



Case No: HC 02 1565

Neutral Citation No: [2003] EWCH 1274 (Ch)

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 23rd May 2003

Before :

THE HONOURABLE MR JUSTICE LEWISON

Between :

(1) Confetti Records (A Firm)

Claimants

(2) Fundamental Records

(3) Andrew Alcee

- and -

Warner Music UK Ltd

Defendant

(Trading as East West Records)

Mr. Graham Shipley (instructed by Silverman Sherliker) for the Claimants

Mr. Robert Howe (instructed by Russells) for the Defendant

Hearing dates : 14th,15th,16th,19th,22nd May 2003

Approved Judgment

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment and that copies of this version as handed down may be treated as authentic.

.....
Mr. Justice Lewison

Mr Justice Lewison :

The facts

1. In about November 1995 the Third Claimant, Mr Andrew Alcee, composed the track “Burnin”. The First Claimant, Confetti Records (“Confetti”), paid him £300 for it. In exchange Confetti was to have the recording and complete ownership of the track, including all copyright and rights to exploit the recording. A formal assignment of copyright was made on 12 June 2002.
2. Confetti is a small record label which specialises in a variant of garage music known as UK Garage or Speed Garage music. Its proprietors include Ms Maria Joachim and Mr Richard Pascal, known as John Jo. Before she worked for Confetti, Ms Joachim was an estate agent.
3. Mr Pascal considered that “Burnin” would be the kind of track that Ant’ill Mob should be associated with. Ant’ill Mob is what he described as a “concept group”. The significance of this is that Ant’ill Mob do not have identifiable members in the traditional sense of a group. They are promoted and known by their name, sound and image, and when required to perform, Confetti engage session musicians to form the group.
4. The original version of “Burnin” consists of an insistent instrumental beat accompanied by the vocal repetition of the word “burning” or variants of it.
5. In October 2000 Confetti decided to commission a further mix of “Burnin”. This was produced by Jeff Allen, a production engineer. Mr Alcee made two further mixes of “Burnin” in August 1991 and November 2001. Each mix was aimed at a slightly different segment of the market.
6. “Burnin” proved to be very popular. In November 2001 it was number 1 in the official UK Garage top 10 in DJ magazine, and it was number 1 in various record shops around the country. Confetti received a number of requests to licence the track for inclusion in compilation albums. The requests came from, among others, Sony, Warner and the Ministry of Sound.
7. The Heartless Crew are a leading act within the UK Garage scene. They were formed in North London about ten years ago. There are three of them: DJ Fonti, and MCs Mighty Mo and Bushkin. Typically the band will either write and record their own backing track or they will use recordings made by other artists as a backing track. The band will then mix these tracks together. DJ Fonti has a particular style of mixing known as “Crisp Biscuit”. The final part of the process is where the band rap or MC over the backing tracks to create a new work. The rapping is performed by the two MCs, while the mixing is performed by the DJ.

8. Mr Richard Thomas, the A & R director of East West Records, “discovered” The Heartless Crew and signed them up to East West Records in November 2001. East West Records is a trading division of Warner Music UK Ltd, the Defendant.
9. In late November 2001, on the initiative of The Heartless Crew, East West decided to undertake a mix compilation album as their first release. It was to be called “Crisp Biscuit”.
10. Mr Thomas knew both the work of the Ant’ill Mob and also Confetti. He telephoned Mr Pascal to ask for Confetti’s permission to include “Burnin” in the album. It was the Heartless Crew themselves who proposed including “Burnin” on the album. Originally it was proposed that another track by the Ant’ill Mob, called “You Should Have Known”, would also be included, but this was dropped.
11. Ms Joachim said that Mr Thomas’ enthusiasm for the tracks by the Ant’ill Mob made it clear that he saw the inclusion of the Ant’ill Mob as crucial to the success of the album. Mr Thomas, on the other hand, painted a different picture. He said that Mr Pascal was so keen for the tracks to be used on the album that he offered to licence them for free. He said that Mr Pascal told him that “Burnin” was being released as a single in January 2002 on the Confetti label. In exchange for the free licence, he wanted an undertaking from East West to include an excerpt from the recording in the TV advertising for the album. Mr Thomas told him that he would rather simply pay him for the use of the record, as it would make matters less complicated. He said that Mr Pascal agreed and an advance of £500 per track was agreed. Ms Joachim’s version was not put to Mr Thomas in cross-examination. Mr Thomas’ version was not put in full to Mr Pascal in cross-examination either. But Mr Pascal agreed in cross-examination that when first approached by Mr Thomas he was “very keen” that the track should be licensed to Warner. In general, I prefer Mr Thomas’ evidence on this point to Ms Joachim’s. However, in view of the fact that, as I shall explain, the advance was negotiated up from £500 to £1,500, I think it unlikely that Mr Pascal offered to licence the track for free.
12. The paperwork associated with the licensing of recordings was handled by Ms Katie Ferries, a business affairs assistant at East West. She has no legal training. Amongst her jobs was the preparation of “fax back” heads of agreement or deal terms to send to the relevant record companies. She used standard templates for this. There were two different templates. One was Warner UK’s standard deal terms used for licensing recordings from the major record labels. The other was used for licensing recordings from independent record companies such as Confetti. Ms Conacher, Ms Ferries’ superior, explained that the templates were not electronically stored word processing templates, but were “somewhere between a precedent and just a suggested form of doing a document”.
13. On 11 December 2001 Ms Ferries sent “fax back” heads of terms to Confetti, marked for the attention of John Joe. The letter begins:

“Re: “CRISP BISCUIT” – SUBJECT TO CONTRACT

We are planning to release an album entitled “Crisp Biscuit” which will be mixed by The Heartless Crew. We would like to licence the following tracks on a non exclusive basis for the above album. Proposed deal terms are as follows:”

14. The letter then set out proposals about the tracks, the term of the licence, the territories it was to cover, the royalty, the dealer price, the advance, the number of tracks, the release date, the estimated sales and so on. Most of these matters, including the heading “subject to contract”, were part of the standard template. Ms Ferries said that she did not know what the phrase “subject to contract” meant.
15. The letter also said that the proposed track listing was attached. Unfortunately it was not, and so on 13 December Ms Ferries sent the fax again.
16. Mr Thomas and Mr Pascal spoke again. It was agreed between them that only one track would be licensed, namely “Burnin”, and that the amount of the advance would be £1,500. By mistake he appears to have told Ms Ferries that the agreed advance was £1,000, and this was the figure that appeared in the fax she sent on 17 December. Mr Pascal immediately queried the figure. Ms Ferries agreed to check with Mr Thomas, and a day or two later Mr Thomas confirmed that he had made a mistake and that the agreed advance was £1,500.
17. On 19 December 2001 Ms Ferries sent a fax to Mr Pascal containing revised deal terms. Since it is at the heart of the case I must set it out in full.

Dear John

Re: “CRISP BISCUIT” –SUBJECT TO CONTRACT

Further to our telephone conversation on Monday 17th December I am pleased to enclose revised deal terms in relation to licensing the following tracks on a non-exclusive basis for the above album:

TRACK:	“Burnin” by Anthill Mob
TERM:	3 years
TERRITORY	UK & Ireland
ROYALTY:	19% of net published dealer price (less sales tax & withholding tax if applicable)
DEALER PRICE:	CD £10.25/MC £7.25
ADVANCE:	£1,500
NO. OF TRACKS	40 (tbc)
RELEASE DATE:	March 2002 (tbc)
ESTIMATED SALES:	50,000
ACCOUNTING:	Half yearly (90 days)
CLUB/MAIL ORDER:	50% on the basis we are accounted to
LABEL COPY:	Please provide
CONTRACTING	Please provide
PARTY:	

Please confirm that the tracks do not contain any uncleared samples.

I would be grateful if you would let me know as soon as possible if you are able to clear these tracks for inclusion.

Please send a copy of the tracks on CD or DAT and also on vinyl as soon as possible.

N.B. If you do not control rights in all the Territories requested please advise as soon as possible.

With best regards.”

