: ____________________________

SCHEDULE A

ACKNOWLEDGMENT OF INTELLECTUAL PROPERTY, CONFIDENTIALITY AND PROPERTY RIGHTS

I acknowledge that I am an employee of _________________ ("Employer"), and, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, I acknowledge and agree as follows:

1) Intellectual Property Rights:

a) I agree that I will promptly make full written disclosure to Employer, will hold in trust for the sole right and benefit of Employer, and hereby assign to Employer, or its designee, all my right, title, and interest in and to any and all worldwide right, title and interest in and to all trademark, copyright, patent, trade secret and/or other intellectual property rights, and all concepts, designs, patterns, enhancements, discoveries, improvements, designations, know-how, works of authorship, developments, ideas and/or inventions (whether or not capable of intellectual property registration or other form of protection), which I at any time have (solely or jointly with others) created or developed or hereafter create or develop, in whole or in part, within the scope of my past, present or future employment by Employer, or using or incorporating, in whole or in part, any tangible or intangible equipment, services or any other asset(s) of Employer (all the foregoing, the "Intellectual Property").

b) Without in any way limiting the foregoing, all Intellectual Property is and/or shall be deemed as "Works Made for Hire" under applicable copyright laws, and shall be the sole and exclusive property of Employer. In the event that any Intellectual Property does not qualify as a "Work Made for Hire" under the applicable copyright laws, I hereby assign (and/or upon learning of such non-qualification shall assign) to Employer any and all right, title and interest that I may now or at any time possess in or relating to such work.

c) I understand and agree that the decision whether or not to commercialize or market any Intellectual Property is within Employer's sole discretion and for the Employer's sole benefit and that no royalty will be due to me as a result of the Employer's efforts to commercialize or market any such Intellectual Property.

d) I have attached hereto as Exhibit A a list describing all inventions, original works of authorship, developments, improvements and trade secrets that were made by me prior to my employment with Employer and are related to Employer's proposed business, products or research and development, and/or are owned in whole or in part by me ("Prior Inventions"); or, if no such list is attached or if Exhibit A is unsigned, I represent that there are no such Prior Inventions. I agree that I will not incorporate, or permit to be incorporated, any Prior Invention into an Employer product, process or service without Employer's prior written consent. Nevertheless, if, in the course of my employment with the Employer, I incorporate into an Employer product, process or service a Prior Invention, I hereby grant to Employer a nonexclusive, royalty-free, fully paid-up, irrevocable, perpetual, transferable, sublicensable, worldwide license to reproduce, make derivative works of, distribute, perform, display, import, make, have made, modify, use, sell, offer to sell, and exploit in any other way such Prior Invention as part of or in connection with such product, process or service, and to practice any method related thereto.

e) I agree to assign to the United States government all my right, title, and interest in and to any and all Inventions whenever such full title is required to be in the United States by a contract between Employer and the United States or any of its agencies.

f) I shall not attempt to register, or maintain any application or registration for any Intellectual Property. During and after my employment by Employer, I shall cooperate with and assist Employer in Employer's preparation, recordation and/or prosecution of any documents relating to Employer's ownership of, or attempt to register, any Intellectual Property. I hereby irrevocably designate and appoint Employer and its agents as attorneys-in-fact to act for me in executing and filing any document to further the foregoing, with the same legal force and effect as though executed and filed by me.

2) Confidentiality: I understand that, in the course of my employment by Employer, I may conceive, create, review or receive information considered by Employer to be confidential or proprietary, including without limitation information or material relating to drawings, designs, products, services, fees, contacts, business plans, marketing, intellectual property, ideas, analyses, data, improvements, financial data, and customer or supplier lists ("Confidential Information"). During and after my employment: (a) I shall maintain any and all Confidential Information in strict confidence, except if and to the extent such Confidential Information has been made publicly available by another without breaching a confidentiality obligation, (b) I shall use all reasonable precautions to ensure that Confidential Information is protected from unauthorized disclosure, and (c) I shall not use any Confidential Information for the benefit of any person or entity other than Employer, and only then with Employer's prior consent.

I agree that I will not, during my employment with the Employer, improperly use or disclose any confidential or proprietary information or trade secrets of any former employer or other person or entity and that I will not bring onto the premises of the Employer any confidential or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity.

I recognize that Employer has received and in the future will receive from third parties their confidential or proprietary information, subject to a duty on Employer's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out my work for Employer consistent with Employer's agreement with such third party.

1) Property: I agree to keep and maintain adequate and current written records of all Intellectual Property during the term of my employment with Employer. The records will be in the form of notes, sketches, drawings and any other format that may be specified by Employer. Any and all records, documents, electronic files and/or other materials which contain Confidential Information which are prepared by me or which otherwise come into my possession during the time of my employment by Employer are and shall remain the Employer's property. Upon termination of my employment by Employer, or if and when Employer may otherwise request, I shall immediately return to Employer (a) all such materials in my possession, custody or control, together with any copies thereof, and (b) any other tangible property issued to me by Employer for use during my employment, including without limitation keys, electronic devices, laptop computers and/or such property that may have been provided.

2) Necessary Protections: I acknowledge and agree that the agreements set forth above are reasonable and necessary for the protection of Employer's business interests, that irreparable injury will result to the Employer if I breach any of the agreements contained herein, and that in the event of my actual or threatened breach of any such agreements, the Employer will have no adequate remedy at law. I therefore agree that, in the event of any actual or threatened breach of any of said covenants, the Employer shall be entitled to immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Neither the foregoing nor anything else in this document shall limit the Employer's monetary or other remedies for any breach of threatened breach. In the event that I leave the employ of Employer, I hereby grant consent to notification by Employer to my new employer about my rights and obligations under this Agreement.

Employee Signature: ______________________________

Employee name (print): ______________________________

Date: ______________________________

SCHEDULE B

INITIAL ASSIGNMENT

Services to Perform:

As on-air talent, you will be required to perform all responsibilities and tasks as assigned by your supervisor. Without limiting the foregoing, the main requirements of your job are:

NOTE that prior approval from your supervisor is required for ANY public appearance or other media-related activity (including any social media posting using either a Company handle or a handle associated with your on-air persona).

