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LEGAL ISSUES



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Cases of Note — Copyright Blundering Into Contracts Without A Writing — Beyond the Statute of Frauds

by **Bruce Strauch** (The Citadel) <strauchb@citadel.edu>

Lyrick Studios, Inc. v. Big Idea Productions, Inc., United States Court of Appeals for the Fifth Circuit, 420 F.3d 388; 2005 U.S. App. LEXIS 16164 (2005).

So, who says there's no money in Christian themed computer-animated cartoons? Just ask these two litigants.

Phil Vischer founded **Big Idea Productions** to market "Veggie Tales" with those two compelling characters Bob the Tomato and Larry the Cucumber. **Big Idea** started distribution through the **Christian Bookstores Association** and did well. But **Phil** wanted to go to the next level.

Negotiations began with **Tim Clott**, CEO of **Lyrick Studios**. Three key documents were exchanged.

1) **Lyrick** sent a distribution proposal with the ending caveat "for both of our protection, no contract will exist until both parties have executed a formal agreement."

2) **Big Idea** faxed several issues still to be decided. These issues were chatted about over the phone ending with an agreement to agree.

Big Idea faxed **Lyrick** the message that "Phil is ecstatic." Remember **Phil Vischer** is founder of **Big Idea**.

Draft contracts were sent back and forth over the years with sticking points over DVD distribution rights and rights to stuffed animals.

Yes, your media product is so limited if it isn't a so-called "platform" for the sale of peripheral junk.

But **Lyrick** began distributing VeggieTales videocassettes in 1998 without a written contract. In 1999 another draft was not signed and things became tense. Those

stuffed animals were a real bone of contention. Finally they signed an agreement ("the plush letter") transferring plush rights from **Lyrick** to **Big Idea**.

I'm at a loss as to why Lyrick thought they had any rights in the plush toys. And the case — confusingly — has Big Idea admitting to a breach of the plush letter agreement without any further explanation. Maybe the parties' names were transposed.

Anyhoos, in 2001 **Big Idea** announced they would use a new distributor and **Lyrick** sued claiming breach of its exclusive license/distribution agreement. Discovery unearthed a **Big Idea** internal memorandum which becomes key document number:

3) a **Big Idea** VP wrote "we agreed over the phone to his contract ... I would say that we have an agreement in force."

Yes, I dare say someone at Big Idea got the boot for not deep-sixing that little document.

Big Idea moved for judgment as a matter of law based on the requirement for a licensing of a copyrighted work to be in writing. The district court denied this and at trial **Big Idea** got whacked for nine million and change plus \$750,000 in attorney's fees.

Ye gads! Who'd a thunk it? TEX. CIV. PRAC. & REM. CODE § 38.001 allows a winning party to get attorney's fees in a breach of contract case. No wonder you need to pass a state bar exam to practice.

Big Idea of course appealed.

Enough facts. Let's Get to the Law

Section 204(a) of the **Copyright Act** is sometimes called the **Copyright Statute of Frauds** as it requires "[a] transfer of copyright ownership ... is not valid unless an in-

strument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." 17 U.S.C. § 204(a).

Grant of an exclusive license is a "transfer of copyright ownership." 17 U.S.C. § 101 (2005).

In fact, there is a distinction between 204(a) and the **Statute of Frauds**. The **S of F** is really an **evidentiary requirement** shot through with all kinds of exceptions where the judge can see clear evidence that a contract was made between the parties.

Under 204(a), a transfer of copyright is **simply not valid** without a writing. *Konigsberg Int'l, Inc. v. Rice*, 16 F.3d 355, 357 (9th Cir. 1994).

And yes, you can write it on a greasy paper bag. It "doesn't have to be the Magna Carta; a one-line pro forma statement will do." *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 557 (9th Cir. 1990). And no magic words are needed. Any old language will do. *Radio Television Espanola S.A. v. New World Entm't, Ltd.*, 183 F.3d 922, 927 (9th Cir. 1999).

So Why a Writing?

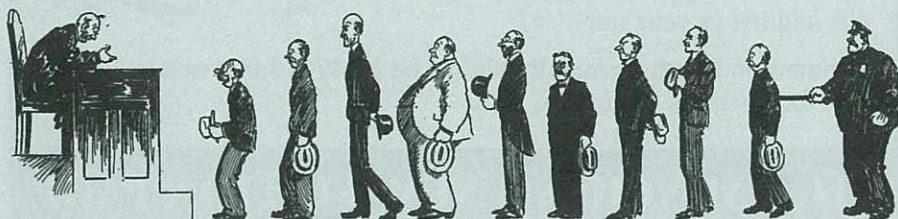
A writing requirement prevents inadvertent transfer. *Effects Assocs.*, 908 F.2d at 557. It "forces a party who wants to use the copyrighted work to negotiate with the creator to determine precisely what rights are being transferred and at what price." *Id.* It serves as guide in the resolution of disputes. *Id.*

You're asking why is that different from the purpose of the **Statute of Frauds** which mandates writings for a list of important contracts. The **S of F's** stated purpose is to diminish outright fraudulent litigation — just making up a breach of contract suit out of thin air. You can get into court with evidence of one party performing its consideration and then tell all manner of lies. So there's no "guide in the resolution of disputes."

Was There a Sufficient Writing in Those Three Documents?

The first one clearly states "our proposal."

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Which under contract law might be taken as an offer. But it also says "If the above terms are acceptable to you we will begin drafting a formal agreement. Of course for both of our protection, no contract will exist until both parties have executed a formal agreement."

