BEFORE THE AMERICAN ARBITRATION ASSOCIATION

ISHMAEL BUTLER, individually and pka DIGABLE PLANETS; MARY ANN VIEIRA, an individual; and CRAIG IRVING, an individual, Claimants, and SCREEN ACTORS GUILD, INC., *Ex Officio* Party, v. TARGET CORPORATION, a corporation; PETERSON MILLA HOOKS, INC., a corporation; SOUND 80, LTD., aka SOUND 80 A DIVISION OF ERICKSON PLUS, LTD., a business entity, Respondents.	**ARBITRATOR'S OPINION AND INTERIM AWARD (PHASE ONE)** Case No. 72 300 01066 04

Impartial Arbitrator: Fredric R. Horowitz, Esq.

Appearances:

Claimants: Joseph D. Schleimer, Esq. and Kenneth D. Freundlich, Esq. Schleimer & Freundlich, LLP

Screen Actors Guild: Alison R. Platt, Esq. SAG Counsel

Respondents: David F. McDowell, Esq. and Sylvia Rivera, Esq. Morrison & Foerster, LLP

Hearings Held: April 6 and 7, 2005 Los Angeles, California

Submitted to Arbitrator: April 27, 2005

Redacted

INTRODUCTION

This arbitration arises pursuant to an Order Granting Defendants' Motion to Stay Pending Arbitration dated October 5, 2004, by United States District Judge Consuelo B. Marshall, Central District of California, in Case No. CV-04-00269 CMB (MCx) [Exhibit 21; TR 11] and is being conducted pursuant to the provisions of Paragraph 57. of the Screen Actors Guild 2000 Commercials Contract ("SAG Agreement") [Exhibit 1] which the parties concur is applicable to the dispute herein [TR 9].

By stipulation of the parties, the arbitration proceedings have been bifurcated [TR 9-11]. Phase One herein concerns claims for breach of contract arising under the SAG Agreement. Phase Two, to be scheduled after the issuance of the Arbitrator's Opinion and Award in Phase One, concerns signage or print claims. The parties understand there is some overlap in the evidence presented with respect to these claims [TR 11]. Additional claims advanced by Claimants which have been dismissed by Judge Marshall will not be presented to the Arbitrator for decision at this stage of the proceedings [TR 10-11].

At the hearings in Phase One, the parties were afforded a full opportunity to call and cross-examine witnesses under oath, introduce documents and other exhibits, and present argument. A transcript of the proceedings was prepared. By letter dated April 21, 2005, Mr. Schleimer notified the Arbitrator of a stipulation by counsel to dismiss Respondent Peterson Milla Hooks advertising agency ("PMH") from this arbitration. On April 27, 2005, upon receipt of written closing

briefs, the breach of contract claims arising under the SAG Agreement were submitted for decision. No useful purpose is served in summarizing the entire record of evidence and argument at arbitration, all of which has been carefully reviewed and considered. Rather, only those matters deemed necessary in deciding the claims at issue are discussed herein.

BACKGROUND

In or about 1992, Claimants Ishmael Butler ("Butler") and Maryann Vieira ("Vieira") wrote the jazz/hip-hop music composition *Rebirth of Slick (Cool Like Dat)* ("Recording"). The next year, the composition was recorded by Butler, Vieira, Claimant Craig Irving ("Irving") under the group name "Digable Planets." They performed the Recording at the 1993 Grammy Award Show and won a Grammy Award that evening. The Recording earned a Gold Record from the Recording Industry Association of America after sales of over 500,000 units and became the "signature song" for Digable Planets which sold over 2,000,000 records. Digable Planet's commercial success, however, declined thereafter. Their second and last album was released in 1995, and in 1996 they began pursuing solo careers. In September 2004, well after the advertising campaign which spawned this litigation, the group decided to get back together and are currently performing.