SCHEDULE C

<u>Compensation</u>

SCHEDULE D

COMPANY COMPETITORS

SCHEDULE E

DEVELOPMENT OF NEW VIDEO CONTENT AND CHANNELS

Artist shall have the right to develop new video content, websites and channels subject to the terms and conditions set forth below, and provided the same does not interfere with the performance by Artist of his or her responsibilities under this Agreement and is developed without the use of Company property, equipment or materials.

1. **Right of First Refusal**. (a) During the Term and any extension thereof pursuant to Section 5 of this Agreement (the "Option Period"), Artist shall not (i) own or hold any equity or other financial interest in, (ii) perform any services for or in connection with or (iii) appear in or otherwise permit his or her name, social media handle, voice or likeness to be associated with, any video content in any medium whatsoever, whether now known or hereafter devised, unless such video or concept thereof (inclusively, an "Artist Project") is first presented to Channel Lead - Rated Red or other Company designee in writing.

(b) Company shall have a period of ten (10) business days after receipt of an Artist Project in which to notify Artist in writing as to whether Company will finance and/or acquire the rights to such Artist Project for exhibition on one or more Company Properties. In the absence of any written notification from Company within such ten (10) day period, Company shall be deemed to have declined to exercise any and all rights with respect to such Artist Project.

(c) If Company timely notifies Artist that it intends to acquire an Artist Project, then Artist shall assign, transfer and convey to Company all rights in and to such Artist Project and execute such documents as Company shall deem necessary or appropriate to effectuate the foregoing. Company shall thereupon assume any and all third-party production costs incurred on or after such date in connection with such Artist Project. The foregoing notwithstanding, if Company fails to commence production or development of an Artist Project so acquired within six (6) months after the date of its acquisition thereof, Artist shall have the right to require Company to assign, transfer and convey to Artist all rights in and to such Artist Project.

(d) If Company declines to acquire an Artist Project, Artist shall have the right to exploit such Artist Project solely by means of an Artist Website or Artist Channel (as hereinafter defined).

2. **Artist Website.** During the Option Period, Artist shall not (i) own or hold any equity or other financial interest in, (ii) perform any services for or in connection with or (iii) appear in or otherwise permit his or her name, social media handle, voice or likeness to be associated with, any website or mobile site (an "Artist Website") unless such Artist website is a party to or otherwise bound by Company's standard Website Sales Representative Agreement (the "Sales Representation Agreement"). The Sales Representation Agreement shall be coterminous with the Option Period.

3. **Artist Channels.** During the Option Period, Artist shall not (i) own or hold any equity or other financial interest in, (ii) perform any services for or in connection with or (iii) appear in or otherwise permit his or her name, social media handle, voice or likeness to be associated with, any YouTube channel unless such channel (an "Artist Channel") is a party to or otherwise

bound by a YouTube Video Sales Representation Agreement executed by Company, which shall provide for a revenue share (as determined therein) of 80-20 in favor of Company (the “MCN Agreement”). The MCN Agreement shall be coterminous with the Option Period.

4. Additional Content Investment by Company. In the event that any Artist Website or Artist Channel achieves more than xxxx subscribers, Company agrees to make a cash investment in such Artist Website or Artist Channel equal to $xxxx (the “Content Incentive Investment”). The Content Incentive Investment shall be used solely for purposes of developing additional content and may not be used for any other purpose whatsoever.

5. **Covenant Not to Compete Applies to Artist Websites and Artist Channels.** For purposes of clarity and without limiting any of the foregoing, Artist acknowledges and agrees that the covenants not to compete set forth in Sections 1,9 and 10 of the Agreement shall apply to all Artist Websites and Artist Channels for the term set forth therein.

TALENT AGREEMENT

Dated: As of ___________, 2017.	**Start Date of Services:** Start date currently anticipated to be no later than ___________, 2017.
Talent: ______________ ("Talent")	
Talent's Address: ___________________________ ___________________________	**Cycle:** One (1) episode a day, four (4) days a week for not less than twelve (12) weeks, for a total of forty eight (48) episodes of the Program, with each episode having a running time (exclusive of main and end credits) of no less than fifteen (15) minutes (a "Cycle"). For further clarity, Talent agrees to appear in/provide Services for not less than sixteen (16) episodes per month.
Program(s) / Network(s): "___________________":(the "Program"). _____________ ("Network")	**Role / Services:** On-Camera Host/Personality/Narrator/Voice-Over Talent/ Voice Talent ("Services"). Talent will provide Services for at least one (1) Cycle of the Program.
Travel & Production Dates / Location(s): On-camera Services currently scheduled to start no later than ____________, in _________________.	**Compensation:** $

Additional Terms and Conditions

A. Services: Network hereby engages Talent, and Talent hereby accepts such engagement, to render personal services as an On-Camera Talent, Personality, Narrator, Voice-Over Talent, and Voice Talent for and in connection with the Program. Talent's services are further described in Paragraph 1 of the Standard Terms and Conditions as set forth below (the "Standard Terms").

B. Credit: In Network's sole discretion, and provided that Talent is not in breach or default of his/her obligations, warranties and representations hereunder, Talent may receive an end credit in each episode of the Program in which Talent actually appears and/or renders Services. All elements of any credit provided hereunder, including without limitation size, style and placement, shall be at Network's sole discretion. No casual or inadvertent failure by Network to provide such credit, nor any failure by any third party to provide such credit, shall be deemed a breach of this Agreement.

