



1-1-1986

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Recommended Citation

Richard Alan Martin, *Contract Law: New Media and Old Licenses*, 6 Loy. L.A. Ent. L. Rev. 115 (1986).
Available at: <https://digitalcommons.lmu.edu/elr/vol6/iss1/8>

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CONTRACT LAW: NEW MEDIA AND OLD LICENSES

It was not so long ago that few people had heard of video cassette players for the home, let alone laser disc players.¹ With technology expanding so rapidly the courts have had to decide whether new forms of media, such as video cassettes and video discs, should be included under license agreements that were created before these media were developed. The court held in *Platinum Record Co., Inc. v. Lucasfilm, Ltd.*² that where a license agreement can be fairly read to include exhibition by means of newly developed or unforeseen media, it is the burden of the licensor³ to negotiate exceptions to the rights granted to the licensee.⁴ The court also ruled that motion pictures are exhibited when shown to an audience on a movie or television screen and therefore, video cassettes and video discs are a means of exhibition rather than something unrelated to exhibition.⁵

In January 1973, Lucasfilm, Ltd. ("Lucasfilm"), entered into a license agreement with Chess Janus Records, the predecessor in interest of Platinum Record Co.⁶ The license agreement gave Lucasfilm the right to use the master recordings or matrixes⁷ of "Almost Grown," "Johnnie [sic] B. Goode," "Book of Love" and "Goodnight Sweetheart" on the soundtrack of the film "American Graffiti."⁸

The disputed term of the agreement was contained in paragraph 2(f) of the license agreement which stated:

(f) Subject to our performance of the terms and conditions herein contained, you agree that we have the right to record, dub and synchronize the above mentioned master recordings,

1. "Video cassettes" refers to the exhibition of a film on video tape played by a video cassette player in an individual's home. "Video discs" refers to the exhibition of a film on nylon laser discs by a laser disc player in an individual's home.

2. 566 F. Supp. 226 (D.N.J. 1983).

3. For the purposes of this note, "licensor" includes assignor and grantor. "Licensee" includes assignee and grantee.

4. *Platinum Record Co.*, 566 F. Supp. at 228.

5. *Id.* at 228.

6. *Id.* at 226. (The defendants included Lucasfilm, Ltd.; Universal City Studios; and MCA, Inc. *Id.*)

7. A matrix is an electroformed impression of a phonograph record used for mass-producing duplicates of the original. WEBSTER'S NEW COLLEGIATE DICTIONARY, 703 (1981).

8. *Platinum Record Co.*, 566 F. Supp. at 227 n.1. The songs Lucasfilm obtained the rights to, which were included in the "American Graffiti" soundtrack, were recorded by: Chuck Berry, ("Almost Grown" and "Johnnie [sic] B. Goode"); the Monotones, ("Book of Love"); and the Spaniels, ("Goodnight Sweetheart").

or portions thereof, into and with our motion picture and trailers therefore, *and to exhibit, distribute, exploit, market and perform said motion picture, its air, screen and television trailers, perpetually throughout the world by any means or methods now or hereafter known.*⁹ (Emphasis added.)

Lucasfilm produced "American Graffiti" under a contract with Universal City Studios.¹⁰ A Universal subsidiary released the film for national theatrical exhibition in August 1973 and later released the film for exhibition on cable, network and local television.¹¹ "American Graffiti" became a major commercial success.¹² MCA Distributing Corp., a Universal affiliate, subsequently released the film for sale and rental to the public on video cassettes and video discs.¹³

Platinum Record never registered an objection to the exhibition of "American Graffiti" on cable, network or local television.¹⁴ Nevertheless, Platinum Record did object to the release of the film on video cassettes and video discs.¹⁵ Platinum Record argued that the terms of the license agreement did not "speak for themselves" on the issue of whether or not the right to show "American Graffiti" on video cassettes and video discs had been granted.¹⁶ Platinum Record also contended that video cassettes and video discs were not a form of exhibition and therefore were not included in the license agreement.¹⁷