Ah, basic contract law. Not an offer then.

The second one said: "Here is our agreement to proceed and the remaining issues and understandings which we need to resolve prior to signing a formal document."

Not even a counteroffer.

And then the unfortunate third document of **Big Idea's**. "Net of all this — when we told **Tim Clott** (of **Lyric**) we accepted his proposal and we would go forward on that basis, and they have printed catalogs, represented our products and gotten them on television, designed plush, and paid for some research, I would say that we have an agreement in force."

And the 9th Cir Agrees with Strauch for Once

The two faxes do not show an exclusive license agreement. Section 204(a) mandates language of finality. *Radio Television Espanola*, 183 F.3d at 928. And there was continuing debate over the final draft contracts.

But What About That Pesky Memo That Turned Up In Discovery?

There are two 9th Circuit cases that deal with post-transfer letters. In the first, two movie producers orally contracted with famed vampire author **Anne Rice** to write a story they called a "Bible" that would be used to produce derivative works. No written contract was signed, but she delivered a story, got \$50,000 and later wrote *The Mummy* as a novel. The producers were not able to exercise their rights and sued.

Case dismissed for lack of writing under 204(a).

Under the Statute of Frauds, they would have been in court.

But headstrong **Rice** — doubtless without knowledge of her horrified attorney — took it upon herself to write the producers and tell them that even though the contracts were never signed, she "honored them to the letter."

The producers tried to reopen the case via the letter. But the 9th Circuit said the letter was written three and a half years after the alleged oral contract. It was not "substantially contemporaneous with the oral agreement." And "**Rice's** letter — though ill-advised — was not the type of writing contemplated by section 204 as sufficient to effect a transfer of the copyright to THE MUMMY." *Konigsberg International, Inc. v. Rice*, 16 F.3d 355, 357 (9th Cir. 1994).

Ill-advised. I love it.

While **Big Idea's** internal memo was contemporaneous, *Konigsberg* shows that not all documents referring to the existence of a contract or admitting to one will satisfy 204(a).

And we go to the second case. TV company negotiated an exclusive license with a distributor. Distributor's negotiating agent drafted an internal memo with terms of an agreement and then signed it. A whole bunch of faxes went back and forth with references to a "deal" but no terms of the deal.

Then there was a fax saying the distributor was waiting for the contracts. This eliminated any "hint of finality."

TV company waved the distributor's internal memo with all the terms. But the court said this was meaningless because it was never communicated to TV company. *Radio Television Espanola S.A. v. New World Entertainment, Ltd.*, 183 F.3d 922, 928 (9th Cir. 1999).

Basic contract law. So sublime.

Radio Television Espanola is on point with *Lyrick Studios*. Flurries of faxes without a final contract. An internal memo never meant to be communicated to **Lyrick**. Unlike the Statute of Frauds, the parties behaving as though there was a contract does not allow them in front of a jury for a swearing contest. *Konigsberg*, 16 F.3d at 356.

204(a) is far more strict. Get a blankety-blank writing. 🐼

Questions & Answers — Copyright Column

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QUESTION: *Academic libraries often subscribe to publications which they retain for only a few months and do not bind. Is there a problem in giving discarded issues to another department on campus? For example, the library subscribes to Paris Match which it retains only for three months. The Foreign Language department wants the discarded issues.*

ANSWER: It is perfectly permissible to give another department discarded materials. The Copyright Act states in section 109(a), the "first sale doctrine," that anyone who has lawfully acquired copy of a work may dispose of that copy in any way. The library subscribes to journals, purchases materials and receives others as gifts. It may lend these items to users, give them away, sell them, etc. Royalties go to the copyright holder only for the first sale, i.e., the library's subscription. The first sale doctrine does not permit the reproduction of those copies, however.

QUESTION: *Is it permissible to copy sheet music for school use? Some state-wide music teacher's organizations have agreements with ASCAP.*

ANSWER: There are published guidelines on the educational uses of music that are voluntary guidelines that were negotiated in 1976. They are published in the **House Report** that accompanied the **Act** (House Report 94-1376). These guidelines recognize the difference in a performable and a non-performable unit. For a non-performable unit, either single or multiple copies of sheet music may be made but the excerpt may not exceed 10% of the total work.

Performable units such as an aria, section or movement may be reproduced for a teacher for either scholarly research or preparation for teaching if: (1) there is confirmation from the copyright owner that the work is out of print or (2) the unit is not available except in a larger work.

Any agreement with the **American Society of Composers, Authors and Publishers (ASCAP)** or **Broadcast Music Inc (BMI)** deals with performance and not with reproduction of sheet music. The copyright holder for sheet music is normally the composer or the music publisher. ASCAP and BMI are licensed by the composer to collect royalties

for public performance of their works. So, a music teacher association agreement with them would be for choir and band performances to which the public is invited and which does not qualify as a section 110(4) nonprofit performance.

QUESTION: *The corporate library is in the process of updating its Website and wants to have hot links to many different industry resources, associations, etc. Is permission needed to deep link? Some competitor Websites have these links and use the logos from the companies to which they are linking as the link. Is this infringement?*

ANSWER: When the Web was new, courts often did not understand linking and some held that a link actually reproduced the work. Over time, this has changed as courts better understand the fact that a link is simply a pointer or cross reference. Whenever a company or association creates an open Website that is not password protected or otherwise controls access to it, then the common understanding is that a link is not a problem. Some scholars call publication on the web an

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