C. Service/Options: Talent's Services shall be rendered on an exclusive basis during the period commencing on the date hereof and continuing until the initial exhibition of the final episode of the then current Cycle of the Program ("Service Term"). Network shall have three (3) exclusive, consecutive, dependent options (each an "Option") to extend the Service Term and engage Talent to provide Services for additional Cycles of the Program (e.g., for a second Cycle) on the same terms and conditions as set forth in this Agreement. Network shall exercise each such Option, if at all, in writing (email being deemed sufficient) no later than the last day of the then-current Service Term. Upon prior written notice to Talent, Network, in its sole discretion, shall have the right to increase the number of episodes for a Cycle in which Talent shall render services in the Service Term and/or determine the number of episodes for which Talent shall render services for a Cycle in any subsequent Service Term. Notwithstanding the foregoing provisions of this paragraph, Network will have the right, in its sole discretion, to accelerate commencement of any subsequent Service Term to any date during the preceding Service Term (thereby terminating said preceding Service Term on the day before said date) and/or to extend the termination date of any Service Term if such extension is for the purpose of completing the applicable production order of episodes for the current Cycle of the Program during such Service Term. Any accelerated Service Term will continue until the date upon which such Service Term would terminate hereunder in the absence of such acceleration unless extended pursuant to any provision hereof. Extension of any Service Term will delay the commencement and, at Network's election, the termination of any succeeding Service Term by a period lesser than, or, in Network's sole discretion, equal to the period of such extension and will also extend the date(s) for

Network's exercise of any Option by a period equal to the period of such extension. Network's right to extend any Service Term pursuant to this paragraph will not limit any other right of extension provided to Network under this Agreement.

D**.** <u>Promotional Requirements for Talent</u>**:**

Talent shall coordinate with Network on the promotion of the Program produced by Network and/or featuring Talent, as applicable, through social media (e.g. Facebook, Snapchat, Instagram, etc.) the specifics of which shall be mutually agreed by Network and Talent after good faith discussion of the Talent's social media profile and the marketing and release strategy for the Program and shall include the following activities: 1) Talent shall post social announcement of Program in advance of the premiere episode of the applicable Cycle of the Program to active social account(s) based on agreed upon posting schedule, including but not limited to: Facebook, Twitter, Instagram, Snapchat, Vine, YouTube, including at least 30 seconds duration on YouTube; and 2) Talent shall post social announcement of each episode of the Program to active social account(s) based on agreed upon posting schedule, including but not limited to: Facebook, Twitter, Instagram, Snapchat, Vine, Youtube (where YouTube is a minimum of 30 seconds). Notwithstanding anything to the contrary contained in this section D, Network's decision as to the substance and schedule of all social media posts/promotions shall govern should the parties fail to agree.

E. <u>Exclusivity</u>:

Throughout the Service Term (and any extension thereof) (the "Exclusivity Period"), Talent's services shall be exclusive to Network in all media. In furtherance of the foregoing, unless Talent has obtained Network's prior written consent, Talent shall neither render services for, appear in, sponsor or otherwise endorse any programming, promotion, product or service (using or licensing Talent's Name and Likeness or otherwise) substantially similar to or that detracts from the Program in any media. Talent shall notify Network in writing, immediately after Talent's receipt of any third-party request for Talent's services, including without limitation publicity and personal appearance requests, and requests to use Talent's Name and Likeness (as defined in the Standard Terms) in association with any programming, promotion, product or service substantially similar to the Program, for Network's review and approval (or disapproval). For the sake of clarity, substantially similar shall mean any talk radio programming, including audio-visual and audio only programming.

F. <u>Standard Terms and Conditions</u>:

The Standard Terms are by this reference incorporated herein and made a part of this Agreement. Without limiting the generality of the foregoing, and notwithstanding anything to the contrary set forth in this Agreement, all of each party's obligations hereunder, including without limitation, Network's obligation to engage Talent to render services, to pay compensation to Talent, or to accord Talent credit, are subject to the Standard Terms. In the event of a conflict between the Standard Terms of this Agreement below and the Additional Terms and Conditions above (the "Additional Terms"), the Additional Terms shall prevail.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

AGREED TO AND ACCEPTED BY:	AGREED TO AND ACCEPTED BY:
COMPANY.	**TALENT**
By: ___________________________________	By:__________________________________
Printed Name:___________________________	Printed Name: _________________________
Its: ___________________________________	

<u>STANDARD TERMS AND CONDITIONS</u>

1. **<u>Engagement/Services</u>.**

(a) This Agreement covers Network's engagement of Talent as an On-Camera Talent/Personality/Narrator/Voice-Over Talent/Voice Talent for and in connection with the Program at the Compensation set forth in the Additional Terms. Talent's services shall include all pre-production, production and postproduction services customarily rendered by On-Camera Talent/Personality/Narrator/Voice-Over Talent/Voice Talent in the entertainment industry and/or required by Network or its licensees, including without limitation any necessary (as determined by Network) research; rehearsals; travel; auditions; pickups; on-camera shoot days; narration; voice-over services; interstitials; wraps or other segment material; vignettes; on-and off-camera promos; openings, closings, trailers, lead-ins and lead-outs for use in and in connection with the Program; weblogs, vlogs and other interactive/social media content; "special" episodes; "behind-the-scenes" programs and books; consultation;[interviews for publications about the Program; creation of design plans; facilitating and overseeing all design plans and other related activities; building/repair. construction, and consultation on proposed project;] any other creative services as Network may assign Talent and Talent agrees that all such services shall be rendered in a first-class, professional manner and shall be subject to the instructions and direction of Network and its designated representatives, including, but not limited to any third-party broadcaster. Talent shall not engage in any activities that interfere with or delay the rendering of Talent's services hereunder. Network's determination in all matters respecting the performance of Talent's services (including without limitation matters involving artistic taste, quality and judgment) will be final and controlling. All services requested by Network shall be consistent with the editorial direction of Network and the Program.

(b) Talent further acknowledges and agrees that all services rendered hereunder, including Publicity and Promotional Services as defined below in sub-paragraph 1(c), shall comply with any and all Network guidelines and policies.