Sometime early in 2003, Respondent Target Corporation ("Target") made the decision to use the Recording by Digable Planets as the foundation of its 2003 Back to School ("BTS") and Back to College ("BTC")

national multi-media advertising campaign ("Campaign"). The lyrics and voices from *Rebirth of Slick (Cool Like Dat)* were featured prominently in television commercials plus signage and print advertising with phrases such as "cool like that," "cool like this," "play like this," "cool like denim," and "cool like bags," effectively integrated the "cool like" concept with a wide variety of back to school merchandise available for purchase at Target's "big box" department stores. In addition, Target signed popular pop singers, Justin Timberlake and Christina Aguilera, to personal service and sponsorship agreements in companion commercials and signage featuring their images with the Target logo.

Target was well aware it was necessary to obtain rights to use the Recording from the owner, the music publisher, and the performers. By July 1, 2003, Target paid EMI Blackwood Music Inc. and EMI Film & Television Music, the owner and music publisher, [redacted] for a license to broadcast the Recording as the soundtrack in BTS/BTC commercials for 13 weeks, from July 1, 2003, to September 29, 2003. Target, through an independent expert Diane Prentice, alleged it first attempted to contact Digable Planets in February 2003 about securing rights but was unsuccessful in locating the group. Respondent Sound 80, the SAG Agreement signatory which produced the BTS/BTC television commercials for Target in this Campaign, also alleged it attempted without success to locate Digable Planets. Target made a conscious decision to proceed with the Campaign and broadcast the BTS/BTC commercials without obtaining the requisite consent of the artists under the SAG Agreement. Meanwhile, Target paid Justin Timberlake and

Christina Aguilera each [redacted] plus [redacted] in guaranteed media or promotional value for their participation in this Campaign.

Target spent [redacted] to make the BTS/BTC commercials featuring the Recording, including the license fee paid to the owner and music publisher, plus an additional [redacted] to air them throughout the nation from July 27, 2003, through August 30, 2003. Target estimated a total of [redacted] was spent to air all the commercials in this Campaign including those featuring Justin Timberlake and Christina Aguilera plus another [redacted] on print advertising which included the "cool like" theme for this Campaign. Target did not track sales attributable to the BTS/BTC commercials, so the impact or success of the Campaign on Target's sales or profitability is not known.

Claimants learned of the airing of these commercials from friends who saw them on television. On behalf of the group, Vieira testified they would not have consented to the commercials with Target because their fans would see the ads as a "sell out" contrary to their image. Claimants are thus seeking significant monetary compensation for the detriment to their image and denial by Target of the opportunity to negotiate valuable promotional consideration in exchange for their consent to use the Recording. Target, however, denies the artists have any right to compensation beyond the liquidated damages described in Section 28 of the SAG Agreement. Target further alleges Digable Planets would not have received any additional compensation had the negotiations occurred.

The instant litigation was initiated to recover damages said to have been suffered by Claimants from Target's use of the Recording on

several counts [Exhibit 3]. The breach of contract claim under Section 28 of the SAG Agreement was stayed by Judge Marshall pending this arbitration [Exhibit 21].

EXCERPTS FROM THE SAG AGREEMENT [EXHIBIT 1]

28. LIMITATION OF USE IN COMMERCIALS OF MATERIAL PRODUCED UNDER OTHER SCREEN ACTORS GUILD OR AFTRA CONTRACTS

Producer agrees that no part of the photography or sound track of a principal performer from a theatrical, television or industrial motion picture or any other production made under the jurisdiction of the Union and that no part of any phonograph record, tape or other audio recording or of any other production of a principal performer made under the jurisdiction of AFTRA (including singers unless they are in an unidentifiable group) shall be used in commercials without separately bargaining with the principal performer and reaching an agreement regarding such use prior to any utilization of such photography or sound track under this Contract. The foregoing shall apply to photography only if the principal performer is recognizable and as to stunts only if the stunt is identifiable. The minimum compensation to which the principal performer may agree in such bargaining shall be the applicable session fee and applicable use these provided by this Contract. Group singers in an unidentifiable group shall be paid the applicable use fee as provided in this Contract.