Platinum Record brought suit for breach of contract, misappropriation, unjust enrichment and tortious interference with business opportunities. Lucasfilm moved for and was granted summary judgment.¹⁸

In reaching a decision in the present case, the court relied entirely on the language of the license agreement and a few extraneous acts by the parties.¹⁹ The court believed that the license agreement could "fairly be read" to include video cassettes and video discs.²⁰

As such, paragraph 2(f) of the license agreement gave Lucasfilm the right to "exhibit, . . . exploit, market and perform "American Graffiti" . . . perpetually throughout the world by any means or methods now or

9. *Platinum Record Co.*, 556 F. Supp. at 277.

10. *Id.*

11. *Id.*

12. *Id.* at 226.

13. *Id.* at 227.

14. *Id.*

15. *Id.*

16. *Id.*

17. *Id.*

18. *Id.* at 226.

19. *Id.* at 227-28.

20. *Id.* at 227.

hereafter known.”²¹ The court found this language to be extremely broad and unambiguous²² and thus could reasonably be construed to preclude the need for an exhaustive or specific list of ways in which the film could be exploited or exhibited.²³ The court stated that the burden of creating exceptions to the broad language of the license agreement should fall upon the licensor.²⁴

The court relied heavily on *Bartsch v. Metro-Goldwyn-Mayer*²⁵ in reaching its decision. The appellate court in *Bartsch* employed a “reasonable interpretation rationale”²⁶ in ruling that where the intent of the original contracting parties cannot be discerned, the assignment of motion picture rights will include the right to exhibit the film on television.²⁷ The *Platinum Record* court cited *Bartsch* which stated, “[i]f the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall on the grantor.”²⁸

Both the *Bartsch* and *Platinum Record* courts reasoned that if the licensor of rights wished to limit the type of exhibition of a film to the conventional method of carrying light from a projector to a theater screen in front of an audience, they could have simply so stated in the license agreement.²⁹ In the present case, the court noted that *Platinum Record* never raised an objection when “American Graffiti” was shown on cable, network and local television.³⁰ The court believed that the failure to object indicated that there was no intent that the film be limited to exhibition on theater screens.³¹

The court then addressed *Platinum Record*’s contention that the licensor could not have foreseen the development of video cassettes and video discs and therefore could not have intended that the license agreement include these new forms of media.³² The court relied on the district

21. *Id.*

22. *Id.*

23. *Id.* (citing *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 155 (2d Cir. 1968)). The *Bartsch* court used the “reasonable interpretation approach” and held that a grant by a copyright owner of a musical play to a motion picture company of the right to copyright, vend, license and exhibit the motion picture throughout the world included the right to televise the film. *Bartsch*, 391 F.2d at 155.

24. *Platinum Record Co.*, 566 F. Supp. at 227.

25. *Bartsch*, 391 F.2d at 150.

26. See explanation of the reasonable interpretation approach in text *infra*.

27. *Bartsch*, 391 F.2d at 155.

28. *Platinum Record Co.*, 566 F. Supp. at 227.

29. *Id.*

30. *Id.*

31. *Id.* at 228.

32. *Id.* at 229.

court finding in *Rooney v. Columbia Pictures Industries*³³ that “[w]here, . . . a party has acquired a contractual right which may be fairly read as extending to media developed thereafter,’ the other party can hardly avoid the contract’s application to such media by establishing that the precise nature of the advance was not anticipated.”³⁴ The *Rooney* court reasoned that new media were included in the license agreements since the contracts in question ensured that the rights granted would not be limited to exclude the unforeseen advances in media by drafting broad terms.³⁵

The Lucasfilm agreement contained a similar broad term which stated that Lucasfilm could “exhibit, . . . exploit and market . . . “American Graffiti” by any means or methods now or hereafter known.”³⁶ The *Platinum Record* court construed this language reasonably to include exhibition by media developed in the future whether or not they were foreseen at the time the license agreement was created.³⁷ Since the language of the license agreement was broad enough to include the new media, the court did not require specific mention of video cassettes or video discs.³⁸ Since there was no mistake as to the terms of the license, the issue of whether or not the licensor intended to grant the rights to video cassettes and video discs was irrelevant.³⁹