(c) Whenever Talent is rendering or is obligated to render services hereunder, and thereafter at such time or times as Network may require, Talent will, if, as and to the extent required by Network, cooperate with Network in such manner as Network deems necessary or desirable in order to furnish the services of Talent for the purpose of advertising, promoting, publicizing or otherwise exploiting the Program and any episode thereof, Network and/or Network's businesses, any network or sponsor of the Program, the products or services of Network or any such sponsor, or any rights granted to Network hereunder, including without limitation appearances at press and media events; print, radio and television interviews; satellite media tours; on-camera and off-camera promotions; still photography sessions; online chats/activities and other social media initiatives; Q&A sessions; "tweets" and notes from the field; autograph sessions; trade shows; in-store appearances (such appearances not to be construed as a direct or indirect endorsement of a product or sponsor); and making any public or personal appearances as may be requested by Network ("Publicity and Promotional Services"), all without additional compensation, unless otherwise stated in the Additional Terms.

(d) Network's obligations under this Agreement are conditioned upon the following (collectively "Conditions Precedent"): (i) Network's receipt of a fully signed copy of this Agreement and all exhibits hereto; and (ii) Network's receipt of all appropriate payment eligibility forms such as an INS Form-I9 and W-4 from Talent.

2. **Rights / Ownership / Exploitation.**

(a) Talent's services hereunder shall be performed on a "work-made-for-hire" basis, specially ordered or commissioned by Network, and, as such, all results and proceeds from Talent's services and all material suggested, composed, written, performed or furnished by Talent in connection with the Program and all material owned or controlled by Talent which is incorporated or used in connection with the Program (collectively, the "Results and Proceeds") are owned exclusively by Network, its successors and assigns, in perpetuity and in all languages throughout the universe including, without limitation, all copyrights (and renewals and extensions thereof), for all now known or hereafter existing uses, media, forms, means and methods including, without limitation, all forms of motion picture, television, digital television, literary, dramatic, video cassette and video or laserdisc, video and computer games and any computer-assisted media (including, but not limited to CD-ROM, CD-I and similar disc systems, interactive media, internet media and multimedia and any other devices and/or methods now existing and/or hereinafter devised), sound recordings, publishing, merchandising and all allied and all ancillary and subsidiary rights therein. To the extent such Results and Proceeds do not vest in Network, its successors and assigns as a "work made for hire," Talent hereby irrevocably grants, assigns and transfers to Network, its successors and assigns, without any right of revocation, all of Talent's right, title and interest thereto (including, without limitation, all copyrights and trademarks, together with all goodwill) for valuable consideration acknowledged herein. For this purpose, Talent hereby appoints Network attorney-in-fact for the limited purpose of effecting this Agreement and executing all documents necessary to effect this assignment.

(b) As the rightful owner, Network has the unlimited right to cut, edit, add to, subtract and omit from, adapt, change, arrange, rearrange, or otherwise modify the Results and Proceeds including, without limitation, to double Talent or to freely "dub" or subtitle the Results and Proceeds into foreign languages and dialects. Network may produce the Program in whatever manner it chooses, including without limitation recording by means of motion picture camera, tape or other electronic device or for live broadcast and may from time to time change from one manner of production to another and Network shall also have the right, in its sole discretion, to change the title of the Program. Network shall have the right, without additional compensation to Talent, to (i) use and grant others the right to use the Program or any portion thereof, as a part of, or otherwise in connection with, any other television program or otherwise; (ii) use and reuse any portion of the Program, including without limitation any clip(s) or soundtrack(s) of Talent's services from the Program, in or as a trailer or spot advertisement in any medium to advertise, promote or publicize the Program, Network or any sponsor; and (iii) combine any episode of the Program, or any portion thereof, with any other episode of the Program or with any other television program or with any other material of any nature whatsoever and may exhibit such combinations on television, in motion picture theaters or otherwise. To the full extent permitted by applicable law, Talent hereby irrevocably assigns to Network (or irrevocably waives, in the event assignment is not permissible) any and all benefits of any provision of law known as "droit moral," "moral rights of authors" or any similar law in any and all countries of the world.

(c) The parties hereby agree that Network's rights in the Program and the Results and Proceeds, and all elements, versions (e.g., different formats) and variations and/or portions thereof, including, without limitation, any Program specials, or any thematic Program episodes, may be exploited by means of any and all media (now existing or hereafter devised) ("Media") throughout the universe ("Territory") in perpetuity commencing upon the earlier of the commencement of Talent's services hereunder or Talent's execution of this Agreement ("Exhibition Period").

3. **Trademark.** As between and among Network and Talent, all parties agree that (i) the Program marks, the Program logos, the title of the Program, the names, titles and logos of all Network programs and series, and any other trade names, trademarks, or other marks of Network ("Network Trademarks") are trademarks owned by Network and are the sole and exclusive property of Network, unless otherwise licensed to Network by third parties; (ii) Talent shall not acquire or own any right, title or interest of any kind or nature whatsoever in the Network Trademarks or the trademarks of Network's affiliated entities; (iii) Talent shall not use, or authorize or permit the use of Network Trademarks or the trademarks of Network's affiliated entities in connection with any product or service, including but not limited to books, or in connection with Talent's endorsement (either direct or indirect) of any product or service or for any other purpose whatsoever without the prior written consent of Network in each instance (which consent may be given or withheld by Network in its sole and absolute discretion). Any use of Network Trademarks by Talent without Network's prior written approval shall constitute a material breach of this Agreement, and, in addition to all other remedies Network available to Network for such breach, Talent shall pay to Network a royalty for such unauthorized use at a rate to be determined by Network in its sole but reasonable discretion. Further, Talent agrees that Network may deduct such royalty payments from any compensation due to Talent hereunder.