If Producer fails to separately negotiate as provided above, the principal performer shall be entitled to damages for such unauthorized use equivalent to three times the amount originally paid the principal performer for the number of days of work covered by the material used plus the applicable minimum use fees under this Contract but not less then three times the applicable session fee at the rates provided under this Contract plus the applicable minimum use fees under this Contract. However, the principal performer may, in lieu of accepting such damages, elect to bring an individual legal action in a court of appropriate jurisdiction to enjoin such use and recover such damages as the court may fix in such action.

57. ARBITRATION

All disputes and controversies of every kind and nature whatsoever between any Producer and the Union and any principal performer and extra performer ("performer") arising out of or in connection with this Contract or better), and any contract or engagement (whether overscale or not and whether at the minimum terms and conditions of this Contract as to the existence, validity, construction, meaning,

interpretation, performance, nonperformance, enforcement, operation, breach, continuance, or termination of this Contract and/or such contract or engagement, shall be submitted to arbitration in accordance with the following procedure:

E. The Union shall be an ex-officio party to all arbitration proceedings hereunder in which any performer is involved and may do anything which a performer named in such proceeding might do. . . .

F. Nothing herein contained shall be deemed to give the arbitrator(s) the authority, power or right to alter, amend, change, modify, add to or subtract from any of the provisions of this Contract.

OPINION

Section 28 of the SAG Agreement provides, in relevant part:

> . . . no part of any phonograph record, tape or other audio recording or of any other production of a principal performer made under the jurisdiction of AFTRA (including singers unless they are in an unidentifiable group) shall be used in commercials without separately bargaining with the principal performer and reaching an agreement regarding such use prior to any utilization of such photography or sound track under this Contract.

Respondents Target and Sound 80 have acknowledged their breach of this provision by failing to reach an agreement with the Claimants before using the Recording in the BTS/BTC commercials aired in Target's 2003 Fall Campaign. The only issue dividing the parties in this phase of arbitration is the amount of monetary damages to be awarded Claimants for Respondents' breach of contract.

Claimants argue an award of [redacted] is consistent with fees and "media value" granted other prominent artists for such use, the importance of the Recording and "cool like" concept in the Campaign, and the [redacted] known to have been spent by Target making and airing the BTS/BTC commercials and distribution of print advertising

in the Campaign. But Target asserts liability for their breach is capped under that provision to triple scale or session fees, about $64,000 in this case. Claimants and SAG deny this limitation applies where, as here, a performer elects to seek a judicial remedy for the contractual violation. The dispute over the applicability of this cap on damages was argued before Judge Marshall who remanded the question to the arbitrator [Exhibit 21 at 9-10].

The contractual language in controversy is found in the second paragraph of Section 28 of the SAG Agreement. The first sentence sets forth the liquidated damages in the event of a breach:

> If Producer fails to separately negotiate as provided above, the principal performer shall be entitled to damages for such unauthorized use equivalent to three times the amount originally paid the principal performer for the number of days of work covered by the material used plus the applicable minimum use fees under this Contract but not less then three times the applicable session fee at the rates provided under this Contract plus the applicable minimum use fees under this Contract.

Respondents have calculated the damages under this provision to be $7,132.44 per Claimant for both the BTS and BTC commercials aired by Target without permission. Thus, triple scale or session fees for all three Claimants totals $64,191.96 in this case.