Finally, Platinum Record contended that “exhibition of the film,” as covered by the agreement, did not include the showing of the film on video cassette or video disc.⁴⁰ The court noted that Platinum Record did not offer a definition of what “exhibition of the film” included.⁴¹ The court determined that since Platinum Record had not objected to the showing of “American Graffiti” on either cable, network or local television, these types of media were included under “exhibition.”⁴² Since these types of media were included, the court determined that it was just as reasonable to include video cassettes and video discs under “exhibition of the film.”⁴³ The court adopted the rationale of the *Rooney* court that

33. 538 F. Supp. 211 (S.D.N.Y. 1982).

34. *Rooney*, 538 F. Supp. at 229.

35. *Id.* at 228. (Examples of broadly drafted terms include “by any means,” “by other improvements and devices which are now or may hereafter be used,” and “by any present or future method or means.” *Id.* at 229.)

36. *Platinum Record Co.*, 566 F. Supp. at 227.

37. *Id.* at 228.

38. *Id.* at 227.

39. *Id.* at 228.

40. *Id.* at 227.

41. *Id.*

42. *Id.*

43. *Id.* at 227.

“whether the exhibition apparatus is a home video cassette player or a television station’s broadcast transmitter, the films are ‘exhibited’ as images on home television screens.”⁴⁴ The court then stated that “a motion picture is exhibited when it is presented for viewing by an audience on a theater or television screen; the video cassette and the video disc operate as a means of exhibition, not as something of an altogether different nature from exhibition.”⁴⁵

The *Platinum Record* case has reinforced the use of the reasonable interpretation approach for handling license agreement disputes. However, this is not the only approach. Where the intent of the parties can be reasonably ascertained from the language of the license agreement and extraneous evidence, a traditional contract interpretation approach may be used.⁴⁶ In other situations, when the intent of the parties cannot be reasonably ascertained, the court may construe the license agreement by strict interpretation.⁴⁷

The traditional interpretation approach involves examining the language of the license agreement and any allowable extraneous evidence in order to determine whether the parties intended that new forms of media would be included in the grant of rights.⁴⁸ This seems to be the position that *Platinum Record* advocated in its case.⁴⁹ This approach works well in situations where the licensor grants all the possible rights or allows for specific exceptions in the agreement. However, a license agreement often is ambiguous about what was granted. An interpretation problem may arise by inferring a licensor’s intent regarding a type of medium that was not developed at the time the license agreement was created.⁵⁰

The ambiguity of language may also contribute to other problems as well. In the present case, the language of the license agreement allows Lucasfilm to “exhibit . . . said motion picture . . . by any means or

44. *Id.* (citing *Rooney*, 538 F. Supp. at 228.)

45. *Id.* at 228.

46. 3 M. NIMMER, NIMMER ON COPYRIGHT, § 10.10 (B), at 10-85 (1985).

47. *Id.*

48. *Goodis v. United Artists Television, Inc.*, 278 F. Supp. 122 (S.D.N.Y. 1968), *rev'd in part*, 425 F.2d 397 (2d Cir. 1970). (The *Goodis* court, using the traditional interpretation approach, examined the language of the license agreement and extraneous evidence in finding that the plaintiff had granted the television rights to “Dark Passage” which later became the television series “The Fugitive.”)

49. *Platinum Record Co.*, 566 F. Supp. at 227.