4. **Name and Likeness.** Talent hereby grants to Network the perpetual, exclusive right, but not the obligation, to use and authorize others to use Talent's name(s), voice, image, photograph, personal characteristics, signature, actual or simulated likeness, expressions, performance, attributes, personal experiences and biographical information (collectively "Name and Likeness") in and in connection with the production, distribution, advertising, publicity, promotion, merchandising, exhibition and other exploitation of all versions and formats of the Program (including its title) and the businesses, services, programs and/or products of Network, and their licensees, sublicensees and assigns (including all advertising, publicity and promotion and materials associated therewith) and in or in connection with any episode of the Program in which Talent does not appear, including without limitation in billing, cast credits, advertising, promoting or publicizing any such episode, in any manner, in any and all media and by any means now known or hereafter devised (including, but not limited to, use in and in connection with publishing, by-products, tie-ins, merchandise, commodities and services of every kind, as well as in connection with or on materials which package or enclose any such items) and no additional payment shall be required for any such uses, unless otherwise specified in this Agreement. Network may include photographs or other images or depictions of the likeness of Talent in or in relation to any exploitation of the Program and all documentaries, "behind-the-scenes," "the making of" featurettes, promotional films and videos of the Program in any manner and by any means throughout the universe. Talent acknowledges and agrees that any product placement(s) (or Talent's use of any product or verbal mention of any product) within the Program and any advertisements within or connected to the Program shall not constitute any endorsement or sponsorship by Talent of such product or service and is permissible under this Agreement.

5. **No Obligation to Use Talent's Services**. Network shall be under no obligation to actually use Talent's services, to use any of the Results and Proceeds, to produce or exploit the Program, to continue any of the foregoing if commenced or to otherwise exercise any of the rights granted to Network hereunder. Notwithstanding the foregoing, provided Talent fully performs all services required in the Additional Terms to the extent required by Network, and provided Talent is not in breach of this Agreement, Network shall have fully discharged its obligations hereunder by the payment to Talent of the applicable compensation set forth in the Additional Terms for any services actually rendered.

6. **Compensation.**

(a) Provided Talent is not in breach or default hereof, as full and complete consideration for all of Talent's services and for all rights herein granted and to be granted and for all warranties and agreements of Talent hereunder, Network shall pay Talent and Talent, agrees to accept, the Compensation set forth above.

(b) Talent's regular compensation shall be paid within thirty (30) days after Talent's completion of the relevant required services and receipt by Network of an invoice for the relevant amount. Invoices should be sent no more than once per month. Each invoice must contain: (i) name; (ii) remit-to address; (iii) the invoice number; (iv) the project name and the network name; (v) the milestone(s) completed; and (vi) the payment amount as contracted.

(c) Payment of all compensation hereunder is contingent upon mutual execution of this Agreement, Talent's completion of delivery to Network of an IRS Form W-9 and review and acceptance by Network of a biography and customary background and professional and/or company check of Talent and Talent's credentials. In furtherance of the foregoing, Talent may be required to complete and sign a release or other document(s) as required by the third party designated by Network to perform such check(s).

7. **Independent Contractor/Insurance**.

(a) Talent acknowledges and agrees that Talent is an independent contractor and that Talent is not an employee or agent of Network for any purpose and the Network is not responsible to Talent for any federal, state or local withholding or employer taxation obligations, social security benefits or unemployment compensation related to the services performed under this Agreement. Talent further represents and warrants that Talent qualifies as an independent contractor under the provisions of the Internal Revenue Code and its common law rules and will file all required forms and make all necessary payments appropriate to Talent's independent-contractor tax status. This Agreement shall not be interpreted or construed to create an employment relationship, an association, agency, joint venture or partnership between the parties or to impose any liability attributable to such a relationship upon either party.

(b) Talent agrees that, other than as set forth in the Additional Terms, Network is not responsible for any insurance coverage(s) for Talent and accordingly, Talent shall assume responsibility for obtaining all required insurance coverage(s) for Talent, which may include, but is not limited to, worker's compensation, health insurance and/or automobile insurance. Talent shall provide certificates of insurance evidencing all required insurance coverage promptly upon request of Network. Talent knowingly, willingly, freely and voluntarily releases Network from any claim, demand, suit or cause of action for workers' compensation benefits or any other benefit or claim arising from, attributable or related to Talent's services hereunder.

(c) Notwithstanding anything to the contrary in Paragraph 7(b) above, Talent shall be covered either under Network's insurance for television productions or as additional insured under Network's general liability and media liability errors and omissions insurance policies, but in either case, only with respect to the Program. Talent shall be solely responsible for the costs not covered by Network's policies, if applicable, unless covered by Network's indemnification. For purposes of clarification, and without in any way limiting Talent's indemnity under this Agreement, Talent's rights shall be limited by the terms and exclusions of such policy, and Talent shall have no recourse under the policy if Talent has, by way of illustration: (a) caused or contributed to the claim; (b) admitted liability or prejudiced the defense of the claim; (c) failed to comply with or breaches any term and/or condition of this Agreement; (d) failed to notify Network in writing of any potential problems with the Program immediately upon Talent becoming aware of any such potential problems; (e) failed to accept that the policy's carrier may control the claim investigation, defense and settlement, and/or (f) failed to provide the policy's carrier with the information and cooperation reasonably required to investigate and handle the claim. In the event that Network or the carrier defends any claim arising under the E&O policy for the Program (i.e., any claim for which Talent's indemnity applies), and any of the occurrences set forth in (a) through (f) herein become known to Network, then Talent will be obligated to refund to Network, as applicable, the full cost of defending the applicable claim, including but not limited to any damages, promptly upon receipt of written notice concerning such costs.

(d) At Network's expense and for Network's benefit, Network will have the right to secure cast insurance covering Talent, and Talent will have no right, title or interest in or to any such insurance. Talent agrees to cause Talent to furnish information (including vaccination records), complete forms, applications, and other instruments, and undergo medical examinations by physicians Network selects (at Network's expense), as may be required by any insurance Network (which forms, applications and other instruments Talent agrees to complete fully and truthfully). Talent may have Talent's own physician, at Talent's expense, present at any physical examination Network requires. If Talent fails or is unable to qualify for such insurance at Network's customary rates for the then-current Service Term, Network will have the right to terminate this Agreement During the Service Term (and any extension thereof), Talent will not travel on any chartered or other unscheduled airline or plane unless requested to do so by Network, or engage in any conduct prohibited by any policy of insurance obtained by Network in accordance with this Paragraph 7(d) (to the extent that Talent knows or should know of such prohibition), unless requested to do so by Network, or engage in any hazardous activity without the prior written consent of Network.