The dispute centers on whether the bolded terms in the second sentence of this paragraph permit a performer to reject the treble damages authorized in the first sentence by seeking additional monetary damages in court:

> However, the principal performer may, in lieu of accepting such damages, elect to bring an individual legal action in a court of appropriate jurisdiction to enjoin such use **and recover such damages as the court may fix in such action.**

Respondents advance two principal arguments to support their restrictive interpretation of this provision. First, Respondents cite language in the Order by Judge Marshall staying the court proceedings pending arbitration [Exhibit 21 at 5-6] and *Hunt v. PepsiCo*, 2004 LEXIS 8773 *1 (N.D. Ill. May 18, 2004), said to reflect a judicial ruling the disputed terms do not authorize any monetary remedy larger than triple scale or session fees. But the issue confronted by Judge Marshall and the court in *Hunt, supra*, was whether a performer may bring a lawsuit for damages without seeking an injunction under the final sentence of Section 28, not whether a performer may demand more in damages for breach of contract than triple scale or session fees if a judicial remedy is elected. As noted above, the instant dispute over the amount of damages which may be awarded for breach of contract was remanded by Judge Marshall to the arbitrator [Exhibit 21 at 9-10].[1]

Second, Respondents maintain "such damages" as the court may fix are the same "such damages" which refer to the triple scale or session fees described in the preceding sentence. Because "such damages" appears twice in the same sentence, Respondents argue the term must be interpreted to describe the exact same remedy in both places. But this argument ignores the adjective clause "as the court may fix in such action" in Section 28 modifying "such damages" at the end of the

[1] No direct evidence of bargaining history under Section 28 of the SAG Agreement was presented in this arbitration. Nor was a copy introduced of the unpublished decision in *Universal City Studios, Inc. v. Screen Actors Guild, Inc.*, Case No. CV 01-9028 (C.D. Cal. 2002) referred to by Judge Marshall as having reached a different result on the interpretation of Section 28 than the court in *Hunt, supra* [Exhibit 21 at 9].

sentence. If the parties to the SAG Agreement intended to limit the remedial power of a court to merely an injunction and triple scale or session fees, there would have been no reason to add the open-ended clause "as the court may fix in such action" to describe the damages which may be awarded. A fundamental rule of contract construction is to prefer an interpretation which gives full effect to all the terms of a provision over one which nullifies any terms. If, as urged by Respondents, an injunction was the only remedy available to a performer from the court besides triple scale or session fees, the adjective clause "as the court may fix in such action" describing the damages which could be awarded would be rendered meaningless.

Further support for rejecting the cap on damages urged by Target and Sound 80 when a performer seeks a judicial remedy is the context of the disputed phrase in the provision as a whole. The first paragraph of Section 28 bars a producer from using a recording "without separately bargaining with the principal performer and reaching an agreement regarding such use prior to any utilization of such . . . sound track." The second paragraph addresses the consequences of a producer failing to bargain for such use. The first sentence provides liquidated damages for the performer in an amount equal to triple scale or session fees. But the second sentence specifically allows a performer to reject this option ("in lieu of accepting such damages") and obtain a judicial remedy for an injunction and such damages "as the court may fix". Where, as here, the alleged damages exceed the liquidated amount, the performer under this provision is authorized to recover those damages in court. The restrictive interpretation urged

by Respondents would effectively nullify a successful performer's rights under Section 28 to withhold consent to the use of his or her hit record, voice, or lyric in a commercial. What incentive would a producer have to negotiate in such instances if the only monetary consequences were triple scale or session fees? Such outcome defies common sense and runs contrary to the plain language of the option afforded performers in Section 28 to pursue an appropriate remedy in court for unauthorized commercial use of their material.

Having found Section 28 of the SAG Agreement guarantees the right of an artist to pursue an action in court for monetary damages which are alleged to exceed the liquidated amount for a breach of the provision, the discussion turns to the amount of damages shown by Claimants herein. The evidence at arbitration reflects in most cases performers do not receive compensation greater than triple scale or session fees as compensation for use of their song or lyrics under Section 28 in a commercial broadcast. This is because most performers do not own the rights to their music, do not enjoy significant or sustained commercial success, or are deceased. The liquidated damage provision in Section 28 thus serves to secure reasonable compensation for most artists, particularly those who could not command a concert tour, record promotion, or meaningful creative input with the commercial.