50. *Filmvideo Releasing Corp. v. Hastings*, 446 F. Supp. 725, 728-29 (S.D.N.Y. 1978), *aff'd mem.*, 594 F.2d 852 (2d Cir. 1978). (The district court, using the traditional interpretation method, held that an express provision reserving television rights was not limited to live dramatic productions used by the licensee. This prohibited the licensee from making any use of television as a method of exploitation of the “Hopalong Cassidy” stories.)

methods now or hereafter known.”⁵¹ Under the traditional approach there may have been a question as to whether the licensor’s intent was to restrict exhibition to a theater screen by any means known now or later, or to allow exhibition by any type of media utilized now or in the future. The Platinum Record license agreement could have been interpreted as a grant of all rights, including video cassettes and video discs, or it could have been construed as restricting the rights to motion pictures shown in theaters since new forms of media were not expressly mentioned in the license agreement. To resolve this conflict the court would have had to consider extraneous evidence in order to clarify the licensor’s intent.⁵²

Since Platinum Record did not object to the showing of “American Graffiti” on cable, network or local television,⁵³ the court could reasonably have concluded that the license agreement included types of media other than showing the film in a theater. Video cassette players were available as early as 1971,⁵⁴ and therefore the licensor should have been aware of the growing medium of video cassettes and video discs in 1973, when the license agreement was created. Since Platinum Record did not object to exhibition of the film on television, which was not expressly granted in the license agreement, it would have been reasonable for the court to apply the same rationale to video cassettes and video discs, thus construing them to be included under the broad license term. Under the traditional interpretation approach, when the language of the license agreement is ambiguous, the subsequent acts of the parties and the knowledge that the parties should have possessed is considered.⁵⁵ Thus, it would have been reasonable for the *Platinum Record* court to hold that video cassettes and video discs were included in the grant of rights. Nevertheless, depending on extraneous evidence for the interpretation of a license agreement could lead courts to make inconsistent decisions regarding the same language.

If the evidence does not provide a reasonable and satisfactory interpretation of the licensor’s intent then the court may turn to the strict interpretation approach or the reasonable interpretation approach. These approaches look beyond the parties’ possible intentions in order to clarify the meaning of the license agreement by whatever factors the court believes to be determinative. Both the strict and reasonable inter-

51. *Platinum Record Co.*, 566 F. Supp. at 227.

52. 3 M. NIMMER, NIMMER ON COPYRIGHT, § 10.10 (B), at 10-86 (1985).

53. *Platinum Record Co.*, 566 F. Supp. at 227.

54. S. SHEMEL & M. KRASILOVSKY, THIS BUSINESS OF MUSIC, 58 (1979).

55. *Goodis*, 278 F. Supp. 122, *rev’d in part*, 425 F.2d 397.

pretation approaches generally focus on the language of the license agreement.

The modern trend, however, is to move away from strict interpretation.⁵⁶ In the strict interpretation approach a license agreement for any medium would be restricted to those uses that would fall within the unambiguous meaning of the terms of the agreement.⁵⁷ While attractive on its face, the strict interpretation approach does have its problems. First, the terms of a license agreement may not always speak for themselves. Thus, the court may find itself confronted with a license agreement that does not lend itself to easy interpretation. Second, when a license agreement contains a broad term, there is a chance that each party may attach a different meaning to the agreement. This could lead a licensee to believe that rights to video cassettes and video discs were granted when the licensor had no such intention. The result is a burden imposed on the licensee to make the terms of the license agreement as specific as possible. This is the case even where a term might have been understood to include the rights to a new medium, since the court would be likely to reserve to the licensor any rights not expressly granted.⁵⁸ The licensee could face an overwhelming burden in drafting a specific term that could cover new types of media that may not be anticipated by either party. With technology racing ahead at light speed it seems likely that a term allowing the use of some new unforeseen medium would end up in the court room where a decision would have to be reached as to whether the new technology was intended to fall under the terms covering new media.

Given the facts in the *Platinum Record* case, a court using the strict interpretation approach might have ruled that video cassette and video disc rights were not included under the license agreement. This interpretation could occur because the technology for these media was available at the time the rights were granted, yet the rights to these types of media were not expressly granted in the agreement. This would have placed the burden on Lucasfilm to specifically ask for and include in the license agreement the rights to video cassettes and video discs. In *Platinum Record*, the strict interpretation approach would not have provided a clear answer as to what rights were included in the license agreement.

