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Federal Appeals Court's State Law Ruling Entitled to Conclusive Deference: *Factors Etc., Inc. v. Pro Arts, Inc.*

In *Erie Railroad v. Tompkins*[1] the Supreme Court held that federal courts are required to apply state rather than federal substantive law in diversity cases. When no state precedent exists, the federal court must declare the rule it believes the state would adopt.[2] If this determination of state law is made by a federal district court sitting in the state whose law is in question, the appellate court will accord that determination great weight out of deference to the district court's familiarity with local law.[3] Until recently, however, no federal court had extended a high degree of deference to similar decisions by federal circuit courts. In *Factors Etc., Inc. v. Pro Arts, Inc.*[4] the United States Court of Appeals for the Second Circuit held that the decision of a federal circuit court on the law of a state within its circuit is entitled to conclusive deference from other federal courts.

I. Instant Case

On August 18, 1977, two days after Elvis Presley's death, Factors Etc., Inc., a Delaware corporation, purchased the exclusive license to market products using Presley's name and likeness from Boxcar Enterprises, Inc., the company that held the license during Presley's life. The following day Pro Arts, Inc., an Ohio corporation, marketed a poster displaying Presley's photograph. After obtaining a preliminary injunction in the United

1. 304 U.S. 64 (1938).

2. Amfac Mortgage Corp. v. Arizona Mall of Tempe, Inc., 583 F.2d 426 (9th Cir. 1978); Keystone Aeronautics Corp. v. R.J. Enstrom Corp., 499 F.2d 146 (3d Cir. 1974); Kline v. Wheels by Kinney, Inc., 464 F.2d 184 (4th Cir. 1972). *See generally* 1A pt. 2 Moore's Federal Practice ¶ 0.309[2] (2d ed. 1981).

3. Bernhardt v. Polygraphic Co. of America, 350 U.S. 198, 204 (1956); Schuster v. U.S. News & World Report, Inc., 602 F.2d 850 (8th Cir. 1979); Fox v. Ford Motor Co., 575 F.2d 774 (10th Cir. 1978). *Cf.* Bazzano v. Rockwell Int'l Corp., 579 F.2d 465 (8th Cir. 1978) (appellate court will give special weight to, but is not bound by, district court's interpretation of state law). *See generally* C. Wright, Handbook on the Law of Federal Courts § 58 (3d ed. 1976).

4. 652 F.2d 278 (2d Cir. 1981).

States District Court for the Southern District of New York,[5] Factors sought a permanent injunction prohibiting Pro Arts from marketing the poster.[6] At the same time, the Memphis Development Foundation, a Tennessee organization, sued Factors in the District Court for the Western District of Tennessee for alleged interference with its sales of Elvis Presley statuettes, and Factors counterclaimed for injunctive relief.[7] The central question in both diversity cases was whether under Tennessee law the exclusive right to market Presley's name and image survived his death.[8] Since the question was of first impression in Tennessee, both courts had to reach a decision without the aid of Tennessee precedent.

The district court in Tennessee reached its decision first. Relying heavily on New York law as set forth in an earlier case involving Factors and a New York corporation,[9] the court held that a post-mortem right of publicity would be recognized under Tennessee law and granted Factors' counterclaim for injunctive relief.[10] The Sixth Circuit reversed,[11] asserting that New York's post-mortem right of publicity was a minority position and would not be adopted by Tennessee.[12]

Despite the Sixth Circuit's determination of Tennessee law, the New York district court held that Tennessee would recognize the survival of Presley's publicity right and granted the permanent injunction against Pro Arts.[13] Reviewing this decision on appeal, the Second Circuit had to determine the deference due the Sixth Circuit's declaration of Tennessee law. The Second

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5. Factors Etc., Inc. v. Pro Arts, Inc., 444 F. Supp. 288 (S.D.N.Y. 1977).

6. Factors Etc., Inc. v. Pro Arts, Inc., 496 F. Supp. 1090 (S.D.N.Y. 1980).

7. Memphis Dev. Foundation v. Factors Etc., Inc., 441 F. Supp. 1323 (W.D. Tenn. 1977).

8. Factors Etc., Inc. v. Pro Arts, Inc., 496 F. Supp. 1090, 1104 (S.D.N.Y. 1980); Memphis Dev. Foundation v. Factors Etc., Inc., 441 F. Supp. 1323, 1330 (W.D. Tenn. 1977). The validity of Factors' exclusive right to market Presley products depended on whether Presley's publicity rights were terminated by his death. Tennessee law controlled because "Tennessee was where Presley was domiciled, Boxcar was incorporated, and the agreement between Boxcar and Factors was made. Moreover, the latter agreement specifically provides that it is to be construed in accordance with Tennessee law." 652 F.2d at 280.