8. **Talent Incapacity**. An event of Talent incapacity shall be deemed to occur if Talent is unable to fully render services in accordance with the terms of this Agreement, as determined by Network (e.g., Talent's illness, injury or mental disability; or impairment of Talent's voice, appearance and/or mobility) ("Talent Incapacity"). Without limiting any other rights of Network under this Agreement, in the event of Talent Incapacity, (i) Network shall not be obligated to pay or credit Talent with any compensation during such Talent Incapacity and (ii) Network shall have the right to suspend this Agreement during such period of Talent Incapacity and shall have the right, but not the obligation, to extend this Agreement by the length of any such suspension. If any Talent Incapacity continues for at least seven (7) days in the aggregate, Network shall have the right to terminate this Agreement without any further obligation to Talent except for appropriate payment or adjustment with respect to any Talent services satisfactorily completed prior to such termination provided that Talent is not in breach of this Agreement. This Agreement shall terminate automatically on the death of Talent.

9. **Termination.**

(a) Network shall have the right to immediately suspend and/or terminate this Agreement in the event that Talent fails for any reason whatsoever to render services or fulfill their required obligations hereunder and Talent fails to cure such breach within a reasonable period of time, after which Network shall have no further obligations to Talent hereunder except for appropriate payment or adjustment with respect to any Talent services satisfactorily completed prior to such termination, provided that Talent is not in breach of this Agreement and/or this Agreement has not been terminated for cause.

(b) In furtherance of the foregoing, Network will have the right to terminate this Agreement for cause, which includes, without limitation, making disparaging remarks about the Program or any party involved with the Program, or Network, or their employees, agents or assigns, any breach of this Agreement, insubordination, dishonesty, intoxication, resignation, or failure, refusal, or neglecting to perform Talent's services at the times and places and in the manner required or to fulfill Talent's other obligations under this Agreement, significantly changing Talent's on-air appearance without Network's prior written consent, failure to conduct Talent's self with due regard to social conventions or public morals or decency, participation in any "adult" media (as determined by Network in its sole discretion) or commission of any act (in the past or present) which degrades Talent, Network or the Program or brings Talent, or Network or the Program into public disrepute, contempt, scandal or ridicule. Upon termination for cause, Network shall not have no further obligation to Talent (including, but not limited to, any payment obligations).

(c) Any termination of this Agreement under any of the terms or provisions hereunder, or by reason of any legal right on the part of either party hereto, will not diminish, impair or otherwise affect any of the rights granted to Network herein or in the Results and Proceeds created up through the date of termination. Network's use of Talent's services after termination of this Agreement shall not be deemed a reinstatement or renewal of this Agreement without the written agreement of the parties hereto.

10. **Representations and Warranties; Indemnity**.

(a) Talent hereby represents and warrants that (i) Talent has the full right and authority to enter into this Agreement and furnish the services of Talent as required hereunder and grant to Network the rights granted hereunder including, but not limited to, in the Results and Proceeds; (ii) all material, suggestions and ideas of every kind furnished by Talent in connection with Talent's services (collectively, "Material") is and will be wholly original with Talent and no part thereof is or will be taken from, based upon, or adapted from any other work (other than material specifically furnished to Talent by Network or material in the public domain) and such Material, and all services rendered by Talent hereunder, shall comply with Network's rules and policies and shall not violate or infringe upon any right of any kind or nature whatsoever of any person or entity including, without limitation, any copyright or right of privacy or publicity; (iii) this Agreement is not and will not be subject to any claim against Network for fees or commissions by any agent or representative of Talent or any other person; and (iv) Talent has obtained and will maintain at all times during the Service Term (and any extension thereof) any and all work permits and immigration clearances necessary to enable Talent to perform Talent's services hereunder.

(b) Network hereby represents and warrants that it has full right and authority to enter into this Agreement and written materials supplied by Network to Talent shall not infringe upon the rights of any third party.

(c) Talent hereby agrees to at all times defend and indemnify Network and their respective parent companies, subsidiaries, affiliates, licensees or assigns, from any and all claims, damages, or other liabilities, (including, without limitation, reasonable counsel fees and disbursements) arising out of or in connection with any breach or alleged breach by Talent of this Agreement. Network hereby agrees to at all times defend and indemnify Talent from any and all third party claims, damages, or other liabilities, (including, without limitation, reasonable outside counsel fees and disbursements) arising out of or in connection with any breach or alleged breach by Network of this Agreement. If it so elects, the indemnified party shall have the rights at its sole cost to engage its own counsel in connection with such claims or may assume defense on its own behalf in the event the indemnifying party fails to adequately defend or if the indemnified party's insurance carrier requires that such carrier defends any claim as a condition of coverage. The obligations under this paragraph shall survive the termination or expiration of this Agreement.

11. **Rights and Remedies**. Talent agrees that the rights and remedies of Talent in the event of a breach of this Agreement by Network shall be limited to the right to recover money damages, if any, in an action at law and in no event shall Talent be entitled to terminate or rescind this Agreement or enjoin or restrain the exploitation of the Program and/or any Results and Proceeds. The rights granted by Talent under this Agreement shall not terminate by reason of any such breach hereof by Network. Talent agrees that the services provided by Talent are of a special, unique, unusual, extraordinary and intellectual value and character, the loss of which would cause Network irreparable harm and could not be adequately compensated by money damages in an action at law. Talent hereby expressly agrees that Network shall be entitled to seek injunctive and other equitable relief to restrain, enjoin or prevent any breach or threatened breach of any obligation herein by Talent, in addition to any other rights that Network may have in equity or at law. In the event Network incurs any damages as a result of any breach of this Agreement by Talent, Network shall have the right, in addition to any other remedies, to withhold and offset any payments due Talent under this or any other agreement between the parties in an amount reasonably necessary to cover Talent's indemnity obligations under this paragraph or to cover any damages incurred by Network.