18. At the foot of the letter was the legend “Read and Agreed” and a space for signature on behalf of Confetti Records.
19. Ms Joachim and Mr Pascal said that they sent faxed back a signed version of the terms before Christmas. The signed version bears the date “19-12-01” opposite Mr Pascal’s signature on behalf of Confetti. If it was sent it did not arrive, because Ms Ferries chased Mr Pascal on 8 January 2002, and shortly thereafter, Mr Pascal returned a signed version of the fax. No transmission report for any fax was produced, and no telephone bill for the pre-Christmas period was produced either. I find that the signed deal memo was not returned before Christmas.
20. On about 15 January 2002, some days after the return of the signed deal memo, Ms Ferries received from Confetti the label copy for “Burnin”. This sets out the identity of the owner of the relevant rights in the recording and certain additional information about the track. Accompanying the label copy was a CD containing a copy of the original mix of “Burnin”, and an invoice for £1,500. The invoice was issued by the Second Claimant, Fundamental Management Ltd. That company is a management company, which funds Confetti. The invoice described the services for which it was raised as follows:
 - “ “Burnin” – the Ant’ill Mob

 - Licensed to “Crisp Biscuit”

 - Granted for 3 years non-exclusive”
21. At some stage about this time Ms Ferries sent the signed deal terms to Mr Scott Getley who works in the business affairs department of Warner UK. Amongst his jobs is the preparation of what are called long form licence agreements. A long form licence agreement is a formal bilateral contract which records all the terms on which a licence is granted. I shall return to deal memos and long form contracts later.
22. On 28 January 2002 Ms Joachim said that she wrote to Ms Ferries. She said that the letter was sent both by fax and by recorded delivery. One of the issues is whether this letter was ever sent by either method or, if sent, ever arrived. The text of the letter reads:

“Re: Licence request for “Crisp Biscuit” – The Heartless Crew

“Burnin” – The Ant’ill Mob

With reference to the above and our deal memo signed December 2001, if we have not received payment by Monday 4th February 2002, we will have to revoke our inclusion for the above album.”

23. Ms Joachim explained this letter as follows. She said that by the end of January 2002 it had become clear that “Burnin” would not be released as a single until March 2002 at the earliest. Since the projected release date of “Crisp Biscuit” was, so far as she knew, still March 2002, there was a potential conflict. The conflict was said to arise because it would be detrimental to sales of “Burnin”, the single, if it simultaneously appeared on a compilation album. This was so even if the single and the compilation album were different mixes, and in particular, were overlaid by completely different rap lines. Both Ms Joachim and Mr Pascal told me that a minimum gap of three months was necessary between the release of the single and the release of the compilation album. However, Confetti’s actions are inconsistent with this evidence. In early May 2002 Ms Joachim was approached by the Ministry of Sound with a request to licence two tracks by the Ant’ill Mob, “All My Love” and “Burnin”. Her response was to try to persuade the Ministry of Sound to licence “Burnin”. “Burnin” had not, by then, been released as a single. In her letter of 16 May 2002 she clearly offered to licence all four mixes of the track (including the vocal edit) even though the projected release date was well within the three month period she spoke of. I found her and Mr Pascal’s attempts to explain away this inconsistency unconvincing. In addition the text of the letter of 28 January does not mention the supposed conflict. Nor does it withdraw permission to include “Burnin” on the album; the thrust of the letter is to ask for payment. In my judgment Confetti did not perceive any detrimental conflict between the release of the Defendant’s compilation album and the release of “Burnin” as a single.
24. My findings about the letter and the fax are as follows. Ms Joachim produced a recorded delivery slip stamped by the Post Office on 29 January. The slip records the posting of a letter addressed to Ms Ferries. The address on the slip was the wrong address. However, the address on the letter, which Ms Joachim said would have been visible through a window envelope, was correct. I have no reason to doubt the genuineness of the slip. I find therefore that the letter was sent. Recorded delivery post travels with ordinary post, and the Post Office’s tracking system does not begin to operate until the letter arrives at the office from which it is to be delivered. The Post Office could find no trace of the letter on its tracking system. Ms Ferries said that she never received it, and I accept her evidence. The inference I draw from this is that the letter was lost in the post. I find that it never arrived.
25. The fax is more difficult. Ms Joachim had two fax numbers for the Defendant. One was its general fax number. The other was Ms Ferries’ personal fax number. Ms Joachim said that she rang the Defendant to ask what fax number she should use in order to send a fax to Ms Ferries. She spoke to someone whom she could not identify and was given another fax number (020 7368 4903). She therefore sent the fax to that number. Given that Ms Joachim already had Ms Ferries’ personal fax number, I find that evidence surprising. Ms Joachim was unable to produce a fax transmission report for the fax that she says she sent. Given her evidence that she regarded the message as an important one, that too is surprising. On the other hand, she did produce an

itemised telephone bill which showed a short call to the fax number she says she was given in the evening of 28 January 2002. Moreover the number in question is indeed one of the Defendant's fax numbers, though it is that of the finance department which is a different department. I have no reason to believe that the telephone bill is other than genuine. On balance I conclude that Ms Joachim attempted to send the fax. If it was sent, did it arrive? There had been some history of trouble with faxes. I have already mentioned the question whether the deal memo was faxed back to the Defendant before Christmas 2001. I have found that if sent, it never arrived. Ms Joachim was adamant that it had been sent. If so, it would seem either that there was a malfunction of the Claimants' fax machine, or the Defendant's fax machine or both. There is also evidence from Ms Ferries that on at least one occasion a fax which she attempted to transmit did not arrive satisfactorily and had to be retransmitted. Ms Ferries also said that she had made inquiries of her colleagues in the finance department, and no one recalled receiving the fax. Having regard to that and to the absence of a fax transmission report, I am not satisfied that the fax arrived at its destination.

26. On 27 March 2002 Ms Joachim e-mailed Ms Kelly at Warner. She said:
"As requested by yourselves 13/12/02 (sic) and as per your head of agreement, the above name track was/is available for licensing onto your album "Crisp Biscuit" mixed by the Heartless Crew – due to a massive push on the promotional front we subsequently informed you that after January 2002 the above named track could no longer be licensed as per head of agreement. From February 2002 a revised head of agreement will have to be negotiated.

As to date nobody from East West Records has replied, so subsequently we would like the track to be pulled from you (sic) planned album, or, as stated above we will negotiate a new contract."

27. Ms Joachim says that she telephoned Ms Kelly on the same day. She says that she told Ms Kelly that "Burnin" was not to be included on "Crisp Biscuit". She says that Ms Kelly told her that the album had not been mastered, pressed or released and that "Burnin" would not be included on it. Ms Kelly recalls this conversation very differently. She says that Ms Joachim asked her whether she had received the e-mail. Ms Kelly said that she had but that as she was not involved with the licensing for the album, she would need to speak to Ms Ferries on her return from holiday the following week. Although Ms Kelly said in cross-examination that she had no specific recollection of this conversation, she was adamant that she could not have said what Ms Joachim said she said, because she worked for a different division within Warners and had nothing to do with "Crisp Biscuit". I accept her evidence.
28. On 9 April 2002 Mr Getley sent a fax to Mr Pascal asking for details of the company's full trading name so that he could draft an agreement.
29. On her return from holiday Ms Ferries reviewed various e-mails, including Ms Joachim's e-mail of 27 March. She was puzzled by the reference to Confetti's having informed East West that "Burnin" could no longer be licensed. On 26 April 2002 she went to see Ms Conacher, her superior at East West. By this stage the album had been

recorded and mixed, and about 30,000 copies had been manufactured. Some had already been sent out to retailers for onward sale to the public, as the projected release date was 6 May. The album had incorporated “Burnin” but not in its original form. Another track, by the Blazin Squad had been interposed between parts of “Burnin”, and superimposed upon both there was a rap. Part of the rap was performed by the two MCs, Mighty Mo and Bushkin, who were members of the Heartless Crew, and part was performed by another MC called Elephant Man.