9. Factors Etc., Inc. v. Creative Card Co., 444 F. Supp. 279 (S.D.N.Y. 1977).

10. Memphis Dev. Foundatin v. Factors Etc., Inc., 441 F. Supp. 1323, 1330-31 (W.D. Tenn. 1977).

11. Memphis Dev. Foundation v. Factors Etc., Inc., 616 F.2d 956, 960 (6th Cir.), *cert. denied*, 449 U.S. 953 (1980).

12. 616 F.2d at 958.

13. Factors Etc., Inc. v. Pro Arts, Inc., 496 F. Supp. 1090, 1095 (S.D.N.Y. 1980).

Circuit held that, unless that state's highest court has clearly signaled a different rule of law, rulings by a court of appeals deciding the law of a state within its circuit are entitled to conclusive deference by other federal courts.[14]

The court reasoned that minimizing "federal court departure from the normal paths of state law development" would promote "both the orderly development of state law and fairness to those subject to state law requirements."[15] Orderly development would be facilitated by the state legislature's knowledge that the home circuit's ruling would determine legal rights in the absence of a later state supreme court decision. This knowledge would focus the legislature's efforts on the appropriateness of a statutory change.[16] Fairness to the public would be promoted by "making clear that there is a single, authoritative answer to the particular state law issue, instead of leaving the matter subject to the varying interpretations of the courts of appeals."[17] If federal courts were to give a single authoritative answer to state law questions, it seemed appropriate to the Second Circuit that the home circuit should pronounce it, since the home circuit is presumably familiar with the law of the states within its territory.[18]

Judge Mansfield dissented, arguing that diversity cases comprise such a small part of a circuit court's business that the court would be unlikely to acquire any special familiarity with the laws of each state within its territory.[19] In addition, he argued that "[s]oundness must not be sacrificed on the altar of consistency," warning that any uniformity achieved within the federal system would come at the expense of well-reasoned common law.[20]

II. ANALYSIS

The Second Circuit's selection of the home circuit as the

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14. 652 F.2d at 283.

15. *Id.* at 282.

16. *Id.*

17. *Id.*

18. *Id.* at 283 & n.7. Although the majority failed to elaborate further, the dissent noted that similar deference is generally given to the state-law rulings of federal district courts because "a federal court judge who sits in a particular state and has practiced before its courts may be better able to resolve complex questions about the law of that state than is some other federal judge." *Id.* at 285 (Mansfield, J., dissenting) (quoting C. WRIGHT, HANDBOOK ON THE LAW OF FEDERAL COURTS § 58, at 271 (3d ed. 1976)).

19. *Id.* at 285 (Mansfield, J., dissenting).

20. *Id.* at 286.

federal oracle of state law on questions not resolved by a state's own high court or legislature is an unwarranted departure from federal case law. The court's attempt to promote uniformity in diversity cases will come at the expense of the common law's vitality and is based on the unfounded assumption that a circuit court is especially familiar with the laws of those states within its circuit. Moreover, the Sixth Circuit's ruling that Tennessee would not recognize a descendible right of publicity should have collaterally estopped Factors from relitigating that issue before the Second Circuit. A decision based on collateral estoppel would have precluded the Second Circuit from determining the degree of deference it owed the Sixth Circuit's declaration of Tennessee law. This Case Note reviews the relevant case law, discusses weaknesses in the court's reasoning, and concludes that the case should have been decided on a collateral estoppel theory.

The Second Circuit's decision to grant conclusive deference to a sister circuit's ruling on the law of a state within its boundaries is a departure from federal case law. Prior to *Factors*, no circuit court had ever extended conclusive deference to the state-law rulings of another circuit.[21] Indeed one circuit has emphatically declared that "[f]ederal court decisions in diversity cases have no precedential value as state law and only determine the issues between the parties."[22] Other circuits have been willing to use the rulings of sister circuits only as guides to interpret state law.[23] Federal courts have deferred to a circuit court's declaration of state law when in agreement with the circuit court on the merits, when the circuit court merely affirmed a federal district court's ruling on the law of a state in which it sits,[24] or when the author of the circuit court's opinion was particularly

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21. *See* 1A PT. 2 MOORE'S FEDERAL PRACTICE ¶ 0.309[2], at 3121-29 (2d ed. 1981).