12. **"Plugola," "Payola" and Logos**. Talent will not give or agree to give anyone directly and/or indirectly associated with the Program anything of value in exchange for Talent's engagement in the Program. Talent will not accept any money, services or other valuable consideration, other than Talent's compensation hereunder, for the inclusion of any matter in the Program or for the endorsement of any Network product or service in the Program. Further, Talent shall not visibly wear any product name or logo during the provision of Talent's services hereunder, without Network's prior written consent. If Network approves the inclusion in the Program of any logo or trademark, which logo or trademark is proprietary to Talent, then Talent hereby grants Network the right to include such logo or trademark in the exhibition, promotion, advertising, merchandising and other exploitation of the Program.

13. **Sponsorships/Endorsements**. Talent agrees and acknowledges that nothing herein shall limit Network's ability to sell sponsorships, product integrations, or advertisements of similar nature in connection with the Program. Talent shall disclose to Network on Exhibit A all active and former sponsorships, endorsements, or similar relationships Talent has with any third party. Talent shall use its best faith efforts to provide services customarily rendered by On-Camera Talent/Personality/Narrator/Voice-Over Talent/ Voice Talent in connection with a sponsorship, endorsement, and/or product integration as required by Network or its sponsor subject to any conflicts Talent may have as a result of a pre-existing relationship with a third party set forth on Exhibit A. Notwithstanding the foregoing, prior to the execution of any sponsorship, endorsement, or product integration, Network shall provide Talent with meaningful consultation regarding such endorsement, sponsorship, or product integration and Talent brand consistency; provided Talent hereby agrees and acknowledges that Talent shall not have final approval over Networks execution of such sponsorship, endorsement, or product integration.

14. **Fair Competition.** During the Exclusivity Period set forth in Section E of the Additional Terms, Talent shall not enter into any agreements, which in any way prohibit or limit any third party's rights to deal with Network.

15. **Confidentiality/Statements by Talent.**

(a) Talent and/or Talent's representative(s) agree that any information Talent and/or Talent's representative(s) learn during the course of, or in connection with, Talent's engagement hereunder concerning Network's business operations, strategies, future plans, financial affairs, or any other information concerning the Program, Network and/or their parent, subsidiary and/or affiliated companies, including the terms and provisions of this Agreement (collectively, the "Confidential Information"), is confidential and proprietary. Talent and/or Talent's representative(s) shall not disclose to any third party any information with respect to such Confidential Information, except: (i) where such information has already been released to the public by Network; (ii) to the extent necessary to comply with law or the valid order of a court of competent jurisdiction or government agency, provided Talent notifies Network of any request for such and/or any such law or order; or (iii) on a must-know basis to Talent's lawyers, accountants and other business representatives upon the express condition that Talent shall in such cases secure said representatives' agreement to comply with this confidentiality restriction.

(b) Other than as provided for in this subparagraph, Talent and/or Talent's representative(s) shall not issue any press releases nor make any other statements about Talent's services, the Program, Network, its affiliates, agents and/or employees, or any other party involved in the Program (e.g., the Program's sponsors) in any media (including, without limitation, any online or print communications) without Network's prior written consent. Further, Talent and/or Talent's representative(s) shall not use any name, logo, trademark or other proprietary mark of Network or their parents, subsidiaries, affiliates, licensees, sub licensees and/or assignees in any manner without the mark owner's prior written approval.

16. **Force Majeure.** If either party hereto is materially hampered from performing hereunder by reason of any law, natural disaster, labor controversy, war or any similar event beyond a party's reasonable control ("Event of Force Majeure"), failure to perform shall not be deemed a breach of or default under this Agreement and neither party shall be liable to the other therefore. Network shall have the right to suspend this Agreement during an Event of Force Majeure and shall have the right, but not the obligation, to extend this Agreement by the length of any such suspension. Network may terminate this Agreement in an Event of Force Majeure without further liability to Talent, except for appropriate payment or adjustment with respect to any Talent services satisfactorily completed prior to such termination. During any suspension due to an Event of Force Majeure, subject to the exclusivity provisions of this Agreement and provided Talent is not in breach of this Agreement, Talent may render services to any other person or entity or on Talent's behalf; provided, that Network shall have the right to recall Talent to render services hereunder on two (2) days oral or written notice, and Talent shall report to Network to render services at the expiration of said two (2) days. Network may invoke its rights under this paragraph as often as any Event of Force Majeure occurs.

17. **Applicable Law.** This Agreement shall be governed by the laws of New York. The parties agree to submit themselves to exclusive personal jurisdiction in the State of New York with venue

in the County of New York and waive any rights they might otherwise have to lack of personal jurisdiction and/or inconvenient forum.

18. **Assignment.** Talent's services are personal and unique in nature and Talent may not assign this Agreement or any of its obligations. Network may freely assign any and all rights and obligations under this Agreement in whole or in part to any other party, including without limitation any any other entity in the name of which Network contracts.

19. **Collective Bargaining Agreement.** This is a non-union agreement. The parties acknowledge and agree that this Agreement and Talent's services hereunder shall not be subject to the terms of any collective bargaining agreement (e.g., SAG, AFTRA). Talent acknowledges that neither Network nor Network is a signatory to any collective bargaining agreement covering Talent's services hereunder. Talent shall indemnify and defend Network from any and all claims asserted by any guild or union with respect to Talent's Services.

20. **Cameras/Audiovisual Devices.** Neither Talent nor any representative of Talent shall bring or use any cameras or audiovisual recording devices to any of Network's and/or the Program's offices, sets, or locations without Network's prior written consent, which Network may grant or withhold in its sole discretion. In the event Network has granted such written consent, the copyrights in all photographs and audiovisual recordings made by Talent or any representative of Talent at any of Network's and/or the Program's offices, sets, or locations shall belong solely to Network, and Talent shall not display, exhibit, or distribute, or authorize the display, exhibition, or distribution of, any such photographs or audiovisual recordings publicly for any purpose whatsoever.