In this case, however, Respondents used Claimants' Grammy winning Gold Record as an integral component of an extensive nationwide multi-media advertising campaign to boost sales of back to school and back to college clothing and related merchandise. The enormous value to Target of the voices, music, and lyrics of *Rebirth of Slick (Cool Like*

Dat) is readily apparent from the high quality BTS/BTC commercials, the print advertising and store signage, and the [redacted] spent by Target disseminating the "cool like" concept in television, print, and in-store advertising. Target made the decision to exploit this Recording as the cornerstone for their Campaign months in advance of its use. From the beginning, Target was aware of Claimants rights under the SAG Agreement to consent in advance of the use. Given the readily available contact information for Digable Planets [Exhibit 29], the sharp differences in image and style between Claimants and Target, and the absence of any demonstrable effort by Respondents to reach these performers, it is reasonable to assume Target believed Claimants would have said "no" or demanded significant creative input and compensation. The conclusion Respondents disregarded its obligations under Section 28 for the purpose of avoiding higher costs and creative differences to the detriment of Claimants is therefore manifest. Accordingly, a finding Claimants suffered greater damages as a consequence of this breach than triple scale or session fees is established.

On the other hand, the evidence fails to support an award as large as the [redacted] demanded by Claimants. This figure was calculated by multiplying by [redacted] [redacted] in cash plus [redacted] in "media value" promotion afforded Justin Timberlake and Christina Aguilera in payment for their participation in the Campaign because Target spent [redacted] the amount broadcasting the BTS/BTC commercials featuring Claimants' Recording than spots featuring Timberlake and Aguilera. Unlike those two artists, Digable Planets had

been essentially inactive since 1996 when the BTS/BTC commercials were planned. While some opportunity to market their group and/or their music could have been negotiated, Claimants were in no position to command the amount of fees earned by Timberlake and Aguilera or "media value" they obtained to promote their music. Rather, it was the music, voices, and "cool like" lyrics in *Rebirth of Slick (Cool Like Dat)* in conjunction with images of clothes and related merchandise to be sold which Target exploited so effectively in this Campaign.

From the testimony on damages at arbitration, it is clear there is a paucity of reliable information known about the fees paid artists under Section 28 in this industry. No evidence of any meaningful comparisons to the instant case were presented. Guidance for determining consequential damages to Claimants must therefore be derived from the evidence presented about this Campaign. Target paid the owner and music publisher [redacted] for the license to use the Recording in the BTS/BTC commercials, [redacted] to make the commercials which featured the Recording, [redacted] to broadcast the commercials, and [redacted] in print advertising which featured the "cool like" theme of the Campaign. Target also paid Timberlake and Aguilera [redacted] each exclusive of "media value" to be part of the Campaign in commercials broadcast with far [redacted] frequency than the BTS/BTC spots.

Based on the evidence, $250,000 is found to be an appropriate sum to compensate each of the three individual Claimants whose voices and lyrics on *Rebirth of Slick (Cool Like Dat)* were used by Respondents without the consents required by Section 28 of the SAG Agreement. The sum is [redacted] cash consideration received by each Justin Timber-

lake and Christina Aguilera, [redacted] owners by Target to license the Recording, and reasonably compensates Claimants for the detriment incurred by the loss of creative input and opportunity to promote their group and Recording in conjunction with the commercials. An interim award of $750,000 to Claimants for the breach of contract by Respondents is therefore warranted in this case.

INTERIM AWARD

Respondents Target and Sound 80 shall pay Claimants Butler, Vieira, and Irving $750,000.00 for breach of Section 28 of the SAG Agreement by the unauthorized use of *Rebirth of Slick (Cool Like Dat)* in commercials.

DATED: June 15, 2005
Santa Monica, California

FREDRIC R. HOROWITZ, Arbitrator

[redacted]