22. Peterson v. U-Haul Co., 409 F.2d 1174, 1177 (8th Cir. 1969), *quoted in* 652 F.2d at 281 n.4.

23. *See, e.g.*, Warren Bros. Co. v. Cardi Corp., 471 F.2d 1304 (1st Cir. 1973) (finding no Massachusetts cases on point, the court turned to federal circuit court decisions in declaring what a Massachusetts state court would decide); Andrew v. Bendix Corp., 452 F.2d 962 (6th Cir. 1971), *cert. denied*, 406 U.S. 920 (1972) (finding no Ohio cases on point, the court turned to Tenth Circuit decisions in determining which way Ohio's highest court would decide the question); Stool v. J.C. Penney Co., 404 F.2d 562 (5th Cir. 1968) (finding no state law, the court looked to other circuits' decisions, reasoning that the state courts would adopt the rule supported by circuit court decisions). *See also* 1A PT. 2 MOORE'S FEDERAL PRACTICE ¶ 0.309[2], at 3125 n.27 (2d ed. 1981).

24. *See generally* C. WRIGHT, HANDBOOK ON THE LAW OF FEDERAL COURTS § 58 (3d ed. 1976).

familiar with a local law.[25]

The Second Circuit's grant of conclusive deference in *Factors* goes far beyond the persuasive authority accorded by other circuits to the state-law ruling of a sister circuit. The *Factors* court did not agree with the Sixth Circuit on the merits, affirm the Tennessee district court's decision, or recognize a circuit judge's expertise in Tennessee law. First, the author of the Second Circuit's opinion admitted that he "would probably uphold a descendible right of publicity, were he serving on the Tennessee Supreme Court, [or] . . . the Sixth Circuit,"[26] but nevertheless felt bound to follow the Sixth Circuit's ruling.[27] Second, the court deferred to the Sixth Circuit's decision that there was not a post-mortem publicity right under Tennessee law even though the Sixth Circuit in reaching that decision reversed the ruling of the District Court for the Western District of Tennessee.[28] Last, although the Second Circuit recognized the author of the Sixth Circuit's opinion as a distinguished member of the Tennessee bar, it chose to ground its decision on the "territorial scope of the Sixth Circuit, rather than the heritage of the opinion's author."[29]

The Second Circuit's decision to grant conclusive deference to the state-law rulings of a sister circuit was motivated by a desire to promote the orderly development of state law and fairness to persons subject to state-law requirements.[30] Although the majority's rationale is initially appealing, the dissent correctly detected two principal difficulties.

First, even if the majority's ruling would create more certainty in the unsettled areas of state law,[31] it would do so at the

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25. *See* 1A PT. 2 MOORE'S FEDERAL PRACTICE ¶ 0.309[2], at 3125 n.28 (2d ed. 1981). The Supreme Court has likewise deferred to the collective expertise of federal district and circuit courts. United States v. Kimbell Foods, Inc., 440 U.S. 715, 740 (1979).

26. 652 F.2d at 282.

27. *Id.* at 283.

28. *Id.* at 283 n.7.

29. *Id.* The majority noted that Judge Merritt's opinion "emphatically disclaims any basis for predicting how Tennessee will resolve the issue." *Id.*

30. *Id.* at 282.

31. Although the Second Circuit's plan to promote uniform treatment of unsettled questions of state law is theoretically plausible, it is probably not realistic. This uniformity depends on the unlikely occurrence of wide-spread cooperation of state courts when conflicts rules require them to apply the law of Tennessee or any other state. The majority recognized this difficulty, but optimistically thought that "state courts would share [in the] interest in uniformity and accept a ruling by a pertinent federal court of appeals" when obliged to consider the law of another state. *Id.* at 282 n.6. However, state courts may view the Second Circuit's plan as an encroachment on their autonomy and

expense of the common law's vitality and capacity for self-correction. Judge Mansfield's dissent argued that vigorous debate yields better law.[32] Professor Corbin agrees:

> We may not like such conflict; but it is an inevitable part of our judicial process, or of any other. It is by such variation as this that the evolutionary growth of law is possible. Each litigant, whether in the federal or the state courts, has a right that his case shall be a part of this evolution—a live cell in the tree of justice.[33]

If generally adopted, the Second Circuit's plan would effectively end this debate in cases involving unsettled questions of state law. As a result, both state and federal courts would be deprived of pertinent federal diversity decisions, which typically make a significant contribution to the continuing development of the common law.[34]

Second, the majority's decision to grant conclusive deference to the state-law ruling of a home circuit because of its supposed familiarity with local law is unwarranted.[35] As Judge Mansfield pointed out in his dissent, diversity cases comprise such a small part of a circuit court's business that the court is not likely to be especially familiar with the law of each state within its territory.[36] A home circuit is possibly more familiar than any other circuit with the law of the states within its cir-

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authority.

At least fifteen states have authorized federal courts to certify state-law questions to the state's highest court, thus avoiding the difficulties present in *Factors*. This procedure was apparently approved by the Supreme Court in Clay v. Sun Ins. Office Ltd., 363 U.S. 207, 212 (1960), and by 1976 had been invoked forty-three times by federal courts. *Civil Procedure—Scope of Certification in Diversity Jurisdiction*, 29 RUTGERS L. REV. 1155, 1155-56 & n.6 (1976).

32. 652 F.2d at 286 (Mansfield, J., dissenting).

33. Corbin, *The Laws of the Several States*, 50 YALE L.J. 762, 776 (1941).

34. Landes & Posner, *Legal Change, Judicial Behavior, and the Diversity Jurisdiction*, 9 J. LEGAL STUD. 367, 386 (1980). Landes and Posner arrived at this conclusion based on a study that compared a sample of 246 federal diversity opinions representing all published circuit court decisions on tort, contract, or property actions rendered in 1950 with a random sample of 241 tort, contract, and property cases decided by the state supreme courts in the same year. The authors collected the same number of state opinions as federal opinions dealing with a given state's law. *Id.* at 372. Conclusions were drawn from the number, frequency, and distribution of cites to these sample cases by federal and state courts from 1951 to 1978, and from the frequency with which a separate sample of federal diversity and state supreme court common-law decisions appeared in legal casebooks.

35. 652 F.2d at 285 (Mansfield, J., dissenting).

36. *Id.*

cuit. However, the degree of the home circuit's familiarity is insufficient to justify conclusive deference from sister circuits. Moreover, it is doubtful that even general familiarity with local law would be an advantage in a case of first impression like *Factors* in which state "statutory and decisional law affords no answer to the question."[37]

Nevertheless, the *Factors* majority would require all federal courts to be bound by a home circuit's ruling on a state-law question of first impression unless the ruling blatantly disregarded "clear signals emanating from the state's highest court."[38] However, one federal appeals court should be as competent as another to determine state-law questions of first impression when, for want of in-state decisions, the court must turn to outside sources. The need to preserve the common law's capacity for self-correction outweighs the inefficiency of permitting multiple attempts at determining what state law should be. In addition, judicial administration can be adequately served by giving great, but not conclusive, deference to state-law rulings of experienced federal judges.

The Sixth Circuit's ruling that Tennessee would not recognize a descendible right of publicity should have collaterally estopped Factors from relitigating the issue before the Second Circuit. However, the Second Circuit asserted that its grant of conclusive deference to the Sixth Circuit's ruling obviated the need to consider the question of collateral estoppel.[39] Yet, collateral estoppel should have precluded any consideration of the degree of deference owed to the Sixth Circuit's declaration of Tennessee law.

All conditions necessary to compel collateral estoppel were present in *Factors*. The rule of collateral estoppel or issue preclusion dictates that a party may not relitigate an issue that was actually litigated and was essential to a prior valid and final judgment unless he lacked a full and fair opportunity to litigate the issue in the first action, or other circumstances justify affording him an opportunity to relitigate the issue.[40] The survival of Presley's right of publicity was central to the claims before the New York and Tennessee federal district courts, and the Sixth Circuit was the first to finally decide the issue. The dissent

37. 652 F.2d at 281.
38. *Id.* at 283.
39. *Id.* at 283 n.8.
40. RESTATEMENT (SECOND) OF JUDGMENTS § 88 (Tent. Draft No. 2, 1975).