The *Platinum Record* court selected the reasonable interpretation approach as the appropriate alternative in this situation.⁵⁹ This ap-

56. See *Bartsch*, 391 F.2d 155; *Rooney*, 538 F. Supp. 211.

57. See *Bartsch*, 391 F.2d 155.

58. See *Bartsch*, 391 F.2d at 155.

59. *Platinum Record Co.*, 566 F. Supp. at 227.

proach permits a licensee to pursue any uses of the copyrighted material that may reasonably be construed to fall within the medium described in the license agreement.⁶⁰

However, the reasonable interpretation approach has its problems, too. A reasonable interpretation of a broad license term could result in the grant of rights in the new media since the license agreement did not expressly exclude them.⁶¹ A license agreement that is held reasonably to include the use of new unforeseen media could result in a windfall for the licensee. Here, the burden of making the terms of the license agreement specific is placed on the licensor. Should the licensor neglect to make the terms of the license agreement specific as to the rights granted or expected, then a risk will be run by the licensor of losing the profits from the exploitation of some new media form. Placing the burden on the licensor assumes that the licensor knows or should know about any ambiguous terms in the license agreement as well as any new types of media. Nevertheless, licensors may have difficulty making a license agreement specific as to certain types of media, especially when they do not possess any knowledge about media advances.⁶²

A further problem with the reasonable interpretation approach is the difficulty of resolving terms that do not lend themselves to interpretation through the language of the license agreement and extraneous evidence. Thus, by using a reasonable interpretation approach, ambiguous terms may lead to arbitrary decisions by the court.

In applying the reasonable interpretation approach to the *Platinum Record* case, however, it was reasonable for the court to find that the broad grant of rights in paragraph 2(f) of the license agreement included new media. Chess Janus Records should have known about video cassette technology since it had been available for the home since 1971.⁶³ Had Chess Janus Records not wished to include a grant of video cassette and video disc rights they should and could have expressly excepted them in the license agreement.

The court has followed the modern trend of applying the reasonable interpretation approach.⁶⁴ The court found the language of the license agreement to be broad and unambiguous and therefore did not require a specific list of the included media.⁶⁵ The decision placed the burden on

60. 3 M. NIMMER, NIMMER ON COPYRIGHT, § 10.10 (B), at 10-86 (1985).

61. *Kirke La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79, 85, 188 N.E. 163, 166 (1938). (A licensor should not be held to grant rights that could not have been foreseen.)

62. *Bartsch*, 391 F.2d at 155.

63. S. SHEMEL & M. KRASILOVSKY, *THIS BUSINESS OF MUSIC*, 58 (1979).

64. *Platinum Record Co.*, 566 F. Supp. 227.

65. *Id.*

the licensor to expressly exempt video cassettes and video discs from the broad language of the license agreement if there was no intent that they be granted.⁶⁶

The courts may be favoring the reasonable interpretation approach due to a policy consideration raised in *Bartsch*.⁶⁷ The *Bartsch* court favored the reasonable interpretation approach because "it provides a single person who can make the copyrighted work available to the public over the penumbral medium."⁶⁸ The *Bartsch* court added that the strict interpretation approach would involve a risk of a deadlock between the parties that could prevent the film from ever being shown over the various new types of media.⁶⁹ Thus, this policy argument awards a windfall to the licensee and benefits the viewing public at the expense of the licensor who is punished for not drafting a specific license agreement.

On the other hand, the reasonable interpretation approach would still seem to be preferable since it allows the court to be flexible in its decisions and insures that the film will be made available over a variety of new media. Courts in the future will probably follow this approach and include any rights to new media that may reasonably be read into the terms of the license agreement.

Licensors should take note that the burden is on them to expressly include any exceptions that they may have intended in the license agreement. Should the licensor fail to expressly include any exceptions or limitations, the court will grant the rights to new unforeseen media to the licensee as long as the license agreement can fairly be read to include them. The licensor must beware because the court may use a broad license term to grant sweeping rights to the licensee when neither party ever intended that they be included.

Richard Alan Martin

66. *Id.*

67. *Bartsch*, 391 F.2d at 150.

68. *Id.* at 155.

69. *Id.*