30. Ms Conacher instructed Ms Ferries to reply to Ms Joachim to the effect that the track had been licensed to East West and that on that basis they intended to proceed to use it on the album. Ms Ferries thus sent a fax to Mr Pascal saying that East West had received no written notification withdrawing the track. She concluded:

“The only written confirmation we have from you is the signed head of agreement dated 19th December 2001 signed by yourself on behalf of Confetti Records, and on that basis we have gone ahead and used the track on the album.”
31. On 29 April 2002 Ms Joachim sent by e-mail a copy of the letter of 28 January together with a scanned copy of the fax cover sheet and the Post Office receipt for the recorded delivery letter.
32. Ms Conacher replied that the number was wrong and that perhaps that was the reason why the letter did not arrive.
33. Over the next couple of days Ms Joachim and Mr Pascal made repeated calls to East West but it seems that no conversation of any substance took place. Eventually on 1 May Mr Pascal spoke to Ms Conacher. Ms Conacher says that in the course of the conversation Mr Pascal asked her “What are you going to give me?” She understood that he wanted more money from East West if they were going to exploit the track. She says that Mr Pascal told her that he wanted East West to assist Confetti with the release of “Burnin” as a single and to link the release of the album with the release of the single. After speaking to colleagues Ms Conacher telephoned Mr Pascal. She offered help in promoting “Burnin” as a practical way of resolving the situation. Mr Pascal told her that he had changed his mind and that he wanted East West to postpone the release of the album. She replied that that was impossible.
34. Following the conversation Ms Conacher received an e-mail from Ms Joachim. It said that Confetti did not want the album to be released with “Burnin” on it on the scheduled release date. She suggested that the best solution would be for the release date to be postponed.
35. On the following day Mr Pascal telephoned to say that Confetti would take legal action.
36. The legal action consisted of an application made without notice to Nelson J for an injunction restraining the reproduction of “Burnin”. The application was granted on 3 May 2002. This was the Friday before the Bank Holiday Monday on which the album

was due to be released. East West made efforts over the weekend to withdraw albums, which by then had been sent out to distributors and retailers, from sale.

37. On 9 May 2002 Leveson J discharged the injunction. In the course of his interlocutory judgment he referred to the heads of terms of 17 December 2001 and said:

“If I had to decide this matter I would have little hesitation in coming to the conclusion that the parties had every intention to create binding relations. I do not have to decide this matter. I recognise that there is some issue to be tried, I am not prepared to characterise it as a serious one, but I certainly can’t say that there is anything in Mr Pascal’s argument sufficient to justify further consideration.”

Deal memos and long form contracts

38. I have already mentioned deal memos and long form contracts. It is common ground that it is standard practice in the music licensing business for a licensee and a licensor to enter into a deal memo followed by a long form contract.
39. The deal memo records the basic terms of the deal. The long form contract is a bilateral formal contract.
40. Although it is standard practice for both types of document to be signed, this is not invariable. Sometimes only a deal memo is signed, and even where a long form contract is signed as well, it is not always signed before the release of an album.
41. I was shown a variety of different forms of deal memos. One, from the Ministry of Sound, was headed “Subject to Contract” and ended with the words:

“Please note that usage is always subject to final DJ selection. Once we have confirmation that the track was selected we will forward to you confirmation of the agreed terms.”

42. Another, from React Music, is also headed “Subject to Contract” but ends with the words:

“This memorandum shall be binding on the parties until replaced by long-form agreements negotiated in good faith but always subject to the above terms and conditions”

43. A third, from Vinyl Distribution, is not headed “Subject to Contract” and has attached to it four pages of standard terms and conditions which cover the matters that would otherwise have been included in a long form contract.
44. A fourth, from Carlton Records, is not headed “Subject to Contract” and does not contain any explicit statement that the deal memo is to be immediately binding.

45. A fifth, from Liberty Records, is not headed “Subject to Contract” and concludes with the words:

“These terms apply to and will be incorporated into our standard licensing Agreement. Both parties intend to enter into such a long form Agreement but until such time these terms shall be binding. Please confirm your acceptance of these terms by signing below where indicated and faxing it back to ... together with the label copy and an invoice for the advance which will be paid on release of the album if the track is incorporated.”

46. A sixth, from EMI Records, is headed “Subject to Signed Letter Agreement by EMI Records Ltd”. It contains the following paragraphs:

“I would be grateful if you would sign, date and return to me a copy of the letter agreement to confirm your agreement to these terms and conditions. Once I receive the same, I shall arrange for the countersignature by EMI Records Ltd and return to you of a fully executed copy.”

47. Attached to the letter was a schedule of principal terms and conditions and a schedule of general terms and conditions. Each was headed,

“Not a binding offer until signed on behalf of EMI Records Ltd.”

48. The long form agreement for “Crisp Biscuit” was in standard form. Clause 1 contained a series of definitions. Clause 2 contained the grant of the licence. Clause 2.2 said:

“Licensee shall not remix or otherwise alter the Track which shall be used as delivered.”

49. Clause 3 incorporated the licensee’s obligations to pay, which are contained in Schedule 1 to the contract. The advance payment is due on the licensor forwarding an executed agreement to the licensee.

50. Clause 4 required the licensor to provide a master copy of the track and certain information about the artist.

51. Clause 5 contained obligations of the licensee.

52. Clause 6 contained warranties given by the licensor.

53. Clause 7 entitled the licensee to five free copies of the album. Clause 8 dealt with assignment of the agreement.

54. Clause 9 dealt with the service of notices. Clause 10 entitled either party to terminate the agreement in certain events, and clause 11 dealt with the consequences of termination.
55. Clause 12 contained an “entire agreement” clause.
56. Clause 13 negated the creation of a partnership and clause 14 dealt with European law.
57. Clause 15 said that the agreement was to be governed by English law.
58. The quoted extract from clause 2.2 forbidding any remix of the track is surprising, since the concept behind “Crisp Biscuit” was that the Heartless Crew would MC over the top of the selected tracks. Ms Conacher said that its inclusion was a mistake.

The issues

59. The Defendant accepts that one or other of the Claimants is the owner of the copyright in “Burnin”. For present purposes it does not matter which one. The Defendant also accepts that it copied “Burnin” by incorporating it into a track on “Crisp Biscuit”. It also accepts that “Burnin” was not used in its original form. The principal defence to the claim is that the Defendant was licensed to reproduce “Burnin” by the signed deal terms dated 17 December 2001. The Defendant says that the deal memo amounted to a binding contract. Alternatively, the Defendant says that the sending of the track and its accompanying invoice constituted an offer which the Defendant accepted by its conduct in making use of the track. The Defendant also raises a secondary defence. This defence is that by signing the deal terms and subsequently by sending the track itself and the invoice for the advance payment, the Claimants represented that a licence had been granted. In reliance on that representation the Defendant incurred substantial expenditure in mixing and manufacturing the album, and that it would be unconscionable for the Claimants now to deny that the licence had been granted on the terms of the deal. Thus it is alleged that the Claimants are estopped from denying the grant of the licence.
60. The Claimants accept that if any of these arguments is correct then the claim for copyright infringement must fail.
61. The Third Claimant also advances a separate claim based on the alleged derogatory treatment of “Burnin”. The derogatory treatment is said to be the overlay of the song with a rap containing references to violence and drugs.

Was there a contract?

62. The contract is one that is alleged to have been made in writing. In my judgment in such a case the court’s task is to interpret the writing objectively, in the light of any admissible evidence, in order to decide whether a contract has been made. The subjective intentions and understandings of the parties are irrelevant to this process. Mr Shipley, appearing for the Claimants, submitted that if one party understood the writing in sense A and the other understood it in sense B, there was no meeting of minds and that consequently there could be no contract. However the law of contract is not concerned with an *actual* meeting of minds, but an *apparent* meeting of minds.

If the apparent meeting of minds does not coincide with the actual meeting of minds, the only means to correct the appearance is by rectification.

63. Mr Howe, appearing for the Defendant, has two strands to his argument. First he relies on the well known statement of principle made by Parker J in *Von Hatzfeldt-Wildenstein v. Alexander* [1912] 1 Ch. 284 at 288-289:

“It appears to be well settled by the authorities that if the documents or letters relied on as constituting a contract contemplate the execution of a further contract between the parties, it is a question of construction whether the execution of the further contract is a condition or term of the bargain or whether it is a mere expression of the desire of the parties as to the manner in which the transaction already agreed to will in fact go through. In the former case there is no enforceable contract either because the condition is unfulfilled or because the law does not recognize a contract to enter into a contract. In the latter case there is a binding contract and the reference to the more formal document may be ignored.”

64. However, although the question is one of construction, I do not consider that the question is simply at large. The putative contract is a letter headed “Subject to Contract”. In *Chillingworth v. Esche* [1924] 1 Ch 97 Warrington L.J. said at 110-111:

“It has been undoubted ever since the decision of Sir George Jessel in *Winn v. Bull* ((1877) 7 Ch D 29) that the words “subject to the preparation and approval of a formal contract” in a document prevented the document from being held to be a final agreement of which specific performance could be enforced, and it has been the practice of estate agents to insert these words to prevent parties being imposed upon. In many cases it is important to avoid the disastrous results of entering into open contracts, and I think it would be most mischievous to throw any doubt on the effect and meaning of such expressions. I do not overlook what was said by Lord Sterndale in *Rossdale v. Denny* ([1921] 1 Ch 57 at 66) in this Court: “I am far from saying that there may not be an unconditional offer and acceptance of a binding contract although the letters may contain the words ‘subject to a formal contract’, but certainly those words do point in the direction of the offer or acceptance being conditional. I do not think it can be put higher than that; I think he is well founded in saying that the general trend of the decisions has been, where those words occurred, to hold that the offer or acceptance was conditional.” But it seems to me that too much importance has been attributed to those expressions of Lord Sterndale, and I think what he meant to say was that the words in question indicate in themselves no binding bargain, and are merely conditional, but

that there might be other circumstances which would induce the Court not to give them that meaning in a particular case.”

65. In the same case Sargant L.J. said at 114:

“To my mind the words “subject to contract” or “subject to formal contract” have by this time acquired a definite ascertained legal meaning—not quite so definite a meaning perhaps as such expressions as f.o.b. or c.i.f. in mercantile transactions, but approaching that degree of definiteness. The phrase is a perfectly familiar one in the mouths of estate agents and other persons accustomed to deal with land; and I can quite understand a solicitor saying to a client about to negotiate for the sale of his land: “Be sure that to protect yourself you introduce into any preliminary contract you may think of making the words ‘subject to contract’.” I do not say that the phrase makes the contract containing it necessarily and whatever the context a conditional contract. But they are words appropriate for introducing a condition, and it would require a very strong and exceptional case for the clear prima facie meaning to be displaced.”

66. In my judgment the words “subject to contract”, at least in the field of land law, do have a definite and ascertained legal meaning. They are relied on every day to prevent contracts from coming into existence. It would be a disservice to the law to cast doubt on that settled meaning. As Lord Denning M.R. said in *Munton v. Greater London Council* [1976] 1 W.L.R. 649 at 655: “It is of the greatest importance that no doubt should be thrown on the effect of those words”. However, although the phrase may have originated in the context of sales and leases of land, it has a more general application in commerce generally. I shall return to the question whether it has a special meaning in the music licensing business.

67. I propose first to consider whether, if the phrase “subject to contract” bears its ordinary meaning, the circumstances of the present case displace that meaning. If the answer to that question is “no”, I must then consider whether the phrase bears a special meaning in the music business.

68. Although the settled meaning of “subject to contract” may, in theory, be displaced by a very strong and exceptional case, there are very few cases in the books in which the circumstances have been strong enough to displace that meaning. In *Michael Richard Properties Ltd v. Corporation of Wardens of St Saviour’s Parish Southwark* [1975] 2 All E.R. 416 property was offered for sale by tender. As is usual, the tender documents contained all the detailed terms upon which the contract was to be based. The successful tender was accepted by letter, but by mistake the secretary who typed it typed in the words “subject to contract” at the bottom. Goff J held that since there was nothing left to negotiate, the words subject to contract could be rejected as meaningless.

69. In *Alpenstow Ltd v. Regalian Properties plc* [1985] 1 W.L.R. 721 the parties entered into a written agreement containing a right of pre-emption. In the event of the owner wishing to sell it was to offer to sell a share in the property by notice. Within 28 days of the notice, the grantee was to accept the offer “subject to contract”. Within seven days thereafter a draft contract was to be submitted; the draft was to be approved within 28 days, subject to any amendment reasonably required, and contracts were to be exchanged seven days thereafter. Nourse J held that the agreement was binding, and in particular pointed to the incompatibility between the freedom to withdraw from the transaction which the words “subject to contract” suggested, and the duty to submit a contract and to exchange it within a particular timetable.
70. I think that both these cases would be described nowadays as cases where “something has gone wrong with the language” and that the problem in each case can be solved by the usual methods of construction. The same approach would, in my judgment, resolve apparent inconsistencies in deal memos which were both “subject to contract” and also contained an explicit statement that the terms were to be immediately binding.
71. Mr Howe also referred me to *Cranleigh Precision Engineering Ltd v. Bryant* [1965] 1 W.L.R. 1293. In that case the parties drew up heads of agreement. The heads of agreement provided for the assignment by Mr Bryant of certain patents and designs in return for a royalty. They also provided that Mr Bryant and the company would enter into a service agreement on terms set out in the heads of agreement. Mr Bryant argued that the agreement was not binding because it was “subject to contract”, although that phrase did not actually appear in the heads of agreement. Roskill J applied the principle formulated by Parker J in *Von Hatzfeldt-Wildenstein v. Alexander*, and decided, as a matter of construction, that the document was an immediately binding agreement. That decision does not, to my mind, assist, because it is not a case in which the express use of the phrase “subject to contract” was considered.
72. Mr Howe pointed to the following circumstances as displacing the ordinary meaning of the phrase. First, the deal terms were in many cases not followed up by entry into a formal written contract. Second, the timescale for the production of the album was a short one. The deal terms were sent out in late December 2001 for production of an album with a proposed release date in March 2002. It was obvious that the Defendant would begin to incur the expense of mixing, mastering and manufacturing the album very soon. The deal terms also indicated that there would be 40 tracks on the album and it would be impractical for the Defendant to negotiate and complete long form contracts with every potential licensor within the contemplated timescale. Thus, he contended, it must have been the intention of the parties that the deal terms would become immediately binding.
73. This, as it seems to me, is not inviting me to construe the phrase “subject to contract”, but to reject it. However the surrounding circumstances to which he pointed are not, to my mind, incompatible with speedy entry into binding contracts, or with the acceptance by the Defendant of a commercial risk until such contracts were signed. It would have been perfectly simple for the Defendant’s standard “fax back deal terms” to have omitted the phrase “subject to contract” and/or to have included an express statement (of which there are examples in evidence) that the deal terms were to be immediately binding until replaced by a further more formal contract. In addition, since the long form contracts are in standard form, I do not see why sending out drafts

needs to be a lengthy process. In the case of the licence request from Carlton Records, the request form states that a contract will be issued within ten working days of the date on which the request is signed.

74. In my judgment the circumstances are not so strong and exceptional as to displace the conventional meaning of the phrase “subject to contract”.
75. The second strand to Mr Howe’s argument was that the phrase “subject to contract” has a special meaning within that part of the music industry concerned with the licensing of tracks for inclusion on compilation albums, which is not its conventional meaning. This contention was the subject of expert evidence.
76. Parts of the expert evidence, in my judgment, strayed beyond the limits of admissibility. Both experts gave opinions on whether the deal memo in the present case was or was not binding. That seems to me to be a question of law, which is for me to decide. The experts are certainly entitled to give evidence on practices within the music business and to explain the meaning of technical terms, but not to give evidence about English law.
77. Ms Lorenzo, the Claimants’ expert said:

“Even if the deal memo has been signed and agreed all this means is that the parties have agreed to the basic terms to be included in the final long form contract. In my opinion the deal memo does not constitute a legally binding contract. If a deal memo was a binding agreement then there would be no requirement for the final contract.”

78. Ms Lorenzo’s evidence does not differentiate between a deal memo which is headed “subject to contract” and one which is not. To my mind that is a critical distinction. The parties are free to contract on whatever terms they wish, and if they expressly stipulate (as they sometimes do) that the deal memo is to be binding until replaced by a formal agreement, I see no reason why the court should not give effect to that expressed intention. I do not accept the contention that the deal memo is never binding.
79. Ms Aizlewood, the Defendant’s expert, was asked the question whether the expression “subject to contract” has a customarily understood meaning when used in the context of deal terms in the record industry. In her report she said:

“As explained in detail above, a long-form agreement will usually be signed subsequent to the deal memo/heads of agreement being signed. The initial offer is sometimes marked “subject to contract”. The reference to “subject to contract” in this particular context has a dual meaning. It is in effect a shorthand method of saying that in due course the standard long-form agreement will be put in place (which it accepted is the standard practice). Equally it means that once the fax offer is signed by the third party then a legally binding agreement

has been reached that contains all of the negotiated commercial terms and that is the basis on which all parties accept the track will be included on an album.”

80. Ms Lorenzo disagreed with this statement. In her oral evidence Ms Aizlewood said that she was not sure that the particular meaning she attributed to the phrase “subject to contract” was the same in all areas of the music industry. She said:

“I think it is a specific thing relating exclusively towards licensing in for compilations. It is more of a shorthand thing, as I said, to do with the fact that there have to be 40 long form contracts physically issued and sent back and signed and logged and whatever, and the time issue is always crucial in relation to the release of a compilation.”

81. This, as it seems to me, was a considerable narrowing of the scope of the alleged special meaning. The evidence is not that there is a special meaning to be attributed to the phrase “subject to contract” in the music industry, or even in the music licensing side of the music industry, but that it bears a special meaning only in the context of licensing for compilation albums. Although it is fair to say that Ms Aizlewood’s report can be read as confining the special meaning of the expression “subject to contract” to the licensing of compilation albums alone, this was not something which, to my mind, became clear until she had given her oral evidence.

82. In the course of his cross-examination Mr Thomas gave evidence as follows:

“Q. You told my Lord you are not a lawyer and so you have not the faintest idea of whether or not and indeed these terms are binding?”

A. No.

Q. What I suggest to you is that what you are saying here is that in your experience in the industry when people enter into deal terms generally that goes on to the track being used with the label getting their money and everybody going away happy?

A. Yes.

Q. Whether or not it is legally binding. If you [ask] somebody “Can I use your track?” and they say “Yes” it is most unusual for them to change their mind?

A. Yes.

Q. But if they did change their mind, you could actually change the recording by pulling off the track?

A. Yes.”

83. I think that this is a fair reflection of what actually happens in practice. In practice, whether the deal terms are or are not legally binding is almost an irrelevance.

84. Of the two meanings suggested by Ms Aizlewood, I find the first a strained and implausible one. I find the second meaning an impossible one. Moreover, the variety of forms of deal memos in use within the music licensing business militate against a common usage which is sufficiently certain and notorious as to amount to a recognisable trade usage. Moreover at the end of Ms Aizlewood's evidence it seemed to me that it was not suggested that the phrase had a special meaning except in relation to a very small area of music licensing. Neither Ms Ferris, who issued the deal memos, nor Mr Thomas, who actually worked on the compilation of the album, appeared to have heard of it.
85. Ms Aizlewood did not comment on the variety of deal memos in use within the industry. In my judgment some of the deal memos I saw plainly created legally binding contracts for the simple reason that they said they did. Ms Aizlewood herself said that a statement to this effect was "best practice"; but it would be an unnecessary practice if there were a clear understanding within the music licensing business for compilation albums that a "subject to contract" deal memo was immediately legally binding.
86. Ms Aizlewood also said that the contract created by the deal memo was a "one way" contract. That is to say it bound the licensor to permit the licensee to reproduce the track, but did not require the licensee to make any payment unless it took up the licence and included the track on the album. In a sense this was a necessary assertion, because it is common practice for a record company to enter into more deal memos than the number of tracks it intends to use on a compilation album. If the agreement were a "two way" contract, the record company would be liable to pay the advance even if it did not use the track.
87. In ordinary legal usage a contract of the kind that Ms Aizlewood described as a "one way contract" is an option. Yet the deal memo does not use the language of option, although Ms Aizlewood said that options are used within the music business. I do not consider that the deal memo can be construed as an option.
88. If the deal memo is to be construed as an option, it would also be necessary for the Defendant to show that it gave consideration for the grant of the option, otherwise the offer constituted by the option would be a revocable one. I cannot see that the Defendant gave any consideration for the grant of an option. The only potential consideration given by the Defendant was the promise to pay royalty and an advance. If the Defendant could avoid payment by not taking up the option, that promise does not, in my opinion, amount to consideration at all. Mr Howe submitted that the Defendant gave consideration by promising to consider "Burnin" for inclusion in the compilation album. No express promise to this effect was given, and I do not consider that a promise to this effect can be implied. In my judgment the Defendant did not undertake any obligation which would support the grant of an option. Thus if, contrary to my view, the deal terms are to be construed as an option, they would have amounted to a revocable option.
89. It seems to me that what Ms Aizlewood was really saying is that in practice people in the music business treat deal memos as binding on the licensor but not on the licensee, whatever the correct legal analysis. That, I think, accords with Ms Lorenzo's evidence that it is rare for anyone to back out of the terms agreed in a deal memo, although it does occasionally happen. It also seems to me to accord with Mr Thomas's evidence

about what happens in practice. Ms Aizlewood did not give any empirical examples of cases in which, after a disagreement, parties to a “subject to contract” deal memo subsequently agreed that the “subject to contract” deal memo was binding. Ms Lorenzo, on the other hand, said that on a few occasions the German parent company of the company for which she worked had been sued for copying a track after a deal memo had been signed but before the long form contract had been entered into. These claims, she said, were bought off.

90. It seems to me that the burden is firmly on the Defendant to establish the existence of a custom or usage within the music industry (or some part of the music industry) to the effect that “subject to contract” does not bear the meaning it bears in normal legal usage. In my judgment the Defendant has not discharged that burden. If anything, the evidence, taken as a whole, is more consistent with there being no recognisable special practice or understanding within the music licensing business. The most likely explanation of all the evidence is that, in a relatively small world, where personal relationships are important, people often do not stand on their legal rights.
91. In any event, practices within the music industry cannot, in my judgment, change the law. I consider that I must decide, as a matter of construction of the deal memo in this particular case, whether a legally binding contract was created. I am unpersuaded that the phrase “subject to contract” has a meaning within the music business which is precisely the opposite of the meaning that it bears in general commerce, and particularly in relation to land contracts. Nor am I persuaded that a document that looks like a bilateral contract (apart from the heading “subject to contract”) can properly be construed as an option. The licensee’s commercial freedom to choose not to use a track and not to pay an advance is preserved by holding that the deal terms “subject to contract” are not a contract at all.
92. I do not therefore accept that in the music industry (or in that part of it consisting of licensing music for inclusion on compilation albums) the phrase “subject to contract” bears a different meaning to its conventional meaning.
93. The use of the phrase “subject to contract” construed objectively, means, in my judgment, that the parties must be taken to have intended that the deal memo should not be binding. There is nothing in the deal memo itself which is inconsistent with that. As Mr Shipley said, it would be a strange contract which simultaneously bound the licensor to give a licence for the territories stated in the deal memo yet at the same time contemplated that the licensor might not control rights in all the stated territories.
94. In my judgment no contract was created by the signature of the deal memo. I am conscious that, in so deciding, I am differing from the view expressed by Leveson J on the hearing of the application to discharge the injunction. However, the Claimants were not legally represented at that hearing, and it does not appear that Leveson J was referred to any of the relevant authorities.
95. The remedy for the future lies entirely in the Defendant’s hands. All it has to do is to change its standard form to include a statement that the deal memo is to be binding and/or to omit the “subject to contract” heading, as many of its competitors do.
96. I should also add that in many cases an implied contract would come into existence when a putative licensee pays the licensor a royalty, or advance, which the putative

licensor then accepts. So in many cases it may not matter very much when a contract is made. The problem in this case is that by the time the Defendant tendered payment of the advance, the Claimants had made it clear that they no longer wanted “Burnin” to be included on the album.

Unilateral contract

97. Mr Howe submitted that the sending of the invoice and the track amounted to an offer which was accepted by the Defendant when it began to use the track in mixing the album. The usual rule, of course, is that an acceptance must be communicated to the offeror before a contract comes into existence. If the Defendant had paid the invoice before Confetti said that it did not want the track included on the album, this submission would have been unanswerable. Ms Joachim herself said that if an invoice is paid, then a licence comes into existence. But the Defendant did not tender payment until after Confetti said that it did not want the track to be included on the album.
98. However, an offer may be such that it invites acceptance by conduct. If so then the requirement that the acceptance must be communicated to the offeror may be waived. For example a delivery of goods at the request of a potential customer may constitute an offer to supply the goods, which the customer accepts by keeping the goods (e.g. *Interfoto Picture Library Ltd v. Stiletto Visual Productions Ltd* [1989] Q.B. 433). Or an offer to grant a licence to occupy land may be accepted by taking up occupation (e.g. *Wettern Electric Ltd v. Welsh Development Agency* [1983] Q.B. 796).
99. Mr Howe submits that the delivery of the deal terms and/or the delivery of the track and the invoice amounted to a unilateral offer which the Defendant accepted when it started recording the album. So far as the deal memo itself is concerned, I do not think that this can be right. The whole point of the label “subject to contract” is to prevent a “subject to contract” communication from being capable of maturing into a contract by acceptance. In my judgment it is not an offer at all.
100. So far as the delivery of the track and the sending of the invoice are concerned, there is, I think, more force in Mr Howe’s point. In the ordinary way, once negotiations are begun “subject to contract”, that label governs all subsequent communications between the parties unless the label is expunged by express agreement or necessary implication (*Cohen v. Nessdale Ltd* [1982] 2 All E.R. 97). I do not see any evidence that the “subject to contract” label was expunged by express agreement. Was it expunged by necessary implication? As I have said, Ms Joachim said that if an invoice is paid, then a licence comes into existence. I do not consider that she was speaking about this particular licence. She was, I think, speaking generally about music licensing. It must follow from this that the sending of an invoice, together with the track, is regarded in the music licensing business, as an offer capable of acceptance. Having regard to the fact that a deal memo had been signed, the offer must, by necessary implication, be an offer to contract on the terms of the signed deal memo. On that footing, if the offer is accepted, it seems to me that the “subject to contract” label on the deal memo is expunged by necessary implication.
101. However, there remains the question whether the offer is one that can be accepted by conduct or whether it can only be accepted either by payment or by some other communication to the offeror.

102. Every law student is familiar with the picturesque case of *Carlill v. Carbolic Smoke Ball Co* [1893] 1 Q.B. 256. In that case the Court of Appeal discussed the circumstances in which an offeror might be taken to have waived the necessity of the communication of an acceptance of an offer. Lindley L.J said at p. 262-3 that it was necessary to look at the language of the offer and the nature of the transaction. Bowen L.J. said at p. 270 that you look at the offer itself and the character of the transaction.
103. Mr Howe submits that the fact that *Carlill* is a reward case should not obscure the fact that a unilateral contract (in the sense of a contract under which an offer may be accepted by conduct) is commonplace. He gave, as an example, a case in which a man gave the keys of his car to his neighbour and said “You may use my car if you want to, but if you do you must pay me £100 a day”. If the neighbour used the car, his use of the car would bring into existence a binding obligation to pay the £100. That is a case in which the language of the offer would itself show that communication of acceptance was waived.
104. Closer, perhaps, to the present case is another example discussed in argument. Suppose that, without making a formal offer, someone requests a retailer to send a product. The retailer sends the product, together with an invoice for payment. If the recipient uses the product he would become under an obligation to pay for its use. That would be a case where the sending of the product together with an invoice would amount to an offer, which would then have been accepted by conduct.
105. In the present case the request was not merely for a copy of “Burnin” but for a cleared copy. Clearance is an important part of the process of compiling an album. As Mr Pascal said in evidence:

“The company cannot touch someone else’s material unless they have clearance.”
106. It seems to me that the converse must follow, namely that once the record company *does* have clearance it *can* touch someone else’s material. The inference I draw from that is that it was the expectation of the parties that the Defendant would proceed to use the track on the album, if it decided to include it at all.
107. At the time that the track was sent and the invoice rendered, the proposed release date for the album was March 2002. Ms Joachim accepted in cross-examination that she knew that, in order to achieve that release date, the album Defendant would have to start the recording, mixing and mastering of the track in January or February. This was part of the character of the transaction.
108. That, coupled with the use of the past tense in the description of the services for which the invoice was raised, leads me to conclude that there was an offer capable of acceptance by conduct. If, therefore, the relevant conduct took place before the offer was revoked a contract will have come into existence.
109. The revocation relied on is the letter of 28 January 2002. I have already found that neither the letter nor the fax arrived. It follows, therefore, that the offer was not revoked in January 2002. The album was mixed in two sessions in February 2002. It was mastered a week or so later. Final editing and dubbing sessions took place in

March. By the time that Confetti’s complaint surfaced in late March (which itself was towards the end of the month in which Confetti had been told the album would be released) the expense of manufacture had also been incurred. In my judgment it was then too late for the Claimants to revoke the offer. I hold that a contract came into existence.

110. Mr Howe also submits in the alternative that, at the very least, the signing of the deal memo and the sending of the track, coupled with the raising of the invoice, amounted to a gratuitous licence. The grant of a licence is a unilateral act. It does not need to be a bilateral contract. In *Prudential Assurance Co Ltd v. Mount Eden Land Ltd* [1997] 1 E.G.L.R. 37 the Court of Appeal warned against extending the “magic” of the “subject to contract” label into the realm of unilateral licences. The question in that case was whether a landlord had granted licence to the tenant to carry out alterations. The letter relied on as constituting the licence was headed “subject to licence” and the text of the letter gave consent subject to various conditions, including entry into a formal licence. The Court of Appeal held that licence had been granted. Morritt L.J. said:

“The purpose of the suspensory condition “subject to contract” in the context of negotiations is to avoid the other side seeking prematurely to conclude a contract by the acceptance of an offer so as to give rise to unintended legal consequences. In cases requiring a unilateral act the only question is whether that act has occurred.”

111. Mr Shipley submitted that this is not a case of a unilateral act but a case of bilateral negotiations, He said therefore that the “magic” of the “subject to contract” label is fully applicable. However, it seems to me that for the purpose of deciding whether an infringement of copyright has taken place, a unilateral grant of a licence would be sufficient to negative infringement. In my judgment Mr Howe is correct thus far. The sending of the track accompanied by an invoice is, in my judgment, the grant of a licence, especially since the track is sent on the basis that it is cleared for use in the album. In my judgment the sending of the track and the label copy as a cleared track carried with it a bare licence to reproduce.
112. Although a bare or gratuitous licence is, in principle, revocable, Mr Howe submits that once the licensee has changed his position detrimentally in reliance on the licence, the licence can no longer be revoked. This point is made in Laddie Prescott & Vitoria on *The Modern Law of Copyright and Designs* (3rd ed) at para 24.6. The authors say:

“In some cases, the right to revoke may be exercised even if the licensee has incurred expense, such as publication costs, but where the licensee has incurred trouble and expense in reliance [on] the licence, it is possible that the licensor may be estopped from revoking the licence either at all or else on reasonable notice.”

113. This is the language of estoppel. Thus it becomes necessary to consider the question of estoppel.

Does an estoppel arise?

114. The estoppel alleged is that the Claimants may not deny the existence of a contractual licence made on the terms of the deal memo. The representations on which the Defendants rely are two. First, there is the signature of the deal memo itself. Second, there is the sending of the recording plus the sending of the invoice.
115. In my judgment no estoppel as to the existence of a binding contract can arise out of the signing of the deal memo alone. The meaning of the phrase “subject to contract” is that either party is free to withdraw from the proposed transaction until such time as a binding contract is made. How can that amount to a representation that there is a contract? In my judgment it cannot.
116. In *A-G of Hong Kong v. Humphreys Estate (Queens Gardens) Ltd* Lord Templeman, giving the advice of the Privy Council, said:

“In the present case the government acted in the hope that a voluntary agreement in principle expressly made ‘subject to contract’ and therefore not binding would eventually be followed by the achievement of legal relationships in the form of grants and transfers of property. It is possible but unlikely that in circumstances at present unforeseeable a party to negotiations set out in a document expressed to be ‘subject to contract’ would be able to satisfy the court that the parties had subsequently agreed to convert the document into a contract or that some form of estoppel had arisen to prevent both parties from refusing to proceed with the transactions envisaged by the document.”

117. In my judgment the mere fact that someone who is party to an agreement “subject to contract” acts on the faith of that agreement does not raise any estoppel as to the existence of a binding contract.
118. However, it seems to me that, conformably with the court’s refusal to extend the effect of the “subject to contract” label into the field of unilateral licences, it is possible for a “subject to contract” deal memo to amount to a representation that use of the recording covered by the memo is licensed for the time being. That, of itself, would not necessarily prevent the licensor from revoking the licence. However, in the present case the Claimants also sent the track to the Defendant and invoiced the Defendant for the advance. The invoice said that “Burnin” was “Licensed to “Crisp Biscuit” Granted for 3 years non-exclusive”. Both verbs are in the past tense.
119. That an estoppel can arise in circumstances where an agreement “subject to contract” has been made is illustrated by *Salvation Army Trustee Co Ltd v. West Yorkshire Metropolitan CC* (1980) 41 P. & C.R. 179. The decision in that case was approved and explained by the Privy Council in *A-G of Hong Kong v. Humphreys Estate*

(Queens Gardens) Ltd. The point is that for an estoppel to arise in this context, it must be based on something other than the “subject to contract” agreement alone.

120. I consider that signing of the deal memo, and the sending of the cleared track plus the sending of the invoice did amount to a representation that the licence had been granted. To put it another way, it was a representation that the “subject to contract” label attached to the deal memo could be disregarded.
121. A representation is not enough to create an estoppel. The defendant must also show that it acted in reliance on the representation. It would not be enough, in my opinion, for the Defendant to establish that it acted in reliance on the deal memo alone. It must show that the sending of the track and the invoice influenced its actions, at least to some extent.
122. In her witness statement Ms Ferris referred to the narrative of the invoice and said:

“This confirmed exactly my understanding of the position: when the deal terms were signed and returned, we had reached an agreement and Confetti had granted a licence to us to use the track on the proposed album for three years.”

123. This statement was not challenged in cross-examination. The evidence that the narrative of the invoice “confirmed” Ms Ferris’ understanding is, in my judgment, evidence that it had some influence on the Defendant’s subsequent actions, and confirmed the Defendant’s belief that a contract had come into existence.
124. In the course of her cross-examination Ms Conacher gave evidence as follows:

“Q. You would say that by signing it [the deal memo] Confetti led you to believe that there was a contract in place?

A. Yes, by having negotiated the terms which they wished to change or negotiate and then by signing it *and sending us parts for manufacture of an album* I would believe.”
(Emphasis added)

125. In my judgment this shows that the sending of the track was also something on which the Defendant relied.
126. I conclude therefore that the Defendant did rely on both the invoice and the sending of the track.
127. I have already outlined the stages of the production of the album.
128. In my judgment by the time that Confetti made it clear that they did not want the track included on the album, it was too late to resile from the representations that they had made.

129. I conclude, therefore, that the estoppel is made out.

Is the contract sufficiently certain?

130. Mr Shipley submitted that even if the Claimants are estopped from asserting that there is no contract, or a contract might otherwise have come into existence, it could not have done so in this case because essential terms had not been agreed. The missing terms were:

- (a) what proportion of the 19 per cent royalty would be paid to the Claimants;
- (b) when the advance royalty was to be paid;
- (c) how many tracks were to be included on the album;
- (d) when the release date was to be and
- (e) whether the track was to be used mixed or unmixed.

131. *Proportion of royalty.* Ms Joachim agreed that it was standard practice, in the case of a compilation album, for royalty to be divided between the licensors of tracks in proportion to the number of tracks they licensed, irrespective of the length of the tracks. In my judgment it would have been obvious to anyone in the music business that the 19 per cent royalty would be divided in that way.

132. *Time of payment.* Mr Shipley said that an advance royalty must be paid in advance of some event, and submitted that the deal memo did not specify the event in advance of which the advance royalty was to be paid. Mr Howe submitted that “advance” was a shorthand for the type of payment (i.e. a payment on account of royalties) and did not carry any temporal connotation. He submitted that it was an implied term of the contract that the advance would be paid within a reasonable time. I agree. However, I think that Mr Shipley is right in submitting that the consideration for the advance royalty is the grant of the licence, whether or not the licence is taken up. I consider, therefore, that the advance royalty was payable within a reasonable time after the grant of the licence, whether or not the track was actually included on an album. Since the contract came into existence only when the Defendant made use of the track, thereby taking up the licence, this point is not of practical importance in the present case.

133. *Number of tracks.* Since the royalty was to be divided proportionately among the licensors of tracks, the actual amount of the payment will vary according to the number of tracks on the album. The deal memo specified the number of tracks as 40 “(tbc)”. The abbreviation “tbc” means “to be confirmed”. Thus the number of tracks was not precise. However, even in the long form contract the number of track is only specified “approximately”. In my judgment the precise number of tracks to be included on an album is not an essential term of the contract.

134. *Release date.* The release date is at the discretion of the licensee. It does not feature as one of the terms of the long form agreement. I was unimpressed by Ms Joachim’s attempt to explain why the release date had to be contractually binding. Ms Joachim said that it was important to the licensor to know when the release date was. However, that is not the same as saying that the release date must be a term of the contract. As Ms Joachim put it in cross-examination: “They [i.e. the record company] will decide when it is going to be and you will be told when it is going to be.” In my judgment the fact that the deal memo said that the release date of March 2002 was to be confirmed does not vitiate what would otherwise have been a binding agreement.

135. *Mixed or unmixed.* The proposal to release “Crisp Biscuit” was described as an album mixed by the Heartless Crew. This was part of the background, known to both parties. It was plain, to my mind, that the track could be mixed if the licensee chose to mix it.
136. Mr Shipley said that the phrase “mixed by” could mean many things. This was confirmed by Ms Aizlewood and Ms Conacher, among others. There was some dispute about what Mr Pascal knew of the Heartless Crew. The Heartless Crew were, at the time, a well known act within the garage scene. Mr Pascal had been to at least one of their gigs. He knew that the album was to be an album mixed by the Heartless Crew. In my judgment it has been shown that he knew that the Heartless Crew rapped over the whole of a track (or, as it is put, they “rode the rhythm”). I think that it is also probable that “Burnin” was composed with the idea that words would be spoken on top of it. In the context of this case I conclude that it was open to the Defendant, in principle, to include “Burnin” with an accompanying rap over the whole of the track.
137. Mr Shipley also submitted in closing that there would have to be some term about control of the words of the rap. He submitted that a term could and should be implied. If he is right in submitting that a term can be implied, then the contract would not be void for uncertainty, although there might be argument about the precise formulation of the implied term. But in any event, none of the witnesses suggested that a contract would be unworkable without such a term. Moreover the author of the work is adequately protected by his moral rights under section 80 of the Copyright Patents and Designs Act 1988.
138. In addition, as Mr Howe rightly pointed out, the terms contained in the deal memo mirror the terms contained in other deal memos which are expressly stated to be immediately binding. Finally, it is sometimes the case that a deal memo is not followed by entry into a long form agreement. No one suggests that such a state of affairs is unworkable.
139. In my judgment, therefore, the contract was not void for uncertainty.

Revocation of the licence

140. Mr Shipley accepted that if I found (as I have) either that a contract came into existence or that the Claimants are estopped from denying that a licence had been granted on the terms of the deal memo, then the letter of 28 January would not have been effective to revoke the licence, even if it had arrived.
141. It therefore follows that the inclusion of the track on “Crisp Biscuit” was not an actionable infringement of copyright.

Flagrancy

142. The Claimants claim additional damages under section 97 (2) of the Copyright Designs and Patents Act 1988 on the ground that the infringement of copyright was flagrant. Since I have decided that there was no actionable infringement of copyright, this issue does not arise.
143. However, if I am wrong in my conclusion that there was no actionable infringement of copyright, I would not have awarded additional damages. I have no doubt that the

Defendant *thought* that it had a licence to reproduce “Burnin”. In those circumstances I do not consider that any infringement of copyright could properly be described as “flagrant”.

144. Mr Shipley submitted, in closing, that I should consider additional damages on a broader basis. However, the pleaded case was firmly based on deliberate infringement, and in my judgment it would not be fair to the Defendant for me to range more widely than that.

Derogatory treatment

145. Under section 80 of the Copyright Patents and Designs Act 1988 the author of a literary, dramatic, musical or artistic work has the right, in certain circumstances, not to have his work subjected to derogatory treatment. This is a claim that is separate from a claim for infringement of copyright.

146. Those circumstances include the issuing to the public of a sound recording including a derogatory treatment of the work.

147. The Defendant accepts that it has issued to the public a sound recording including “Burnin”, and also accepts that the addition of the rap line was a “treatment” of it. The issue is whether the treatment is derogatory.

148. Under section 80 (2) (b) of the 1988 Act a treatment is derogatory if:

“it amounts to distortion or mutilation of the work or is otherwise prejudicial to the honour or reputation of the author”.

149. Mr Howe submitted that there could be no derogatory treatment unless the treatment was prejudicial to the honour or reputation of the author. Mr Shipley, on the other hand, said that treatment was derogatory if it was a distortion or mutilation of the work, even if it did not prejudice the honour or reputation of the author. Both Laddie Prescott & Vitoria on The Modern Law of Copyrights and Designs (3rd edition para. 13.18) and Copinger & Skone James on Copyright (14th edition para 11-42) disagree with this view. So do I. Section 80 is clearly intended to give effect to article 6 bis of the Berne Convention. That article gives the author the right to object:

“to any distortion, mutilation or other modification of, or other derogatory action in relation to, the said work, which would be prejudicial to his honour or reputation.”

150. It is clear that in article 6 bis the author can only object to distortion, mutilation or modification of his work if it is prejudicial to his honour or reputation. I do not believe that the framers of the 1988 Act meant to alter the scope of the author’s moral rights in this respect. Moreover, in the compressed drafting style of the United Kingdom legislature, the word “otherwise” itself suggests that the distortion or mutilation is only actionable if it is prejudicial to the author’s honour or reputation. HH Judge Overend adopted this construction in *Pasterfield v. Denham* [1999] F.S.R.

168, and in my judgment he was correct to do so. I hold that the mere fact that a work has been distorted or mutilated gives rise to no claim, unless the distortion or mutilation prejudices the author's honour or reputation.

151. The nub of the original complaint, principally advanced by Mr Pascal, is that the words of the rap (or at least that part contributed by Elephant Man) contained references to violence and drugs. This led to the faintly surreal experience of three gentlemen in horsehair wigs examining the meaning of such phrases as “mish mish man” and “shizzle (or sizzle) my nizzle”.
152. The “author” in the present case is the Third Claimant, Mr Alcee. The assignment of his copyright to the First and/or Second Claimants does not affect his authorship. The First and Second Claimants are not entitled to complain of prejudice to their honour or reputation. Thus the evidence that I heard about the kinds of songs produced by Confetti, and in particular about the meaning of the lyrics of “Champion Puffa”, is, to my mind, irrelevant.
153. When played at normal speed the words of the rap overlying “Burnin” are very hard to decipher, and indeed the parties disagreed on what the words were. Even when played at half speed there were disagreements about the lyrics. The very fact that the words are hard to decipher itself militates against the conclusion that the treatment was “derogatory” in the statutory sense.
154. Mr Pascal did not himself claim to know what street meanings were to be attributed to the disputed phrases, but said that he had been told what they were by an unnamed informant conversant with the use of drugs. Mr Howe submitted, correctly in my opinion, that the meaning of words in a foreign language could only be explained by experts. He also submitted, again correctly in my opinion, that the words of the rap, although in a form of English, were for practical purposes a foreign language. Thus he submitted that Mr Pascal's evidence, not being the evidence of an expert, was inadmissible. I think that he is right, although the occasions on which an expert drug dealer might be called to give evidence in the Chancery Division are likely to be rare.
155. But even if I pay regard to Mr Pascal's evidence on this topic, I do not find that the meaning of the disputed words has been proved. Mr Pascal's evidence was hearsay, and the source of his information was not identified. Mr Hunter, one of the MCs with The Heartless Crew, (professionally known as MC Bushkin) had not heard of the meanings that Mr Pascal attributed to the disputed phrases. Nor had Mr Thomas. A search on the Internet discovered the Urban Dictionary which gave some definitions of “shizzle my nizzle” (and variants) none of which referred to drugs. Some definitions carried sexual connotations. The most popular definitions were definitions of the phrase “fo' shizzle my nizzle” and indicated that it meant “for sure”. There were no entries for “sizzle my nizzle” or for “mish mish man”, and Mr Hunter said that Elephant Man (the MC who uttered the disputed phrases) often made up words for their rhyming effect.
156. To be fair, Mr Shipley did not press this complaint in his closing submissions. Instead he sought to advance a new case. First he said that the treatment was derogatory because all coherence of the original work has been lost as a result of the superimposition of the rap. Second he said, whatever a “mish mish man” was, the words of the rap “string dem up one by one” was an invitation to lynching. It is by no

means clear that the words on the rap are in fact “string dem up”. Moreover, I am not at all sure that the meaning Mr Shipley attributes to the phrase “string dem up” is the only possible meaning. A proponent of capital punishment who says that murderers should be “strung up” would usually be taken to advocate the return of a hangman, rather than lynching.

157. However, it seems to me that the fundamental weakness in this part of the case is that I have no evidence about Mr Alcee’s honour or reputation. I have no evidence of any prejudice to either of them. Mr Alcee himself made no complaint about the treatment of “Burnin” in his witness statement. Mr Shipley invites me to infer prejudice. Where the author himself makes no complaint, I do not consider that I should infer prejudice on his behalf.
158. I do not infer any prejudice from the fact that The Heartless Crew rode the rhythm right through the track. If I am to draw any inference, the inference I would draw, having listened to the original mix of “Burnin”, is that it was designed to be the background track to a rap. Indeed the proposed mix for the single of “Burnin” by the Ant’ill Mob (called the vocal mix) was itself a rap which rode the rhythm throughout the track.
159. There was a suggestion that Mr Alcee is the only permanent member of the Ant’ill Mob. He did not say this in his own witness statement, and Mr Pascal said in his witness statement that the Ant’ill Mob “do not have identifiable members in the traditional sense of a group.” He also said that when they perform Confetti hire session musicians to form the group.
160. If, however, Mr Alcee is a member (or perhaps the only member) of the Ant’ill Mob, then the way in which they are presented may impinge on his own honour and reputation. It is clear to me, despite Mr Pascal’s protestations to the contrary, that the Ant’ill Mob were costumed to look like 1930s gangsters. As it was put in a newspaper article in February 2002, the release of “Burnin” was twinned “with a video showing the Mob in true 1930s gangster style”. My own viewing of the video confirmed this impression. I do not therefore infer any prejudice from the invitation to “string up” “mish mish men”, even if it bears the meaning that Mr Shipley attributes to it.
161. Mr Howe also submitted that section 80 of the 1988 Act should be “read down” in order to avoid interference with the Defendant’s right to free expression, guaranteed by article 10 of the European Convention on Human Rights. However, article 10 recognises that the exercise of the right of free expression may be subject to restrictions necessary to protect the reputation of others. Section 80 is designed to protect the reputation of others. I am doubtful whether article 10 adds to the force of his submissions, although I express no concluded view.
162. Even without recourse to the Convention, the claim based on derogatory treatment fails.

Result

163. The claim therefore fails in its entirety and must be dismissed.

164. I will hear counsel on the form of any order and on directions for the assessment of damages on the cross-undertaking in damages given by the Claimants on the making of the injunction.