MOSES & SINGER LLP

Intellectual Property Contracts April 2014

NEW DECISION ALERT

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I. "SUBSIDIARY RIGHTS" IN PUBLISHING CONTRACT INCLUDE EBOOKS

Summary:

The latest chapter in the continuing saga of "old contract, new medium" was written recently by the Southern District of New York. In this chapter, a book publisher with a contract from 1971 won the right to publish the book "Julie of the Wolves" in electronic form or, more exactly, the right to prevent the author from licensing the rights to anyone else.

Decision:

Electronic books were barely on the horizon in pre-personal computer 1971. Unlike many new media cases, however, the Court was not interested in the public or publishing industry awareness in 1971 of the potential for e-books because Court found the contract unambiguous, thereby excluding extrinsic evidence of the parties' intent.

The publishing agreement for "Julie of the Wolves" gave the publisher "the exclusive right to publish" Julie of the Wolves "in book form." "Book form" was not defined, but the publisher also received exclusive "subsidiary rights," which were defined to include electronic rights in general terms:

> use thereof in storage and retrieval and information systems, and/or whether through computer, computer-stored, mechanical or other electronic means now known or hereafter invented and ephemeral screen flashing or reproduction thereof, whether by print-out, phot[o] reproduction or photo copy, including punch cards, microfilm, magnetic tapes or like processes attaining similar results…

Thus, the publisher's subsidiary rights clause contained the all-important phrase, "other electronic means now known or hereafter invented." This phrase generally resolves new media cases in favor of the grantee or licensee, and it did here.

However, the case did not decide that the publisher could actually exercise its exclusive electronic rights. The subsidiary rights clause also contained the limitation, "Publisher shall grant no license without the prior written consent of the Author." This apparently produced a stand-off, where author could not license e-books, but could prevent publisher from publishing e-books by withholding her consent. This clause did not make the case moot because author had already purported to grant the e-book right to Open Road Integrated Media, LLP, the losing defendant in the case.

The Court discounted a reserved rights clause in the agreement, which reserved to author all rights not granted. Unlike some cases that have given such a clause weight on behalf of the author, the Court called the clause a mere "truism."

The Court distinguished the landmark *Rosetta Books* case (*Random House, Inc. v. Rosetta Books LLC*, 150 F. Supp. 2d 613, 620 (S.D.N.Y. 2001)), finding the HarperCollins agreement "significantly different" from the Rosetta Books agreement. The HarperCollins agreement gave publisher the right to "publish in book form," whereas the Rosetta Books agreement granted the right "to print, publish and sell." The Court focused on the word "print" in the Rosetta Books agreement. The Court said that "the inclusion of the word 'print' has a limiting effect and a strong connotation of paper copy. The word 'print' is absent from the 1971 contract governing here, thereby distinguishing the case at bar from Rosetta Books."

Practice points:

- In a new media case, contract language is key. Most important of all is the phrase "now known or hereafter invented" as applied to the media of distribution.

- Not every new media case is determined by whether the parties did imagine or could have imagined the medium in question at the time of contracting, if the contract is clear enough on its face.

HarperCollins Pub. LLC v. Open Road Integrated Media, LLP, 11 Civ. 9499 (S.D.N.Y. 3/14/14) (Buchwald, J.) NYLJ 1202647742193

II. DUTIES OF ART GALLERIES TO ARTISTS

Summary:

An art gallery does not own prints of the artist's work that it pays for if its agreement says that it is the "agent" for the artist. It must turn the prints over to the artist upon termination of the relationship, although it may be entitled to be paid for the cost of production.

Case Description:

In *Scher v. Stendhal Gallery* (1st Dep't 3/27/14), Gallery and Artist signed an agreement in October, 2005, making Gallery Artist's "exclusive agent" for three years for the sale of original works and "limited edition prints published exclusively by Gallery." The agreement forbade oral modification.

During the term of the agreement, Gallery and Artist orally agreed that Gallery would produce prints of certain works at Gallery's expense, the proceeds to be split 90-10 Gallery-Artist. Gallery produced the prints, which Artist signed and numbered. At the time the lawsuit was commenced, Gallery had incurred about $300,000 in costs to produce and sell the prints and had sales of about $1.4 million, but had only paid Artist $15,000, far less than 10% of the proceeds, whether gross or net.

The parties continued to work together after expiration of the agreement for another 1½ years, when Artist terminated the relationship.

Artist sued Gallery for, among other things, possession of the remaining prints. Gallery claimed that it owned the prints and that, in any event, it was entitled to 90% of the proceeds from their sale.

Decision:

The Appellate Division held that the agreement making the Gallery the agent of the Artist for the sale of prints meant that Gallery acted in an agency capacity in producing the prints and "accordingly, the prints must be deemed to be [Artist's] property," citing two New York Chancery [sic] cases from the 1830s and some secondary sources. Rejecting Gallery's claim that the parties had an understanding that the prints were Gallery's property, the Court held that because the Gallery was Artist's agent and therefore Artist's fiduciary, Gallery was bound to disclose to her when the print agreement was made "any understanding" that Gallery had at the time of the oral print deal that the Gallery would own the prints. Having made no express agreement that Gallery would own the prints, the Gallery "left itself exposed" and the Court would not "relieve a fiduciary … of its own carelessness in dealing with its principal," even though Gallery paid for production of the prints and reserved in the admitted, although oral, agreement that Gallery would keep 90% of the proceeds. Consequently, Gallery had to turn the unsold prints over to Artist.

The Appellate Division also found no merit in Gallery's claim to 90% of the proceeds of future print sales. The Court held that while the parties did agree to split the sales revenue, "as to the unsold prints, there is no sales revenue to which to apply the parties' agreement." Without expressly saying so, the Court evidently deemed the termination of the parties' relationship to also terminate the admitted oral agreement to split the proceeds of sales. It is possible that the Court viewed the oral agreement as an unenforceable, invalid oral modification of the written agreement.

Also, the Court noted pointedly that "[Artist] has chosen not to challenge on appeal the motion court's determination that she should compensate the Gallery for the production costs of the unsold prints," implying that the Court had some doubt as to whether the Gallery was even entitled to recover its costs of production.

Practice points:

It is important to put agreements in writing. Here, the oral agreement about prints was deemed to have ended with the "relationship" although there was no testimony mentioned that that agreement had an end date.

A party agreeing to be an agent thereby becomes a fiduciary. Here, the fiduciary relationship was applied to place on Gallery some unusual burdens concerning its subsequent oral agreement with Artist, although the Court did not cite the stringent general rules regulating agreements between fiduciaries and beneficiaries.

While not expressly commented on in the case, paying admittedly due amounts makes a better impression on a Court than withholding everything until ordered to pay. Under the oral agreement about the prints, Artist was entitled to either $140,000 (10% of gross proceeds) or $110,000 (10% of net proceeds). We may conjecture that Gallery's holding back without apparent excuse all but $15,000 of Artist's share influenced the Court's view of the case. Gallery also sold a painting for $50,000 that it was prohibited from selling for less than $90,000 under the terms of the consignment and apparently neglected to pay Artist her 50% commission on that sale, either based on the $50,000 actual sales price or the $90,000 contract price. This omission probably did not help Gallery's case either.

Scher v. Stendhal Gallery, Inc., 2014 NY Slip Op 02154, NYLJ 1202648795853, Index No. 650598/10 (1st Dep't 3/27/14)

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