in the Second Circuit decision argued that the Sixth Circuit's ruling was not a prior determination because the New York federal district court was the first to have jurisdiction over the issue and actually decided it first for preliminary injunction purposes.[41] This is not persuasive since the district court's ruling was not a final judgment and was not valid since it mistakenly concluded that New York, rather than Tennessee, law governed.[42] Additionally, Factors was subject to the same procedural rules in both actions and had the opportunity to fully and fairly litigate the issue in the prior action not only as a defendant, but also as a counterclaimant for injunctive relief. Lastly, it does not matter that Pro Arts was not personally bound by the Sixth Circuit's decision since a prior determination can be used defensively against a plaintiff bound by the original action.[43]

Contrary to further arguments by the dissent,[44] collateral estoppel is applicable to the issue of Presley's post-mortem publicity rights even though the question is purely one of law. Collateral estoppel normally applies to any question of law or fact actually litigated in an earlier suit.[45] The argument against its applicability to "unmixed" questions of law arises out of the Supreme Court's language in *United States v. Moser*.[46] The Court stated:

> The contention of the Government seems to be that the doctrine of *res judicata* does not apply to questions of law; and, in a sense, that is true. It does not apply to unmixed questions of law. Where, for example, a court in deciding a case has enunciated a rule of law, the parties in a subsequent action upon a different demand are not estopped from insisting that the law is otherwise, merely because the parties are the same in both cases. But a *fact, question,* or *right* distinctly adjudged in the original action cannot be disputed in a subsequent action, even though the determination was reached upon an erroneous view

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41. 652 F.2d at 289 (Mansfield, J., dissenting).

42. *Id.* at 280-81; Factors Etc., Inc. v. Pro Arts, Inc., 579 F.2d 215, 220 (2d Cir. 1978), *cert. denied*, 440 U.S. 908 (1979).

43. Blonder-Tongue Laboratories, Inc. v. University of Ill. Foundation, 402 U.S. 313 (1971). *See* RESTATEMENT (SECOND) OF JUDGMENTS § 88, Comments a & b, and Reporter's Note at 98 (Tent. Draft No. 2, 1975).

44. 652 F.2d at 289 (Mansfield, J., dissenting).

45. RESTATEMENT (SECOND) OF JUDGMENTS § 68 (Tent. Draft No. 2, 1975).

46. 266 U.S. 236 (1924).

or by an erroneous application of the law.[47]

The courts and commentators have yet to agree on the distinction between mixed and unmixed questions of law. Nevertheless, it is clear that "collateral estoppel . . . should apply to an issue even though it is characterized as one of law," particularly when two claims are closely related, "[for] example, when they arise out of the same subject matter, as did the claims . . . in *Moser*."[48]

The claims before the Tennessee and New York federal courts were closely related. Both actions were the direct result of Factors' efforts to establish its exclusive right to the marketing of Presley's name and likeness and to prevent competitors from infringing on that supposed right. In addition, the policies behind collateral estoppel would be served by using the Sixth Circuit's decision as a bar since it would prevent an undue burden on the courts and would prevent unnecessary harassment of the adverse party. Therefore, the Second Circuit should have decided the case by invoking collateral estoppel to preclude relitigation of the question of whether Tennessee law recognizes a descendible right of publicity.

III. Conclusion

Although the Second Circuit's decision to grant conclusive deference to a sister circuit's ruling on state law may achieve the court's objective of promoting uniformity, it will impair the common law's capacity for self-correction. Therefore, federal courts of appeals should continue to treat a home circuit's ruling on an unsettled question of state law as persuasive only. Moreover, the Second Circuit improperly reached the deference question since collateral estoppel should have precluded Factors from relitigating the issue of a descendible right of publicity.

J. Stanton Curry

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47. *Id.* at 242 (emphasis in original). This ruling has been reaffirmed in Montana v. United States, 440 U.S. 147, 162 (1979). *See also* Segal v. American Tel. & Tel. Co., 606 F.2d 842 (9th Cir. 1979); St. Louis Baptist Temple, Inc. v. Federal Deposit Ins. Corp., 605 F.2d 1169 (10th Cir. 1979).

48. Restatement (Second) of Judgments, § 68.1 Reporter's Note at 184-85 (Tent. Draft No. 1, 1973).