21. **Waiver**. No waiver by Network of the nonperformance or breach of any term, condition or obligation to be performed or binding upon Talent under this Agreement will be a waiver of any other nonperformance or breach; nor will Network's exercise of any option (if applicable) hereunder be deemed a waiver by Network of any default preceding such exercise. No failure or delay by Network in exercising any right or privilege under this Agreement shall operate as a waiver thereof.

22. **Counterparts.** This Agreement may be executed in one or more separate counterparts, each of which, when so executed shall, together, constitute and be one and the same instrument. A signed counterpart transmitted by facsimile shall be deemed an original**.**

23. **Severability.** Any provision herein found by court of law or an arbitrator to be void or unenforceable shall not affect the validity or enforceability of any other provision of this Agreement. If there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation, the latter shall prevail; provided, that the provision hereof so affected shall be construed so that it is enforceable to the fullest extent possible in order to meet the intent of the parties and limited only to the extent necessary to comply with such statute, law, ordinance or regulation, and no other provision shall be affected. The terms of this Agreement are severable, and the invalidity of any term in this Agreement shall not affect the validity of any other term.

24. **Notices.** All notices that Network is required or may desire to give to Talent will be given to Talent in writing by addressing the same to Talent at Talent's address or facsimile number as indicated in this Agreement, or at such other address or facsimile number as may be designated in writing by Talent to Network. All notices that Talent is required, or may desire, to give to Network will be given in writing by addressing the same to Network 1271 Avenue of the Americas, 35th Floor New York, NY 10020 to such other address as may be designated in writing by Network to Talent. All notices sent shall be in writing and delivered by personal delivery; first class certified or registered mail, return receipt requested; U.S. Express mail, or an express overnight service (such as Federal Express); or facsimile (with confirmation), with notice by email deemed acceptable for Notice of Option exercise under Paragraph C of Additional Terms and Conditions. Three (3) business days after mailing in the U.S. mail, the date of personal delivery (whether orally or in writing), or the date of facsimile transmission, of such notice shall be deemed to be the date upon which such notice is given; provided, however, that any notice from Talent that commences the running of any period of time for Network's exercise of any option or Network's performance of any other act will be deemed to be served only when actually received by Network. Notwithstanding any other provision of this Agreement to the contrary, any written notice from Network to Talent or to any agent or other representative of Talent which is actually received will be deemed, at Network's election, sufficiently given. The time in which any act provided by this Agreement is to be done shall be computed by excluding the first day and including the last, unless the last day is a Saturday, Sunday, or legal holiday, in which case such day shall also be excluded.

25. **Assumption of Risk.** Talent acknowledges that participation in a program of this nature and the services being rendered in and in connection with the Program may involve strenuous, physical, dangerous or hazardous activities. Talent further acknowledges that the services being rendered hereunder may take place in a location that is inherently dangerous due to disease, violent and/or non-violent crime(s) and political and/or social unrest and associated activities that may expose Talent to risk of loss of property, bodily harm, disfigurement or death. Talent voluntarily assumes any and all risks, known or unknown, associated with the services. Talent shall assume responsibility for obtaining all desired insurance coverage for Talent. Talent represents that Talent routinely engages in services of the nature contemplated herein, and hereby agrees to defend, indemnify and hold harmless and to voluntarily release, discharge, waive and relinquish any and all actions or causes of action against Network and its respective parents, subsidiaries, successors, officers, agents, employees and licensees (collectively, " Network Indemnified Parties") from any and all claims, demands, liabilities (including, but not limited to, personal injury, property damage and wrongful death) resulting in any manner from Talent's services, whether caused by negligence or otherwise.

26. **Wardrobe/Hair & Makeup.** Talent shall ensure Talent's wardrobe/hair & makeup shall not substantially conflict with social conventions, public morals, or public decency. Talent's wardrobe may not contain "adult" material (as determined by Network in its sole discretion), or material that brings Talent, or Network or the Program into public disrepute, contempt, scandal or ridicule.

27. **Entire Understanding.** This Agreement contains the entire understanding of the parties as to the subject matter hereof, and all prior communications and agreements, written or oral, express or implied, as to such subject matter are superseded hereby. This Agreement may not be modified, altered or amended in any way except by an instrument in writing signed by all parties. Paragraph and subparagraph headings as used in this Agreement are for convenience only and are not a part thereof and will not be used to interpret any provision of this Agreement. No officer, employee or representative of Network has any authority to make any representation, warranty or agreement not contained in this Agreement, and Talent acknowledges that Talent has not executed this Agreement in reliance upon any representation, warranty or agreement not expressly set forth in this Agreement. Each individual and entity executing this Agreement hereby represents

and warrants that he, she or it has the capacity set forth on the signature page(s) hereof with full power and authority to bind the party on whose behalf he, she or it is executing this Agreement to the terms hereof. The parties have read and understand this Agreement and have had the opportunity to consult with counsel and/or personal representatives with respect hereto. The parties acknowledge and agree that there shall be no presumption against any party on the ground that such party was responsible for preparing this Agreement or any part thereof.

END OF STANDARD TERMS AND CONDITIONS

EXHIBIT A
Sponsorships and Endorsements

In accordance with Paragraph 13 of the Standard Terms and Conditions, Talent shall disclose below all active and former sponsorships, endorsements, or any similar relationships Talent has with any third party:

EXHIBIT B
Excluded YouTube Channels

In accordance with Paragraph E of the Additional Terms and Conditions, Talent’s exclusivity obligations shall not apply to those YouTube channels listed below, which Network agrees to Talent continuing to render services in connection with; provided Talent’s Services hereunder shall be rendered on a first-priority basis in accordance with Paragraph C of the Additional Terms and Conditions: