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NYIPLA 2012 Conner Writing Competition Award Winner (First Place)

Off the Wall: Abandonment and the First Sale Doctrine†

By Dan Karmel[1]

Through § 41 of the Copyright Act of 1909, Congress codified the common law first sale doctrine as an exception to the exclusive rights afforded to copyright holders. Since then, courts have reached inconsistent conclusions as to what types of transfers of ownership qualify for the doctrine, and in 1993 a Northern District of California court wrote: "[T]here are no cases which support or reject [the] position that ownership may be transferred by abandonment for purposes of the 'first sale' doctrine . . . ."[2] *This article analyzes that still-unaddressed question. It argues that the core rationales underlying the first sale doctrine are the common law aversion to restraints against alienation of property and the copyright owner's right of first distribution, and that whether a transfer of ownership invokes the first sale doctrine should turn on whether the copyright owner has intentionally transferred ownership of a copy in a manner that constitutes an exercise of the right of first distribution.*

"Copyright is for losers©™"

–Banksy[3]

I. Introduction

In May 2010, the internationally renowned[4] and notoriously anonymous[5] street artist Banksy visited Detroit, Michigan, where he painted five of his signature graffiti murals.[6] However, in the words of one Detroit Free Press writer, "what's really fascinating is what happened after he left."[7] Two of the murals — the two that were most relevant to the ensuing legal controversy — were painted at the abandoned and dilapidated Packard Motor Car Company ("Packard") plant.[8] The first of these was a graffiti painting of a despondent young boy holding a can of red paint, standing next to the scribbled words: "I remember when all this was trees" ("I Remember").[9] The members of local grassroots organization 555 Nonprofit Gallery and Studios ("555") learned of the existence of the work before the landowner and took it upon themselves to remove it to ensure its preservation.[10] They came onto the Packard property with a masonry saw and forklift and removed the mural by carving a "[seven]-by-[eight]-foot, 1500-pound cinder block wall" out of the crumbling building.[11]

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PRESIDENT'S CORNER

December 2012

One interesting aspect of NYIPLA membership is the opportunity to simultaneously enjoy the rich history of intellectual property law in New York while being "on the cutting edge" of tomorrow's newest advances. In this Bulletin, Jim Gould provides an excellent discussion stretching from the distant past to today, in his exploration of a titanic battle between DC Comics and the estate of artist Joe Shuster concerning copyrights in the Superman comic strip. As Jim recounts, the initial conception of Clark Kent and Superman dates to 1934. After many years of popular success as a comic strip, not to mention the popular television shows and movies, Superman continues to be fodder for legal struggles. Please see Jim's article for further details on the latest developments in a battle that continues to rage.

On another end of the spectrum, we have Dan Karmel's award-winning article assessing whether the first sale doctrine can apply to freshly-created – but abandoned – works of art. More specifically, Dan's tour through copyright law is viewed through the prism of abandoned works of street graffiti created in 2010 by an artist known as Banksy. Dan's scholarly treatment of the legal issues created by graffiti murals painted at an abandoned auto plant in Detroit earned him first prize in the NYIPLA Conner Writing Competition. Congratulations to Dan, and we wish him the best of luck as he begins his legal career here in New York.

So much of our ordinary routines were interrupted this fall by "superstorm" Sandy. However, with the most minor of hiccups, NYIPLA's activities have continued through it all. The storm hit New York just a few days before our scheduled November One-Day Patent CLE program, so we quickly changed plans. We have rescheduled the program for Thursday, January 17, 2013, and are pleased to report that our keynote speaker and panelists are ready to go with this program. If you were registered already, we will see you then. If you hadn't registered for the November date, check out the details in this Bulletin or on our website, and we hope to see you at the Princeton Club.

In the meantime, Judge Faith Hochberg of the District of New Jersey is scheduled to speak to our membership on December 6, in a presentation which will address the Patent Pilot Program, litigation issues arising from the AIA, and e-discovery topics. Judge Hochberg sits in one of the busiest districts in the country for patent litigation, and we are pleased that she has agreed to share her insights with our members.

We also are working on our plans for the 2013 Judges Dinner. You will see a few changes this year, including an option to request "quiet room" seating outside the Grand Ballroom, which will provide new options for our attendees. We are quite pleased that Judge Barbara Jones of the Southern District of New York has agreed to accept the 2013 NYIPLA Outstanding Public Service Award. Judge Jones has amassed a public service record that cannot be topped, and has been a stalwart NYIPLA supporter. I am sure that we also will enjoy hearing from our dinner speaker, NFL great and TV host Michael Strahan. Mark your calendars for Friday, March 22, 2013.

Tom Meloro

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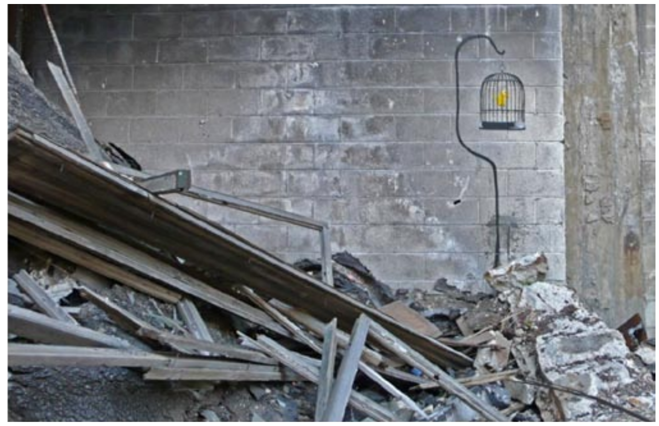
“I Remember”

Upon returning the work to their gallery in southwest Detroit, 555 placed the mural on free public display.[12] Bioresource, Inc., a company owned by land speculator Romel Casab, filed suit, claiming it was the owner of the Packard property and that the work, which it alleged was possibly worth “$100,000 or more,” had been taken illegally.[13] At the hearing for a motion for possession pending judgment in August 2010, a Wayne County judge ruled that the mural could stay on display at 555 until the work’s rightful owner was determined at trial.[14] Trial was originally set for June 2011,[15] but in September 2011 the Detroit Free Press reported that 555 had received clear title to the work as part of a $2500 settlement with Bioresource.[16]

The second mural, discovered at the Packard plant after the “I Remember” controversy had already erupted, depicted a solitary yellow bird in a tall birdcage (“Canary in a Cage”).[17] This work was removed in similar fashion; however, this time the landowner had authorized its removal.[18] The landowner’s excavators added a personal flair, leaving their own Banksy-style mural around the edges of the gaping hole — the silhouettes of two cats seemingly searching for the bygone bird, with the words: “THE CANARY HAS FLOWN ITS COUP [sic].”[19] “Canary in a Cage” was promptly put up for sale on eBay by seller “Auxion Junxion,” with a starting bid of $75,000.[20] It was relisted on at least two other occasions — in auctions ending on September 2, 2010, and October 2, 2010, with final bids of $5,532.10 and $9,999.00, respectively, neither of which met the auctions’ reserve prices.[21] The current location of the work is unknown.[22]

The market for illegal street graffiti is indicative of a revolution in the art world. What was once illicit and underground is becoming remarkably mainstream.[23] Street art is experiencing an undeniable legitimization, yet with this emergence has come a tension. Banksy, for example, is vocally anti-copyright.[24] At the same time, he attempts to protect his copyright rights,[25] albeit in a manner that might be described as analogous to a Creative Commons license.[26]

“Canary in a Cage”



While the controversy over the Detroit murals ultimately dissipated, it was illustrative of the new legal questions that will have to be addressed amid the changing artistic landscape. And although the lawsuit between 555 and Bioresource focused on ownership of the physical mural itself,[27] it ignored a critical legal issue. Under the first sale doctrine, the legal owner of a copyrighted work may sell or display that work if it was originally sold by the copyright owner.[28] However, no court has ever been required to determine whether a transfer of ownership via abandonment is sufficient to invoke the first sale doctrine.[29] If abandoned[30] works are not protected by the first sale doctrine, then both display and sale of such works are violations of copyright holders’ exclusive rights under 17 U.S.C. § 106(3) and (5). This could have serious implications for anyone who sells or displays abandoned copyrighted works. Consider, as just one example, Sotheby’s, who in early 2008 sold an abandoned Banksy sculpture for approximately $600,000.[31]

This article addresses the question of what types of transfers of ownership are sufficient to invoke the first sale doctrine so that the legal owner of a particular copy is protected by the exception. More specifically: does a transfer of ownership from the copyright owner by abandonment invoke the first sale doctrine?[32] Part II provides an overview of the first sale doctrine, its common law emergence, and its subsequent codification. Part III explains that the first sale doctrine is not actually restricted to transfers of ownership by sale. Part IV addresses where abandonment should fit into the first sale doctrine, and considers two major underlying justifications for the doctrine. Part V concludes that the proper test for when a transfer of ownership invokes the first sale doctrine should be whether a copyright holder has transferred ownership in a way that demonstrates a meaningful exercise of the right of first distribution. Applying this test, this article concludes that Banksy’s abandoned murals — if they were in fact abandoned — were properly within the scope of the first sale doctrine.

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II. Overview of the First Sale Doctrine

The first sale doctrine in the common law is largely attributed to the seminal 1908 Supreme Court case *Bobbs-Merrill Co. v. Straus*.[33] Bobbs-Merrill Company was the copyright owner of a novel, *The Castaway*.[34] Each copy of the book was printed with a notice that the book could not be sold at retail for less than one dollar.[35] When the defendant, aware of this restriction, sold books below the specified retail price, Bobbs-Merrill sued for copyright infringement.[36] The Court endorsed[37] the common law first sale doctrine when it wrote: "The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it."[38] It concluded that, absent any sort of licensing agreement, "[t]o add to the right of exclusive sale the authority to control all future retail sales . . . would give a right not included in the terms of the statute."[39]

Bobbs-Merrill was subsequently codified in § 41 of the Copyright Act of 1909:

> That the copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; *but nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained*.[40]

When the copyright laws were amended in 1947, this clause remained substantively unchanged.[41] Under the 1976 Act,[42] the first sale doctrine was maintained in § 109, one of the expressly stated exceptions to § 106, which specifies the exclusive rights reserved to a copyright owner, including the rights of distribution and public display. In addition to preserving the first sale doctrine's exception to the exclusive right of distribution,[43] § 109 also includes an exception to a copyright owner's exclusive right of public display.[44]

For the purposes of the Copyright Act and the first sale doctrine, "distribution" and "publication" appear to be largely interchangeable. According to the House Report regarding § 109, the right of distribution under § 106(3) can also be defined as the "right of publication":

> *Public distribution*. — Clause (3) of section 106 establishes the exclusive right of publication: The right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." Under this provision the copyright owner would have the right to control the first public distribution of an authorized copy or phonorecord of his work, whether by sale, gift, loan, or some rental or lease arrangement.[45]

17 U.S.C. § 101 similarly defines "publication" as "the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending."

The first sale doctrine exists in relation to particular copies[46] of a copyrighted work.[47] Section 109 is titled: "Limitations on exclusive rights: Effect of transfer *of particular copy* or phonorecord" (emphasis added). Similarly, the House Report on § 109 states: "[T]he copyright owner's rights under § 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it."[48] With respect to such copies, the first sale doctrine implicates only §§ 106(3) and 106(5), the rights of distribution and display.[49] It would not, for example, give the owner of a mural the right to create reproductions or derivative works.[50]

III. Does Sale Really Mean Sale?

Despite its name, the first sale doctrine is not actually restricted to sales. This is clear from the case law and academic literature that have dealt with the first sale doctrine, as well as the legislative history of § 109 and the 1976 Act. In order to determine whether abandonment fits within the ambit of the first sale doctrine, it is helpful to begin with these sources and consider their historical treatment of the doctrine.

A. Judicial Interpretation

Courts have interpreted the first sale doctrine in various ways. What appears to be uncontested is: (1) that the first sale doctrine applies to copies of copyrighted works that have been sold under authority of the copyright owner[51] and (2) that it does not apply to copies that have been leased, rented, lent, or the like.[52] As this section illustrates, the precise boundary between these two points remains unresolved, and courts have expressed conflicting notions about what the first sale doctrine is and where the lines should be drawn.

The Supreme Court has not directly addressed whether non-sale transfers of ownership may invoke the first sale doctrine. In *Quality King Distributors,* the Supreme Court, reversing the Ninth Circuit, held that the first sale doctrine applies to the importation of copyrighted works under § 602, which allows copyright owners to prohibit the unauthorized importation of copies.[53] Respondent L'anza was the manufacturer of hair products affixed with copyrighted labels and brought suit in response to unauthorized importation of those products.[54] The Court rejected L'anza's contention that the first sale doctrine does not apply to § 602,[55] explaining: "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."[56] Although the Court's use of the word "selling" could be construed as holding that the first sale doctrine is restricted to sales, there are reasons why such an interpretation was likely not the Court's intent.

First, such a narrow view of the doctrine conflicts with prior language from the Court. In *Asgrow Seed Co. v. Winterboer,* the Court interpreted the first sale doctrine in the context of the "patent-like" protection of the Plant Variety Protection Act of 1970.[57] Characterizing the first sale doctrine in terms of the rights of personal ownership, it wrote: "Generally the owner of personal property — even a patented or copyrighted article — is free to dispose of that property as he sees fit."[58]

The second reason is that a strict interpretation of "sale" would be in tension with the broad judicial construction of the first sale doctrine expressly endorsed in both *Quality King* and *Asgrow Seed*. In *Quality King,* immediately preceding the above-quoted statement regarding sales into the stream of commerce, the Court stated that § 109 ought to be broadly construed: "[T]he Solicitor General's cramped reading of the text of the statutes is at odds . . . with the necessarily broad reach of § 109(a)."[59] In *Asgrow Seed,* the Court stated: "A statutory restraint on this basic freedom [of the owner of personal property — even of a copyrighted article — to freely dispose of that property] should be expressed *clearly and unambiguously.*"[60]

The spirit of broad construction advocated in *Quality King* is consistent with its holding. The Court made its statement regarding sales into the stream of commerce for the sake of including under the first sale doctrine copies of copyrighted works that had been sold, exported, and then imported, in what Justice Ginsburg referred to as a "round trip journey."[61] Because the Court did not make that statement for the purpose of excluding a non-sale transfer of ownership,[62] it is unlikely that it intended for sale into the stream of commerce to be an exclusive test.

One court, however, did recently take such a position. In *Vernor v. Autodesk, Inc.,* the Ninth Circuit stated that the first sale doctrine should apply only to an "outright sale."[63] In that case, Autodesk was attempting to prevent the resale of its software, which Vernor had purchased from one of Autodesk's direct customers.[64] The court held in favor of Autodesk, finding that the arrangement with its initial customer was properly characterized as a license, not a sale, and that the sale to Vernor was therefore illegitimate.[65] However, the court went on to state that the "House Report for § 109 underscores Congress' view that the first sale doctrine is available only to a person who has acquired a copy via an outright sale."[66] As discussed below, the *Vernor* court's interpretation of the House Report is not strongly supported by the legislative text.[67]

Additionally, the *Vernor* court's narrow language is not representative of the majority view, and courts generally do not restrict the doctrine to an actual sale. The recent decision in *UMG Recordings, Inc. v. Augusto,* also from the Ninth Circuit, held that the first sale doctrine applied where promotional CDs had been distributed in a manner properly characterized as a gift or sale, as opposed to a license.[68] Although the opinion cited *Vernor* with approval, the court wrote: "Notwithstanding its distinctive name, the doctrine applies not only when a copy is first sold, but when a copy is given away or title is otherwise transferred without the accouterments of a sale."[69] Other decisions simply speak of the first sale doctrine in more general terms. For example, in *United States v. Wise,* the United States brought criminal copyright infringement charges against Wise for selling copyrighted full-length films.[70] Rejecting the defendant's contention that the first sale doctrine, as was then codified in § 27, was unconstitutionally vague, the court wrote:

> Although the statute speaks in terms of a transfer of possession, the judicial gloss on the statute requires a *transfer of title* before a "first sale" can occur. Thus, the first sale doctrine provides that *where a copyright owner parts with title* to a particular copy of his copyrighted work, he divests himself of his exclusive right to vend that particular copy.[71]

The Sixth Circuit has also expressly stated that non-sale transfers of ownership satisfy the requirements of the first sale doctrine. In *United States v. Cohen,* another criminal case involving copyright infringement of full-length films, the court wrote:

> If the copyright owner has given up title to a copy of a work, the owner no longer has exclusive rights with respect to that copy. In sum, the first sale doctrine allows a video store to rent copies of videocassette movies to consumers who do not wish to own them — provided that the rented copies have been *legally obtained through purchase, trade or gift*.[72]

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In *Brilliance Audio, Inc. v. Haights Cross Communications, Inc.,* Brilliance Audio brought suit because Haights was repackaging and relabeling retail versions of Brilliance Audio audiobooks for resale as library editions.[73] Holding for the defendant, the court classified the first sale doctrine as follows: "[T]he first sale doctrine, 17 U.S.C. § 109(a), provides that once a copyright owner consents to release a copy of a work to an individual (*by sale, gift, or otherwise),* the copyright owner relinquishes all rights to that particular copy."[74]

A case in the Southern District of New York reached a conclusion consistent with that of the Sixth and Ninth Circuits. In *Walt Disney Productions v. Basmajian,* John Basmajian, an employee of Disney's animation department, was authorized to take home a small collection of celluloids and sketches.[75] Years later, when Basmajian attempted to auction the artwork through Christie's, Disney sought a preliminary injunction to restrain the sale as a violation of its rights under § 106.[76] Finding that the collection of copyrighted works was a gift from Disney to Basmajian, the court held that Basmajian was allowed to sell the artwork pursuant to the first sale doctrine.[77] The court explained that "[t]he first sale doctrine, 17 U.S.C. § 109(a), states that where the copyright owner *sells or transfer* [sic] a particular copy of his copyrighted work, he divests himself of the exclusive right in that copy and the right to sell passes to the transferee."[78] More directly, the court stated: "Title may be transferred by gift."[79]

B. Academic Literature

The case law strongly supports the conclusion that the first sale doctrine is not limited to "sales," and this position is further buttressed by the academic literature. One treatise cited in several of the opinions discussed above states that the first sale doctrine is not actually restricted to sales, and suggests that the term "first authorized disposition by which title passes" is a more accurate description:

> More colloquially, once the copyright owner first sells a copy of the work, his right to control its further distribution is exhausted. Moreover, although the initial disposition of that copy may be a sale, the identical legal conclusion applies to a gift or any other transfer of title in the copy. Therefore, the more accurate terminology would not be "first *sale"* but rather "first authorized disposition by which title passes."[80]

Other copyright treatises reach similar conclusions.[81] Nimmer notes that in "the international context, the first sale doctrine usually goes by the name 'exhaustion' of the distribution right."[82]

C. Legislative History

An analysis of the legislative history makes clear that the courts and literature discussed above are correct in their broader interpretation of the first sale doctrine. Barbara Ringer, a member of the Copyright Office's General Revision Steering Committee, stated:

> The basic purpose of [Section 109(a)] is to make clear that *full ownership* of a lawfully-made copy authorizes its owner to dispose of it freely, and that this privilege does not extend to copies obtained otherwise than by *sale or other lawful disposition*. In other words, if you obtain a copy by loan or by rental, you are not free to dispose of it freely or to use it in any way you see fit.[83]

House Report 94-1476, "widely regarded as the definitive expression of 'legislative intent' of the provisions of the 1976 Copyright Act,"[84] sheds additional light on the statute. The commentary in regards to § 109 speaks of a hypothetical owner who has "transferred ownership," but it does not specify any particular form of transfer.[85] A portion of the commentary regarding § 106(3) further supports the broader construction of § 109: "As section 109 makes clear . . . the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it."[86]

The House Report offers two illustrative examples regarding § 109. The first, which was quoted by the *Vernor* decision,[87] states: "[F]or example, the outright sale of an authorized copy of a book frees it from any copyright control over its resale price or other conditions of its future disposition."[88] However, the House Report provides another example, albeit more discretely, when it expands upon the definition of "lawfully made under this title":

> To come within the scope of section 109(a), a copy or phonorecord must have been "lawfully made under this title," though not necessarily with the copyright owner's authorization. For example, any resale of an illegally "pirated" phonorecord would be an infringement, but the disposition of a phonorecord legally made under the compulsory licensing provisions of section 115 would not.[89]

The House Report thus instructs that a phonorecord made pursuant to the compulsory licensing provisions under § 115 is lawfully made under this title *and* does not constitute infringement per § 109(a).[90] Section 115(a)(1) makes a compulsory license available to any person once phonorecords of a nondramatic musical work have been "distributed to the public in the United States under the authority of the copyright owner." However, a *copy* made and sold pursuant to § 115 does not need to have been first sold by the copyright holder — in fact, such a copy will not even originate with the copyright holder.[91] Therefore, although the example does not speak directly to whether a transfer by gift or abandonment may trigger the first sale doctrine, it does provide at least one example of a non-sale transfer that satisfies § 109.

IV. Abandonment and the First Sale Doctrine

Despite the robust support for the conclusion that the first sale doctrine is not actually restricted to sales, the question of whether abandonment — a unilateral demonstration of intent to yield ownership — similarly qualifies has never been addressed.[92] In order to determine the proper place for abandonment, this section first considers two significant cases that help illuminate the boundaries of the first sale doctrine. It then analyzes whether abandonment properly constitutes a "transfer of ownership." Finally, it discusses two of the critical underlying values that drive the first sale doctrine: the common law aversion to restraints on alienation of property and the right of first distribution. Considering these underlying values, this article concludes that the first sale doctrine should apply whenever a copyright owner has intentionally transferred ownership and has exercised his or her right of first distribution regarding a copy of a copyrighted work.

A. Testing the Limits of the First Sale Doctrine

In *Harrison v. Maynard, Merrill & Co.,* an early Second Circuit case, the court was presented with a situation that tested the limits of what would eventually be called the first sale doctrine. Maynard, Merrill & Co. was a publisher that owned the copyright to a book titled *Introductory Language Work*.[93] A large portion of copyrighted material owned by Maynard was in the possession of a book bindery.[94] After a "destructive fire" at the book bindery, Maynard concluded that all commercial value in the copyrighted material had been lost, and the burned books and paper were sold as scrap with the following condition attached: "It is understood that all paper taken out of the building is to be utilized as paper stock, and all books to be sold as paper stock only, and not placed on the market as anything else."[95] When fire-damaged copies of the book subsequently appeared on the market, the publisher brought suit for copyright infringement.[96] In one of the earliest expressions of the first sale doctrine, the court concluded that the plaintiff could not sustain its action for copyright infringement:

> [T]he right to restrain the sale of a particular copy of the book by virtue of the copyright statutes has gone when the owner of the copyright and of that copy has parted with all his title to it, and has conferred an absolute title to the copy upon a purchaser, although with an agreement for a restricted use. The exclusive right to vend the particular copy no longer remains in the owner of the copyright by the copyright statutes.[97]

The court therefore held that the copyright owner, having placed the copyrighted copies into the stream of commerce, had no further right to control the distribution of those copies.[98]

Another noteworthy case, *Novell, Inc. v. Weird Stuff, Inc.,* was the closest a court has come to addressing the question of abandonment and the first sale doctrine. Novell, a software company, had an arrangement with KAO Infosystems under which KAO reworked and repackaged Novell software in a process that included replacing some of the system disks.[99] As per the rework instructions, KAO was supposed to "scrap" any disks that were removed from the original packages, a process that required "the disks be recycled after being degaussed and relabeled or be mutilated and then dumped or incinerated."[100] A KAO employee testified that it was understood that any disks discarded were to be rendered unusable.[101] KAO apparently failed to fully carry out Novell's intentions regarding the disks, because one of the defendants in the case retrieved approximately 1700 viable system disks from KAO's dumpster in a practice the court referred to as "dumpster diving."[102]

The court acknowledged the question raised in this article, writing: "[T]here are no cases which support or reject [the] position that ownership may be transferred by abandonment for purposes of the first sale doctrine . . . ."[103] However, because it found that the disks had been placed in the dumpster in a condition contrary to the intentions of the copyright owner, the court held that the transfer of possession did not qualify as abandonment or invoke the first sale doctrine: "[T]here is insufficient evidence upon which a reasonable jury could find . . . that Novell abandoned the disputed disks . . . . The overwhelming evidence establishes that Novell had an intent to destroy the disputed disks, and thereby prevent the disks from entering into the stream of commerce."[104]

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Although the holdings in *Harrison and Novell* may appear to be in conflict, they are resolved by noting the one critical difference between them. In *Harrison,* the copyrighted books and paper were sold in a condition authorized by the copyright owner, but the copyright owner tried to place restrictions on what subsequent owners could do with those copies.[105] In *Novell,* a third party disposed of the copyrighted products in a manner that did not honor the copyright owner's instructions.[106] Not only does the holding in *Novell* not contradict the holding in *Harrison,* but the court in *Harrison* expressly supported the position that an unauthorized transfer of ownership cannot invoke the first sale doctrine:

> [I]f the owner of a copyrighted book intrusts copies of the book to an agent or employe for sale only by subscription and for delivery to the subscribers, and the agent fraudulently sells to nonsubscribers, who have knowledge or notice of the fraud, such sale is an infringement of the original owner's copyright, who can disregard the pretended sale, and have the benefit of all the remedies which the statutes or the law furnish.[107]

The potential situation that thus remains unaddressed by the case law is one in which the copyright owner, personally or through an authorized agent acting in accordance with the copyright owner's wishes, abandons copies of the copyrighted materials.

B. Abandonment as a Transfer of Ownership

The statutes and legislative history of the Copyright Act generally outline the first sale doctrine in terms such as "owner," "ownership," or "transfers of ownership."[108] Whether abandonment qualifies as a "transfer of ownership" is thus significant. Further, because § 101 does not define these terms as they apply to physical ownership of copies,[109] the general common law treatment of abandonment becomes critical: "It is a well-established rule of construction that where Congress uses terms that have accumulated settled meaning under . . . the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms."[110]

The common law considers the finder of abandoned property to be the unqualified rightful owner of that property: "[It is an] ancient controversy[,] whether the finder of a thing which had been thrown away by the owner got a title in privity by gift, or a new title by abandonment. That he got a title no one denied."[111] Of particular relevance to this article's inquiry into § 109 is that numerous cases have classified abandonment as a "transfer of ownership."[112] Abandonment as a "transfer of ownership" is also supported by academic literature.[113] Furthermore, while specific language characterizing ownership after abandonment is not as prevalent (perhaps because *who* has rightful ownership is usually the end of the legal question), the Supreme Court has on at least one occasion suggested that ownership as a product of abandonment is identical to ownership as a product of sale.[114] By all accounts, abandonment is a legitimate transfer of ownership under the common law, and the finder of abandoned property is a legitimate legal owner.

There is undeniably at least one difference between transfers by sale or gift and transfers by abandonment: the owner who parts with his or her property by sale or gift has the ability to determine the recipient. Perhaps this knowledge can be construed as a more complete exercise of the copyright owner's ability to control his or her copyrighted work. Yet it is not clear that such a distinction is relevant to the first sale doctrine.

Such importance could possibly be read into the Sixth Circuit's language, where the court wrote: "[O]nce a copyright owner consents to release a copy of a work to an *individual* (by sale, gift, or otherwise), the copyright owner relinquishes all rights to that particular copy."[115] Nonetheless, assigning legal significance to the existence of a defined transferee appears unsupported. Besides the mention of an "individual" by the Sixth Circuit, which was not emphasized by the court in that case, there is little to suggest that the identity of a recipient is critical. Furthermore, although abandonment is arguably a less complete transfer of ownership because the copyright owner has less control over who the subsequent owner of the property will be, it also involves the conscious forfeiture of that ability to control. And again, looking to the example provided in the House Report on § 109, the first sale doctrine is properly invoked under § 115, a situation in which a copyright owner releases his or her work to the public and subsequently has no control over which individuals may choose to create copies pursuant to a compulsory license.[116] At a definitional level, there is no reason to exclude abandonment as a transfer of ownership for purposes of the first sale doctrine.

C. Restraints on Alienations of Property

One of the core driving forces of the first sale doctrine is the common law aversion to restraints on alienation of personal property. In *Asgrow Seed,* the Supreme Court introduced the discussion of the first sale doctrine and *Bobbs-Merrill* with the statement:

"This reading of the statute is consistent with our time-honored practice of viewing restraints on the alienation of property with disfavor."[117] The Second, Third, and Sixth Circuits have all acknowledged this critical factor as well. In *Harrison,* which was one of the cases cited by the Supreme Court in *Quality King* as a precursor to the *Bobbs-Merrill* formulation of the first sale doctrine,[118] the court wrote:

> [I]ncident to ownership in all property, — copyrighted articles, like any other, — is a thing that belongs alone to the owner of the copyright itself, and as to him only so long as and to the extent that he owns the particular copies involved. Whenever he parts with that ownership, the ordinary incident of alienation attaches to the particular copy parted with in favor of the transferee, and he cannot be deprived of it. This latter incident supersedes the other, — swallows it up, so to speak . . . .[119]

The Third Circuit has stated that "[t]he first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property."[120] Citing the Third Circuit's decision with approval, the Sixth Circuit wrote: "The first sale doctrine ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner, given that the law generally disfavors restraints of trade and restraints on alienation."[121] The 1984 House Report further supports the courts' statements on the origins of the doctrine: "The first sale doctrine has its roots in the English common law rule against restraints on alienation of property."[122]

However, acknowledging the significance of personal property rights and the common law aversion to restraints on alienation of property is of limited probative value if not contextualized along with other property interests. The distribution right under § 106(3) is itself in conflict with the presumption against limitations on alienation. The heart of the first sale doctrine is thus the intersection between intellectual property rights and personal property rights. The question that must be answered is where that intersection lies.

D. The Right of First Distribution

The right of first distribution appears to be the turning point for when copyright gives way to personal property. The Central District of California expressly described the issue as a balance between these two conflicting interests:

> The distribution right is not absolute. Once the copyright owner has voluntarily released his work to the public, the distribution right is no longer needed to protect the underlying copyright; at that point, the policy favoring a copyright monopoly for authors gives way to policies disfavoring restraints of trade and limitations on the alienation of personal property, and the first sale doctrine takes effect.[123]

Nimmer also explains the first sale doctrine in the context of the distribution right: "Section 109(a) provides that the distribution right may be exercised solely with respect to the initial disposition of copies of a work, not to prevent or restrict the resale or other further transfer of possession of such copies."[124]

Furthermore, framing the first sale doctrine in the context of the copyright owner's right of first distribution allows for a consistent reading with the examples given in the House Report, both of an "outright sale" and of a copy of a copyrighted work made pursuant to a § 115 compulsory license.[125] It also facilitates a harmonious structural reading of the portion of the House Report that presents § 109 as a limiting factor to a copyright holder's right of first distribution under § 106(3):

> Under [section 106(3)] the copyright owner would have the right to control the first public distribution of an authorized copy or phonorecord of his work, whether by sale, gift, loan, or some rental or lease arrangement. Likewise, any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement. As section 109 makes clear, however, the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.[126]

Moreover, in light of the limited language from the Supreme Court specifying what qualifies as a transfer of ownership for purposes of the first sale doctrine, it is worth revisiting the decision in *Quality King,* where the Court stated: "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."[127] Although this article concludes that the Court most likely did not intend to use the term "selling" as exclusive of other forms of transfer, intentional distribution into the stream of commerce was nonetheless a crucial element in the *Quality King* decision.[128] The court in *Novell* echoed this analysis, finding that the disputed disks had not actually been abandoned because "Novell manifested its intent to discard the disks and to prevent the disks from entering the stream of com-

cont. on page 10

cont. from page 9

merce."[129] The language of *Quality King* and *Novell,* in conjunction with the statutory language and legislative history, provides us with what should be considered the critical dividing line: only a transfer of ownership that constitutes a meaningful exercise of the right of first distribution should implicate the first sale doctrine.

V. Conclusion: Between the Rights of Alienation and First Distribution

The first sale doctrine should apply whenever a copyright owner has both intentionally transferred ownership of a copy and exercised the right of first distribution regarding that copy. Two cases discussed above — *Harrison* and *Novell* — provide the best examples of situations that explore the boundaries of the first sale doctrine. Recall *Harrison,* where the court held that the sale of damaged books and paper invoked the first sale doctrine, despite the copyright owner's attempt to limit the copyrighted material to use as scrap paper. In *Novell,* the court held that the first sale doctrine had not been invoked when Novell's disks were discarded in a manner contrary to its intentions. What remain unsettled are slight permutations of these cases. What if the copyright owner in *Harrison*, not realizing that any remnants of the copyrighted books remained, simply abandoned ownership and left the copyrighted materials in the rubble of a burned down building? What if Novell itself, as opposed to a third party, had discarded the disks?

In the case of abandonment, the copyright owner's § 106 rights vis-à-vis the first sale doctrine and § 109 should turn on whether the transfer of ownership qualifies as an exercise of the copyright owner's right of first distribution. For example, if the disks in *Novell* had been mutilated in accordance with Novell's wishes, but the "dumpster divers" had developed technology that allowed them to salvage the information on the disks even in their mutilated form, they would not be allowed to sell those disks. Novell's abandonment of the disks would clearly have been an attempt to destroy them and remove them from the stream of commerce, not to distribute them to the public.

Alternatively, we can consider the controversy that first inspired this article — the Banksy murals in Detroit — and see an example of an artist who has made the choice to release his work to the public. Banksy exercised the critical right of first distribution when he intentionally relinquished ownership of the murals in a manner that demonstrated intent to release them to others. He had the choice of how, where, and when to release his works to the public. Perhaps most importantly, he had the choice of whether to release his works. He should not be able to subsequently place additional restrictions on what may be done with them.

(Endnotes)

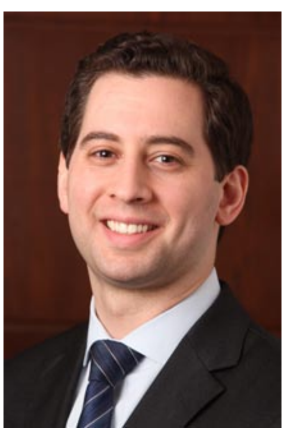

Photo: Bruce Gilbert

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1. Mr. Karmel is currently a law clerk in the Intellectual Property group at Davis Polk & Wardwell LLP. He received a JD from Columbia Law School in 2012 and a BA in Philosophy modified with Economics from Dartmouth College in 2004. The author would like to thank Professor Tim Wu, Professor Jane Ginsburg, Professor Michael Heller, Travis Wright, and the staff of the *Columbia Journal of Law and Social Problems* for invaluable advice and assistance throughout the writing process.

2. *Novell, Inc. v. Weird Stuff, Inc.*, No. C92-20467, 0094 WL 16458729, at *16 (N.D. Cal. Aug. 2, 1993).

3. Banksy, Wall and Piece 2 (2006).

4. *See, e.g.*, G. Allen Johnson, *Ragtag Look at World of Graffiti*, S.F. Chron., Apr. 16, 2010, at E8; *see also* Travis R. Wright, *Banksy Bombs Detroit*, Detroit Metro Times, May 19, 2010, *available at* http://www2.metrotimes.com/arts/story.asp?id=15063 ("This year, Banksy was named one of *Time Magazine*'s 100 Most Influential People . . ."); Lauren Collins, *Banksy Was Here*, The New Yorker, May 14, 2007, *available at* http://www.newyorker.com/reporting/2007/05/14/070514fa_fact_collins?currentPage=all ("Ralph Taylor, a specialist in the Sotheby's contemporary-art department, said of Banksy, 'He is the quickest-growing artist anyone has ever seen of all time.'").

5. "Banksy" is a pseudonym, and the artist's true identity is the subject of "febrile speculation." Collins, *supra* note 4; *see also* Wright, *supra* note 4 ("Looking back at [Banksy's] wild nine-year career, he's mostly shrouded in mystery. We know he was born in 1974 near Bristol, U.K., and that his name *might* be Robin Guggenheim."); Chloe Albanesius, *eBay Confirms Removal of Banksy Identity Listing*, PCMag.com (Jan. 19, 2011, 11:30 AM), http://www.pcmag.com/article2/0,2817,2375968,00.asp (reporting that, before it was removed by eBay, an auction purporting to sell information revealing Banksy's identity had received a highest bid of $999,999).

6. *See* Wright, *supra* note 4 (reporting on the discovery of the first four works); Mark Stryker, *Another Banksy Found at Packard*, Detroit Free Press, June 12, 2010, at A8 (reporting on the discovery of the fifth work).

7. Mark Stryker, *Graffiti Artist Banksy Leaves Mark on Detroit and Ignites Firestorm*, Detroit Free Press, May 15, 2010, at A1.

8. Wright, *supra* note 4; Stryker, *supra* note 6.

9. Wright, *supra* note 4. For a photograph of the work, see *infra* page 3. Photograph taken from *Outdoors*, BANKSY, http://www.banksy.co.uk/outdoors/outuk/horizontal_1.htm (last visited Sept. 5, 2010) (on file with author), pursuant to statement of permission for non-commercial use at *Shop*, BANKSY, http://www.banksy.co.uk/shop/index.html (last visited Nov. 2, 2010) [hereinafter *Shop*] (on file with author).

10. Stryker, *supra* note 7.

11. *Id.*

12. *Id.*; *The Alley Project Gallery*, 555 Nonprofit Gallery and Studios, http://555arts.org/TAPGALLERY.html (last visited Feb. 16, 2012) ("The Banksy piece known as 'I Remember' has returned to 555 and is now on display in the gallery. The piece has been stabilized with a steel frame and can be seen during gallery hours . . . absolutely free.").

13. Mark Stryker, *Banksy Mural Sparks Suit*, Detroit Free Press, July 9, 2010, at A9.

[14] Mark Stryker, Tresa Baldas & Gina Damron, *Banksy Mural Stays in Gallery Until June Trial*, Detroit Free Press, Sept. 2, 2010, at A6 ("Judge Gershwin Drain ruled that while Bioresource might or might not be entitled to the mural ultimately, the work should remain with the gallery because it is in no danger of being destroyed or sold.").

[15] *Id*.

[16] Mark Stryker, *555 Gallery Gets OK to Display Banksy Mural*, Detroit Free Press, Sept. 11, 2011, at F6.

[17] Stryker, *supra* note 6, at A8. Photograph taken from *Outdoors*, *supra* note 9, pursuant to statement of permission for non-commercial use at *Shop*, *supra* note 9.

[18] Mark Stryker, *2nd Banksy Work Leaves Packard*, Detroit Free Press, June 18, 2010, at A2; Email Interview with Travis R. Wright, Arts and Culture Editor, *Detroit Metro Times* (Jan. 24, 2011) (on file with author) ("Romel Casab, co-owner of the Packard [Plant] . . . had a Clarkston, Michigan based construction team remove ["Canary in a Cage"]. I tried one afternoon to take photos of the work for the *Metro Times* and was escorted out, with force, by a couple hired goons with mag lights . . . ."). For Wright's article on the Banksy murals in Detroit, *see* Wright, *supra* note 4.

[19] Stryker, *supra* note 18; *Authentic BANKSY Graffiti Art Wall Canary in a Cage — eBay (item 320580470257 end time Sep-02-10 19_01_41 PDT)*, eBay (last visited Sept. 13, 2010) [hereinafter eBay I] (on file with author); *The Canary Has Flown Its Coup*, Flickr, http://www.flickr.com/photos/abz_art/4883229755/ (last visited Mar. 18, 2012).

[20] B.J. Hammerstein, *Packard Banksy Mural for Sale on eBay*, Detroit Free Press, Aug. 11, 2010, at D1.

[21] eBay I, *supra* note 19; *Authentic BANKSY Graffiti Art Wall Canary in a Cage — eBay (item 320593746058 end time Oct-01-10 18_00_18 PDT)*, eBay (last visited Nov. 2, 2010) (on file with author).

[22] Stryker, *supra* note 16. Auxion Junxion did not respond to an email from the author requesting information on the mural.

[23] *See* Collins, *supra* note 4 ("Suddenly, it's become all right amongst the proper art world to collect street art." (quoting Steve Lazarides, Banksy's gallerist) (internal quotation marks omitted)).

[24] *See, e.g.*, Banksy, *supra* note 3, at 2 ("Copyright is for losers") (accompanied in original by both a copyright and trademark designation); *id*. at 196 ("Any advertisement in public space that gives you no choice whether you see it or not is yours. It belongs to you. It's yours to take, rearrange and re-use. Asking for permission is like asking to keep a rock someone just threw at your head."); *Shop, supra* note 9 (on file with author) ("Banksy has a much publicised casual attitude towards recreational copyright infringement . . . .").

[25] *See, e.g.*, Banksy, *supra* note 3, at 2 ("Against his better judgment Banksy has asserted his right under the Copyright, Designs and Patents Act of 1988 to be identified as the author of this work."); *Shop*, *supra* note 9 (last visited Jan. 25, 2011) (on file with author) ("You're welcome to download whatever you wish from this site for personal use. However, making your own art or merchandise and passing it off as 'official' or authentic Banksy artwork is bad and very wrong.").

[26] *Compare Shop*, *supra* note 9 (last visited Sept. 5, 2010) (on file with author) ("Please take anything from this site and make your own but for non-commercial use only."), *with Attribution-NonCommercial 3.0 Unported (CC BY-NC 3.0)*, Creative Commons, http://creativecommons.org/licenses/by-nc/3.0 ("You must attribute the work in the manner specified by the author or licensor . . . . You may not use this work for commercial purposes."). *See generally Frequently Asked Questions*, Creative Commons, http://wiki.creativecommons.org/FAQ ("Creative Commons is a global non-profit organization that enables sharing and reuse of creativity and knowledge through the provision of free legal tools. . . . CC licenses are copyright licenses, and depend on the existence of copyright to work. CC licenses are legal tools that creators and other rightsholders can use to offer certain usage rights to the public, while reserving other rights.").

[27] Although not addressed in this article, the lawsuit over "I Remember" raises several interesting real and personal property issues. One such issue is the possibility that there is a public easement at the Packard plant, in which case neither Banksy nor 555 would have been trespassing. *See generally* Stacy Cowley, *The Holdout: Alone in an Abandoned Car Plant*, CNNMoney.com, Oct. 30, 2009, http://money.cnn.com/2009/10/30/smallbusiness/chemical_processing_detroit.smb/index.htm ("[Landowner Romel] Casab doesn't fence off or guard the Packard Plant. No one does. The cavernous network of tunnels and collapsing buildings is completely open to explorers and vandals. 'It's not only a local attraction. People come from all over the country to take photos and have underground adventures,' says Bill McGraw, a former Detroit Free Press columnist who wrote about the plant frequently in his 37 years with the newspaper. Dozens of Web sites feature the photos and stories urban spelunkers bring back from their trips.").

[28] *See infra* Part II.

[29] *See supra* note 2 and accompanying text.

[30] Admittedly, the Banksy murals in Detroit raise the conceptual issue of what, if anything, was actually abandoned by the artist. For examples of artwork abandoned in the conventional sense, *see*, for example, Banksy, *supra* note 3, at 171, 211, 212–13; *Auction for Vandalised Phone Box*, Sotheby's, http://www.sothebys.com/app/live/lot/LotDetail.jsp?lot_id=159430836 (last visited Jan. 23, 2011) [hereinafter Sotheby's] (on file with author) (auction page for abandoned Banksy sculpture that sold through Sotheby's for $605,000).

[31] Sotheby's, *supra* note 30 ("This work was installed in Soho Square, London 2005 and later recovered from Westminster Environmental Services."). *See generally Shop*, *supra* note 9 ("[Banksy] is not represented by any of the commercial galleries that sell his work second hand . . . .").

[32] In the common law, abandonment requires an act demonstrating intent to relinquish ownership of the property. *See, e.g.*, *United States v. Sinkler*, 91 F. App'x 226, 231 (3d Cir. 2004) ("Abandonment requires some type of a showing that the defendant *intended* to relinquish possession and control of the object in question.") (citing *Abel v. United States,* 362 U.S. 217, 240–41 (1960)). Black's Law Dictionary defines "abandonment" as "relinquishing of a right or interest with the intention of never reclaiming it." Black's Law Dictionary 2 (9th ed. 2009).

[33] *See, e.g.*, *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 141–42 (1998) ("Congress subsequently codified [the Court's] holding in *Bobbs-Merrill* that the exclusive right to 'vend' was limited to first sales of the work.").

[34] *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 341 (1908).

[35] *Id*.

[36] *Id*. at 341–44.

[37] In *Quality King*, the Supreme Court noted that several federal courts before *Bobbs-Merrill* had already applied the principle of the first sale doctrine. *See Quality King*, 523 U.S. at 140 n.4 ("The [first sale] doctrine had been consistently applied by other federal courts in [cases prior to *Bobbs-Merrill*]." (citations omitted)).

[38] *Bobbs-Merrill*, 210 U.S. at 350.

[39] *Id*. at 351.

[40] Copyright Act of 1909, Pub. L. No. 60-349, § 41, 35 Stat. 1075, 1084 (1909) (emphasis added).

[41] *See* Copyright Act of 1947, Pub. L. No. 80-281, § 27, 61 Stat. 652, 660 (1947) ("The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.").

[42] The current copyright laws in the United States are a product of the 1976 Act and its subsequent amendments. *See* Robert A. Gorman & Jane C. Ginsburg, Copyright: Cases and Materials 7 (7th ed. 2006).

[43] *See id*. § 109(a) ("Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.").

[44] *See id*. § 109(c) ("Notwithstanding the provisions of section 106(5), the owner of a particular copy lawfully made under this title . . . is entitled, without the authority of the copyright owner, to display that copy publicly . . . to viewers present at the place where the copy is located.").

[45] H.R. Rep. No. 94-1476, at 62 (1976) [hereinafter House Report] (quoting 17 U.S.C. § 106(3)); *see also Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1388 (C.D. Cal. 1993) (articulating section 106(3) as embodying a right of "first publication"). The terms "first distribution" and "first publication" are not found in the text of 17 U.S.C. § 106.

[46] Under Title 17, a "copy" includes the original work. *See id*. ("The term 'copies' includes the material object, other than a phonorecord, in which the work is first fixed.").

[47] *See* 17 U.S.C. § 109; House Report, *supra* note 45, at 79.

[48] House Report, *supra* note 45, at 62.

[49] *See* 17 U.S.C. § 109.

[50] *Compare id*. § 106, *with id*. § 109.

[51] *See, e.g., Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus.*, 508 U.S. 49, 52 (1993) ("Columbia did not dispute that [Professional Real Estate Investors] could freely sell or lease lawfully purchased videodiscs under the Copyright Act's 'first sale' doctrine." (citing 17 U.S.C. § 109(a)).

[52] *See, e.g.*, *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–47 (1998) ("[T]he first sale doctrine would not provide a defense to a[n] . . . action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.").

[53] *Id*. at 135; *see also* 17 U.S.C. § 602.

[54] *Quality King*, 523 U.S. at 139–40.

[55] *Id*. at 154.

cont. on page 12

cont. from page 11

56. *Id*. at 152.

57. *Asgrow Seed Co. v. Winterboer*, 513 U.S. 179, 181 (1995).

58. *Id*. at 194–95 (citing *United States v. Univis Lens Co*., 316 U.S. 241, 250–52 (1942); *Bobbs-Merrill*, 210 U.S. at 350–51).

59. *Quality King*, 523 U.S. at 137.

60. *Asgrow Seed*, 513 U.S. at 194–95 (emphasis added) (citation omitted).

61. *Quality King,* 523 U.S. at 154 (Ginsburg, J., concurring) (internal quotation marks omitted).

62. *Id*. at 152.

63. *Vernor v. Autodesk, Inc*., 621 F.3d 1102, 1112 (9th Cir. 2010) (quoting House Report, *supra* note 45, at 79).

64. *Id*. at 1105.

65. *Id*. at 1111–12.

66. *Id*. at 1112 (emphasis added) (quoting House Report, *supra* note 45, at 76) (internal quotation marks omitted).

67. *See infra* Part III.C. The example of an "outright sale" given in the House Report for § 109 was, in fact, just an example. *See* House Report, *supra* note 45, at 79. The report also states, by way of example, that a phonorecord made pursuant to a compulsory license under § 115 and subsequently sold would not be infringement under the first sale doctrine. *See id.*

68. *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1183 (9th Cir. 2011).

69. *Id*. at 1179.

70. *United States v. Wise*, 550 F.2d 1180, 1183 (9th Cir. 1977).

71. *Id*. at 1187 (emphasis added); *see also Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc*., 832 F. Supp. 1378, 1385 (C.D. Cal. 1993) ("This section provides, in essence, that once the copyright owner has *transferred ownership* of a particular copy of the work, the person to whom the copy has been transferred is entitled to dispose of it by sale, rental, or any other means." (emphasis added) (citation omitted)).

72. *United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) (emphasis added) (quoting *United States v. Sachs*, 801 F.2d 839, 842 (6th Cir. 1986) (internal quotation marks omitted)).

73. *Brilliance Audio, Inc. v. Haights Cross Commc'ns, Inc*., 474 F.3d 365, 369 (6th Cir. 2007).

74. *Id*. at 373 (emphasis added).

75. *Walt Disney Prods. v. Basmajian*, 600 F. Supp. 439, 440 (S.D.N.Y. 1984).

76. *Id*. at 439–40.

77. *Id*. at 442.

78. *Id*. (emphasis added).

79. *Id*.

80. 2-8 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.12[B][1][a] (2010) (citations omitted).

81. *See, e.g*., *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1059 (D.C. Cal. 2008) (quoting 4 William F. Patry, Patry on Copyright § 13:15 (2007) ("Since the principle [of the first sale doctrine] applies when copies are given away or are otherwise permanently transferred without the accoutrements of a sale, 'exhaustion' is the better description." (alteration in original)); 2 Paul Goldstein, Goldstein on Copyright § 7.6.1 n.4 (3d ed. 2005) ("[A] gift of copies or phonorecords will qualify as a 'first sale' to the same extent as an actual sale for consideration.")).

82. Nimmer & Nimmer, *supra* note 80, at § 8.12(B)(1)(a) n.22.

83. *Parfums Givenchy*, 832 F. Supp. at 1387 (alteration in original) (emphasis added) (quoting Staff of H. Comm. on the Judiciary, 89th Cong., Copyright Law Revision Part 5: 1964 Revision Bill with Discussion & Comments 66 (Comm. Print 1965)).

84. Gorman & Ginsburg, *supra* note 42, at 8.

85. House Report, *supra* note 45, at 79 ("Section 109(a) restates and confirms the principle that, where the copyright owner has *transferred ownership* of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means.") (emphasis added).

86. *Id*. at 62.

87. *See supra* note 66 and accompanying text.

88. House Report, *supra* note 45, at 79 (emphasis added); *Vernor v. Autodesk, Inc.,* 621 F.3d 1102, 1112 (9th Cir. 2010).

89. House Report, *supra* note 45, at 79.

90. It is curious to suggest that a phonorecord made pursuant to § 115 would come within the scope of § 109(a). The right of distribution under § 106(3) is expressly subject to § 115(a)(1), which allows a person who obtains a compulsory license to "make and distribute phonorecords of the work." It is therefore unclear why anyone distributing phonorecords pursuant to § 115 would be required to invoke § 109. Nonetheless, the example is indicative of the statute's authors' intent.

91. *See* 17 U.S.C. § 115(a)(1).

92. *Novell, Inc. v. Weird Stuff, Inc.,* No. C92-20467, 0094 WL 16458729, at *16 (N.D. Cal. Aug. 2, 1993).

93. *Harrison v. Maynard, Merrill & Co*., 61 F. 689 (2d Cir. 1894). *Harrison* was one of the cases mentioned by the Supreme Court in *Quality King* as a federal court decision that reached a conclusion consistent with the first sale doctrine before it was adopted by the Supreme Court in *Bobbs-Merrill*. *See Quality King*, 523 U.S. at 140 n.4.

94. *Harrison*, 61 F. at 689.

95. *Id*. (internal quotation marks omitted).

96. *Id*. at 690.

97. *Id*. at 691.

98. *Id*.

99. *Novell*, 0094 WL 16458729, at *4.

100. *Id*. at *16.

101. *Id*.

102. *Id*. at *5–6.

103. *Id*. at *16 (internal quotation marks omitted).

104. *Id*.

105. *Harrison*, 61 F. at 689.

106. *Novell*, 0094 WL 16458729, at *1–2, *16.

107. *Harrison*, 61 F. at 690–91.

108. *See, e.g*., 17 U.S.C. § 109(a), (c), (d) (2006); House Report, *supra* note 45, at 79.

109. *See* 17 U.S.C. § 101 (providing definitions for "Copyright owner" and "transfer of copyright ownership," but not "owner," "ownership," or "transfer of ownership" by themselves or as they apply to copies).

110. *Neder v. United States*, 527 U.S. 1, 21–22 (1999) (quoting *Nationwide Mut. Ins. Co. v. Darden*, 503 U.S. 318, 322 (1992)) (internal quotation marks omitted) (citing *Standard Oil Co. of N.J. v. United States*, 221 U.S. 1, 59 (1911) ("[W]here words are employed in a statute which had at the time a well-known meaning at common law or in the law of this country, they are presumed to have been used in that sense.")).

111. *Gordon v. Vincent Youmans, Inc*., 358 F.2d 261, 276 n.9 (2d Cir. 1965) (quoting Oliver Wendell Holmes, *The Theory of Legal Interpretation*, 12 Harv. L. Rev. 417, 420 (1899)).

112. *See, e.g*., *Chi. S.S. Lines v. U.S. Lloyds*, 2 F.2d 767, 769–70 (N.D. Ill. 1924) ("If after abandonment, the owners were to proceed to repair the ship without consultation with the underwriters, it would be a waiver of the abandonment, because it would be doing an act inconsistent with the asserted *transfer of ownership*.") (emphasis added) (quoting *Peele v. Merchs.' Ins. Co*., 19 F. Cas. 98, 119 (C.C.D. Mass. 1822) (No. 10,905) (internal quotation marks omitted)); *Thomas v. Janzen*, 800 So. 2d 81, 87 (La. Ct. App. 2001) ("[T]hat section does not include actions involving the transfer of ownership of property, such as abandonment and acquisition of the same."); *City of Vallejo v. Burril*, 221 P. 676, 677 (Cal. Dist. Ct. App. 1923) ("The solution of this question depends upon . . . whether there has been any abandonment of the property, such as to transfer the ownership thereof . . . ."); *Arnauld v. Delachaise*, 4 La. Ann. 109, 113 (1849) ("That this abandonment, uncoupled with any *modus* or condition, does transfer the ownership of the things abandoned, cannot reasonably be denied.").

113. *See, e.g*., Lior Jacob Strahilevitz, *The Right To Abandon*, 158 U. Pa. L. Rev. 355, 360 (2010) ("Abandonment means any unilateral transfer of ownership.").

114. *See Craig v. Cont'l Ins. Co*., 141 U.S. 638, 645 (1891) ("[The boat's] ownership by the insurance company, resulting from the abandonment, was of the same character as would have been her ownership by any person who had purchased [the boat in its] then condition from the former owner.").

115. *Brilliance Audio, Inc. v. Haights Cross Commc'ns, Inc.,* 474 F.3d 365, 373 (6th Cir. 2007) (emphasis added).

116. *See supra* Part III.C.

117. *Asgrow Seed Co. v. Winterboer,* 513 U.S. 179, 194 (1995).

118. *Quality King*, 523 U.S. at 140 n.4.

119. *Harrison*, 61 F. at 691 (quoting *Henry Bill Publ'g Co. v. Smythe*, 27 F. 914, 925 (C.C.S.D. Ohio 1886)).

120. *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd*., 847 F.2d 1093, 1096 (3d Cir. 1988) (citations omitted).

121. *Brilliance Audio*, 474 F.3d at 374.

122. H.R. Rep. No. 98-987, at 2 (1984) (citing Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 Harv. L. Rev. 945, 982 (1928)).

123. *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.,* 832 F. Supp. 1378, 1388 (C.D. Cal. 1993) (citing Nimmer & Nimmer, *supra* note 80, at § 8.12[A]).

124. Nimmer & Nimmer, *supra* note 80, at § 8.12[B][1][a].

125. *See* House Report, *supra* note 45, at 79. *See generally* 17 U.S.C. § 115 (2006).

126. House Report, *supra* note 45, at 62.

127. *Quality King*, 523 U.S. at 152.

128. *See id.*

129. *Novell*, 0094 WL 16458729, at *13.

"Minimally Adequate" Damages Claims And The Bar For Injunctive Relief: The *Apple v. Motorola* Case Before Judge Posner

By Jimmy Zhou[1]

I. Introduction

On June 22, 2012, Judge Richard Posner dismissed with prejudice Apple's and Motorola's infringement claims over their respective smartphone related patents.[2] While this dismissal was expected given his preliminary remarks and overall distaste for software patents,[3] his remarks toward the parties took an unexpected and unforgiving tone. This article offers a summary and analysis of Judge Posner's June 22, 2012 Opinion and Order ("*Final Opinion*"*)*, with additional emphasis on his May 22, 2012 opinion ("*Daubert Opinion*"),[4] which included Judge Posner's *Daubert* rulings.

II. *Apple v. Motorola:* Facts and Procedural History

Originally filed by Motorola in October 2010, the lawsuit between Apple and Motorola marked the early stages of the ensuing smartphone patent war. In its initial filings, Motorola had claimed that Apple infringed 18 patents related to its smartphone technologies. Later that month, Apple, following up on its promise to litigate, countersued Motorola alleging infringement of six patents. Additional complaints were filed in the following months by both parties in the Northern District of Illinois, Southern District of Florida, and Western District of Wisconsin. In the interest of efficiency, the entire case was eventually transferred to the Northern District of Illinois under the purview of Circuit Judge Posner, sitting by designation as a District Court judge.

By the time Judge Posner issued his *Final Opinion*, Apple's infringement claims were limited to four patents, while Motorola's claims were limited to a single standard-essential patent. Among the Apple patents were software programs that prevented the partial obstruction of notification windows (U.S. Pat. No. 6,493,002), presented real-time video without distortions (U.S. Pat. No. 6,343,263), provided structure detection and linking services (U.S. Pat. No. 5,946,647), and added heuristic functionality to more accurately translate users' finger gestures into commands (U.S. Pat. No. 7,479,949). The remaining Motorola standard-essential patent offered efficiency advantages in cellular communications (U.S. Pat. No. 6,359,898).

Prior to issuing his *Final Opinion*, Judge Posner conducted a *Daubert* hearing to determine the admissibility of expert witness testimony. The judge subsequently ruled that the testimony of three damages experts (for both parties) was inadmissible.[5] With the testimony struck, neither party could prove, to Judge Posner's satisfaction, that it was entitled to damages or an injunction, which resulted in a dismissal of the entire case with prejudice.

III. Judge Posner's Opinions

A. Damages Analysis

While the *Final Opinion* outlined Judge Posner's rejections of the parties' claims, his opinion following the *Daubert* hearings provided important context. In a *Daubert* hearing, a judge's responsibility is to determine what expert evidence is admissible at trial.[6] The judge is given this opportunity to decide whether proposed experts' evidence is sufficiently reliable to be considered by the trier of fact. One particularly challenging aspect of this task is "distinguishing between disabling problems with the proposed testimony, which are grounds for excluding it, and weaknesses in the testimony, which are properly resolved at the trial itself on the basis of evidence and cross-examination."[7] Thus, the focus is on proper methodology, not results. According to the Supreme Court, an important test for making such distinctions is whether the expert "employs in the courtroom the same level of rigor that characterizes the practice of an expert in the relevant field" outside the litigation context.[8] A second factor is whether the expert "has sufficiently explained how he derived his opinion from the evidence that he considered."[9] If the analytical gap between the data and opinion is too great, the proposed testimony must be excluded.[10]

Here, Judge Posner rejected most of the expert evidence because of improper methodology. Specifically, Judge Posner was dissatisfied with the experts' lack of alternative damage calculations, reliance on agents of the parties for essential information, and failure to craft surveys narrowly tailored to the patent claims at issue.

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1. Alternative Damage Theories Requirement

As provided by 35 U.S.C. § 284, damages for patent infringement shall "in no event [be] less than a reasonable royalty for the use made of the invention by the infringer." Typically, a reasonable royalty will not be greater than the cost for the alleged infringer to avoid infringement.[11] Aside from obtaining a license, infringement is commonly avoided by either inventing around the patent or dropping the allegedly infringing product. Judge Posner states that, in a non-litigation setting, an expert asked to evaluate possible ways to avoid infringement would offer a number of alternatives:

> In response to [a non-litigation] assignment [of finding the cheapest method of avoiding infringement] the expert would not say: It will cost you $35 million to buy a chip that will duplicate the functionality of Apple's patent without infringing it. Because Motorola would ask him: Is that the only way we can avoid infringement? The expert would reply: [here are some alternatives] and this is what each of these alternatives would cost you in lost sales, contract damages, or whatever.[12]

Because experts are expected to employ the same level of rigor in a litigation setting as in a parallel non-litigation context, expert testimony should also include alternatives.

Failures by Motorola's and Apple's experts to provide alternatives was likely a fatal defect for Judge Posner. As Judge Posner remarked, "[O]ne *fatal* defect in [Apple's damages expert witness Brian] Napper's proposed testimony…is a failure to consider alternatives to a $35 million royalty."[13] Apple replied that "as long as its expert produces a plausible method of avoiding infringement . . . the existence of alternative methods that might be substantially cheaper is an issue to be resolved at trial . . . and is irrelevant to the admissibility of the expert's testimony."[14] In rejecting Apple's contention, Judge Posner offered two explanations. First, he stated that a lack of alternatives fails the "same level of rigor" test.[15] Second, he held that a lack of alternatives fails to address the issue of reasonableness.[16] Apple's proposed testimony incorporated a single damages theory based on the cost for Motorola to add an unidentified chip to avoid infringement. And while Judge Posner agreed that it is not the plaintiff's burden to find the "absolute lowest cost best design-around," the plaintiff (here, Apple), "still must show that the chip that it suggested that Motorola could have purchased was a commercially reasonable design-around."[17] Judge Posner seemed to be suggesting that alternative damage theories are required as a comparison for reasonableness, though he was quick to add that had the expert "said . . . this [chip] is the standard thing, this is what other people use[, t]hat might well be enough."[18] Assuming the chip was "standard," the testimony would, nevertheless, still have to pass the broader "same level of rigor" test.

Judge Posner's seemingly strict adherence to the "parallel non-litigation" test makes another appearance in his *Final Opinion*. After striking most of Apple's expert's testimony, Apple attempted to argue for an alternative basis for assessing damages based on expert testimony outlining the cost by another smartphone manufacturer, HTC, to design around the same patent.[19] Among Judge Posner's objections to this testimony was the lack of information surrounding HTC, its cellphones, and its engineering resources — all things a "responsible" expert would have included in a report.[20]

2. Use of Disinterested Sources

In two instances, Judge Posner excluded a party's expert testimony for obtaining essential information from an agent of the party in "violat[ion of] the principle that a testifying expert must use the same approach [in litigation] that he would use outside the litigation context."[21] In the first instance, Motorola's economic expert, while estimating a patent's reasonable royalty, obtained information from Motorola's technical expert regarding the cost of inventing around one of Apple's patents.[22] Under such conditions, Judge Posner argued that, in a hypothetical parallel non-litigation context, an economic expert "would not ask an engineer at Motorola; Motorola would ask an engineer at Motorola. [An expert] would canvass software firms in search of the lowest price and report back to Motorola. The same approach applied in [the instant] case would have required [the expert] to shop around."[23] Next, Judge Posner considered testimony from an Apple economic expert who obtained information from an Apple technical expert regarding the cost of inventing around one of Apple's other patents. Recognizing that "it would be in the patentee's [Apple's] interest to suggest a method of inventing around that was extremely costly, because the costlier the invent-around, the higher the ceiling on a reasonable royalty," Judge Posner excluded the testimony.[24] However, had the patentee's expert been independent or "the only person competent to opine on substitutes for the [patent], his evidence would be admissible. In the latter case, the jury would be warned that he had a conflict of interest because he is handsomely compensated by [the patentee] to provide technical evidence in support of [the patentee's] claim [of infringement.]"[25]

3. Narrowly Tailored Methodology

In support of its damages theory as a patentee, Apple introduced a consumer survey rating the appeal of specific cell phone features. Judge Posner rejected it because the survey produced results that were outside the realm of possibility and, hence, the expert's testimony was not bolstered by statistically sound methodology.[26] "The survey asked users to name the five attributes that were their main reasons for buying, rather than just the top attribute. [The expert] in his report assigns to each attribute a value equal to the total cost of the device multiplied by the percentage of people who listed that attribute among their top five. By this methodology, the total value of all the attributes on each respondent's list would come to 500% percent of the value of the phone. That's impossible."[27] Ironically, the survey here, although used by Apple's expert, was conducted *by Motorola* "to determine which programs and features are particularly important to cell phone users."[28] Apple's expert, on the other hand, was attempting to quantify the value of a specific feature. By failing to recognize the purpose of the survey, the expert erroneously substituted relative value for absolute value.

In the survey identified above, Apple's expert also failed to identify what features the survey was evaluating. Apple's patent at issue covered a software program that prevented a notification window from being partially obstructed by an application program selected by the user.[29] Apple's expert attempted to use this survey to determine the value of this non-obstruction feature.[30] However, the survey made no mention of the non-obstruction feature. Apple's expert reached his conclusions based on the percentage of respondents that valued "appealing features and functions" and responded that they "reviewed notifications" every day.[31] Ignoring for a moment the vagueness of those two phrases, the survey, at best, measured the value of the notification window, not the value of the non-obstruction feature. In another example, Apple's expert was assigned the task of determining the value of a different Apple patent covering a number of heuristic functions (functions that convert imprecise user actions into tangible commands) including a "tap for next item" heuristic.[32] Motorola's allegedly infringing products used this heuristic in conjunction with a non-infringing swipe heuristic with the same functionality. The expert estimated the value of the "tap for next item" heuristic by drawing an analogy to another product, the Magic Trackpad, which can be connected to a computer as an alternative to a mouse. The Magic Trackpad operates through the movement of a user's fingers on the track pad and clicking is achieved by tapping on the pad. Because a Magic Trackpad costs more than a traditional mouse, it suggests that some consumers "value gestural as opposed to mouse-driven control of the cursor."[33] However, the comparison does not consider that the "tap for next item" heuristic merely replicates the functionality of the swipe heuristic. As Judge Posner stated, "[t]hat a consumer will pay something for gestural control does not enable an estimation of how much he will pay for a particular improvement in a system of such control, such as the addition of a new gesture to perform a function that can already be performed with another gesture."[34]

Despite his criticism of Apple's use of Motorola's survey, Judge Posner is apparently still a strong proponent of consumer surveys.[35] On at least four occasions, Judge Posner claimed that a properly designed survey would have cured otherwise inadmissible testimony.[36] Rather than trying to unearth the value of an individual feature from existing information, experts will likely need to perform their own market research. Because crafting consumer surveys gives the administrator the power to dictate its own terms, these surveys are more reliable than existing information and more likely to be admitted. Relying on old information to give new results requires a high degree of speculation that breeds uncertainty. To that end, consumer surveys should be used to reduce the level of speculation and dispel that uncertainty.[37] Finally, "when the plaintiff has done his best to prove damages his inability to dispel uncertainty concerning the accuracy of his claim is not fatal. But if an expert witness fails to conduct a responsible inquiry that would have been feasible to conduct, his failure cannot be excused

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by reference to the principle that speculation is permitted in the calculation of damages."[38]

B. Injunctive Relief

As mentioned above, Motorola was seeking an injunction against Apple for its allegedly infringing use of a standard-essential patent (SEP) owned by Motorola.[39] However, it is Judge Posner's unequivocal belief that injunctions should not be issued for SEPs, a view shared by the FTC. As Judge Posner remarked, "by committing to license its patents on FRAND terms, Motorola committed to license the [SEP] to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent."[40] In other words, by asserting an SEP that it agreed to license on FRAND terms, Motorola had relinquished its ability to seek injunctive relief. According to the FTC, the threat of an injunction may increase an SEP patentee's bargaining power because prospective licensees have few alternatives to licensing the patent.[41] Available alternatives usually are accompanied by high switching costs that make them fiscally impractical to implement.[42] As a result, if injunctive relief were available, SEP patentees would "realize royalty rates that reflect patent hold-up [value]," which is in direct conflict with Motorola's FRAND commitment.[43] (Earlier in the same opinion, Judge Posner declared that "the proper method of computing a FRAND royalty starts with what the cost to the licensee would have been of obtaining, just before the patented invention was declared essential . . . a license for the function performed by the patent."[44] Once a patent becomes essential, it acquires additional value. Judge Posner labels this the "hold-up" value.[45])

Motorola further argued that Apple's refusal to negotiate after rejecting Motorola's initial proposal should provide grounds for injunctive relief.[46] Judge Posner promptly rejected this argument. The agreement to license an SEP on FRAND terms in exchange for the standard-essential designation is a transaction between Motorola and the Standard Setting Organization (SSO). On the other hand, negotiating the FRAND royalty for that SEP is a transaction between Motorola and Apple. Thus, Apple's failure to negotiate should not dissolve Motorola's quid pro quo with the SSO.[47]

Motorola argued that without the threat of injunctive relief, it will be unable to extract a reasonable royalty from Apple.[48] Again, Judge Posner disagreed. The fact that both parties must bear the cost of their own litigation "does not deem damages an inadequate remedy just because, unless backed by a threat of injunction, it may induce a settlement for less than the damages rightly sought by the plaintiff."[49] Using the threat of injunctions to pressure the opposing party to settle, as Judge Posner believed Motorola to be doing, is against the spirit of injunctions.[50] Injunctions are not intended to be used as a bargaining chip, but rather as a remedy.[51] Thus, Judge Posner held that the availability of injunctive relief is unnecessary to achieve a FRAND royalty.

Judge Posner's assessment of Apple's injunction request was no less forgiving. In support of his analysis, the judge invoked the four-factor test set forth in *eBay Inc. v. MercExchange, L.L.C.*[52] One such factor requires the plaintiff to show that the remedies available at law, including damages, are inadequate.[53] Unfortunately for Apple, and similarly for Motorola, inadequacy is not satisfied by a failure to calculate damages with reasonable certainty, an issue that plagued both parties.[54] This failure to adequately quantify damages to Judge Posner's satisfaction marked the beginning of the end for Apple's injunction request.

Without a damages calculation, Judge Posner further reasoned that an injunction for Apple would be disproportionately unfavorable to Motorola.[55] According to the Judge, "[t]he notion that these minor-seeming infringements have cost Apple market share and consumer goodwill is implausible, has virtually no support in the record, and so fails to indicate that the benefits to Apple from an injunction would exceed the costs to Motorola."[56] These costs included the sales lost from removing Motorola's "lucrative products" from the market, a market that has grown considerably since Motorola's alleged infringements.[57] Even without a proper damages calculation, Judge Posner concluded that there would be a disproportionate allocation of hardships and, therefore, an equitable remedy is not warranted.[58]

Finally, yet another justification for denying injunctive relief was the possible harm to the consumer.[59] Fearing that the final *eBay* prong requiring that the public interest not be disserved was being overlooked, Judge Posner seemingly recognized that this justification was not especially compelling, because he glossed over the analysis.[60]

IV. Discussion and Suggestions for Practice

It is clear from his opinion that Judge Posner would exclude expert testimony that includes essential information obtained solely from agents of that party, but what if the essential information were obtained from both interested and disinterested sources? Would he exclude the portion of the testimony that was obtained from the interested source? The crux of Judge Posner's objection to the parties' proffered expert testimony was whether the expert operated with the same rigor as one would in a parallel non-litigation context. It is conceivable that one could make a convincing argument that testimony in a non-litigation context would be incomplete *without* input from agents of the party. Indeed, if that is the case, Judge Posner's objections should not be read as excluding testimony that contains essential information garnered from an agent of the party but, rather, excluding testimony that fails to also consult disinterested sources. In fact, this may be a more accurate characterization of his objection considering his affinity for alternative damage theories and, as such, may spawn creative methods of circumventing his limitations. One can imagine the possibility of an attorney obtaining unreliable essential information from disinterested sources for the sole purpose of serving as a Trojan horse to bootstrap more favorable testimony from agents of the party, thereby rendering Judge Posner's objection moot.

When the alleged infringement is of minor features, as in the instant case, Judge Posner's loyalty to consumer surveys may be misplaced. The threshold question of whether consumers are capable of quantifying the value of a specific, minor feature is a difficult one to answer. It is likely a survey participant given a list of all features present in a particular smartphone and asked to value each one individually would produce results outside the realm of possibility. Current methodologies have been accepted by other judges as adequate but it is unclear whether these commonly accepted practices would pass muster under Judge Posner. One possible method of reducing uncertainty and improving damage estimations would be to bundle patented features and have survey participants evaluate the suite of features. To determine which features should be bundled, a balancing test could be employed. Factors would possibly include the relative importance of the features, the relative difficulty of designing around the features, the relationship between the features, and timing of each feature's introduction. Complicating matters is the fact that existing smartphones are constantly being updated with new features at no cost to the consumer. Practitioners should also consider how these new and existing features would be evaluated. Do the new features dilute the value of the existing features or are they allocated zero value? Is it possible to derive their value from the value consumers place on the expectation of new features?

The next logical question is to ask what degree of uncertainty and speculation is allowable. As Judge Posner commented, "[u]ncertainty is a bad; it is tolerated only when the cost of eliminating it would exceed the benefit."[61] The inference here is that the larger the damage estimation, the smaller the degree of allowable uncertainty. A second, less obvious factor is the amount of resources possessed by each party. In the parallel non-litigation context, we can expect parties with shallow pockets to devote fewer resources to retaining experts and conducting consumer surveys. For these parties, a higher degree of speculation is unavoidable. Therefore, the allowed amount of uncertainty should also be inversely proportional to the resources of the parties.

Finally, Judge Posner's ruling raises some concerns about the nature of retaining experts. He is not incorrect in saying that an expert compensated by the party for whom he is testifying suffers a conflict of interest. But while most, if not all, experts are retained in this fashion, it does not necessarily follow that all expert testimony is tainted. It is possible Judge Posner's use of the term "agent of the party" suggests that he did not intend his ruling to have such far-reaching consequences, although it is unclear if Judge Posner used the term "agent" as a term of art. Here, Judge Posner excluded Apple's economic expert's testimony by designating Apple's principal technical expert as an agent. Why Apple's technical expert is an agent here is unclear since expert witnesses that are retained for the purpose of litigation are not always agents of the party.[62] Thus, Judge Posner's disabling objection is premised on a party's control over an information source rather than payment to that source. Furthermore, in his hypotheticals, instead of using an independent contractor as the source of information, Judge Posner used an engineer. Because

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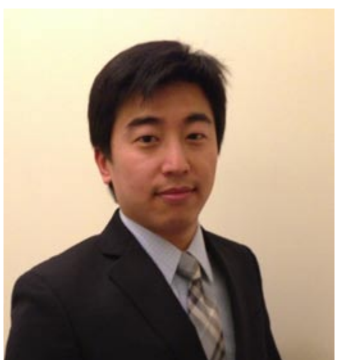
an engineer is likely an agent, the inference here is that Judge Posner's decision not to use an independent contractor is a deliberate attempt to avoid preclusion of all testimony premised on an independent contractor's information. It is likely that Judge Posner would not reject a party's expert evidence where essential information is obtained from a source compensated by, but not under the control of, the party.

V. Conclusion

With his opinions in this case, Judge Posner has effectively raised both the standard by which expert testimony is judged and the bar for injunctive relief with the unequivocal notion that injunctive relief is unavailable for SEP infringement. Given the breadth and depth of his opinions, they will likely be heavily dissected by courts and practitioners in the coming years. As he expected, the first opportunity for review comes on the heel of his decision by way of appeal.[63] Whether his ideas are swept aside as the musings of an activist judge or adopted as a harbinger of reform remains to be seen.



(Endnotes)

[1] Jimmy Zhou is a third-year law student at Fordham University Law School.

[2] *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 2376664 (N.D. Ill. June 22, 2012).

[3] *See e.g.*, Richard Posner, *Why There Are Too Many Patents In America*, The Atlantic (Jul. 12, 2012), http://www.theatlantic.com/business/archive/2012/07/why-there-are-too-many-patents-in-america/259725/.

[4] *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560 (N.D. Ill. May 22, 2012).

[5] *Daubert Opinion* at *1.

[6] *Id.*

[7] *Id.*

[8] *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 152 (1999); *Daubert Opinion* at *2.

[9] *Daubert Opinion at* *2.

[10] *Id.*

[11] *Final Opinion* at *4, *Daubert Opinion at* *7 ("If we can avoid infringement at $1 a phone, we will not pay a royalty in excess of $1.").

[12] *Daubert Opinion at* *8.

[13] *Id. at* *7 (emphasis added).

[14] *Id.*

[15] *Id.*

[16] *Final Opinion* at *4.

[17] *Id.* ("There is no basis in [the expert's] report for a claim that his mystery chip is a feasible, let alone an economical, substitute for the '263 [patent].").

[18] *Id.*

[19] *Final Opinion* at *4.

[20] *Id.*

[21] *Daubert Opinion at* *3.

[22] *Id.*

[23] *Id.*

[24] *Id. at* *9.

[25] *Id.*

[26] *Id. at* *4.

[27] *Id.*

[28] *Id. at* *5.

[29] *Id. at* *2.

[30] *Id.*

[31] *Id. at* *3.

[32] *Id. at* *8.

[33] *Id. at* *7.

[34] *Id.*

[35] *Id.* ("The value of that feature to the consumer is again a question the answer to which could be elicited, within a permissible (because unavoidable) range of uncertainty, by a properly designed and executed consumer survey.")

[36] *See Daubert Opinion at* *5, *7, *9, *10.

[37] *Id. at* *5.

[38] *Id.*

[39] Standard-essential patents are designated as such by a Standard Setting Organization (SSO). Used within an industry to ensure compatibility of devices by different manufacturers, an SSO, with input from its members, decides which patents are essential and therefore must be licensed by every manufacturer in order to practice. In exchange, patent holders are required to license their standard-essential patents at fair, reasonable, and non-discriminatory (FRAND) terms. *See Final Opinion* at *12.

[40] *Final Opinion* at *12.

[41] *Id.* at *11.

[42] *Id.*

[43] *Id.*

[44] *Id.* at *11.

[45] *Id.*

[46] *Id.* at *12.

[47] *Id.* ("If Apple said no to [the initial offer], it ran the risk of being ordered by a court to pay an equal or even higher royalty rate, but that is not the same thing as Motorola's being excused from no longer having to comply with its FRAND obligations.").

[48] *Final Opinion* at *13.

[49] *Id.*

[50] *Id.*

[51] *Id.; see also eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) ("When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.")

[52] *Final Opinion* at *13.

[53] *eBay,* 547 U.S. at 391.

[54] *Final Opinion* at *13.

[55] *Id.* at *16.

[56] *Id.* at *21.

[57] *Id.* at *16.

[58] *Id.*

[59] *Final Opinion* at *20.

[60] *See id.* ("Also ignored are [sic] the harm that an injunction might cause to consumers who can no longer buy preferred products because their sales have been enjoined.").

[61] *Daubert Opinion at* *5.

[62] *See Kirk v. Raymark Indus., Inc.*, 61 F.3d 147, 164 (3d Cir. 1995) ("[E]xpert witnesses are supposed to testify impartially in the sphere of their expertise….Since an expert witness is not subject to the control of the party opponent with respect to consultation and testimony he or she is hired to give, the expert witness cannot be deemed an agent.").

[63] *See* Andrew Harris, *Apple, Google's Motorola Unit Each Appeal Patent Rulings*, Bloomberg (Jul. 20, 2012), http://www.bloomberg.com/news/2012-07-21/apple-google-s-motorola-unit-each-appeal-patent-rulings.html.

THE SUPERMAN LEGAL BATTLE CONTINUES

[Editor's Note: This is a follow-up article to Mr. Gould's April/May 2012 article, entitled, Comics and Copyrights and a Super Legal Battle*. See https://stage.nyipla.org/images/nyipla/Documents/Bulletin/2012/AprilMay2012Gould.pdf]*

By James W. Gould[1]

On October 17, 2012, the U.S. District Court for the Central District of California granted summary judgment to DC Comics ("DC"), ruling that DC owns the Superman renewal copyrights of the heirs of the original Superman artist Joe Shuster.[2] While DC won against Shuster, it was not a clean sweep on all its claims. But DC's defeats elucidate copyright law as much as its victory. Further, Superman had a co-creator, Jerry Siegel. In a separate prior decision, the interest of Siegel's heirs in the Superman renewal copyright was upheld.[3] Oral argument in the appeal of this earlier decision in the 9th Circuit took place on November 5, 2012.

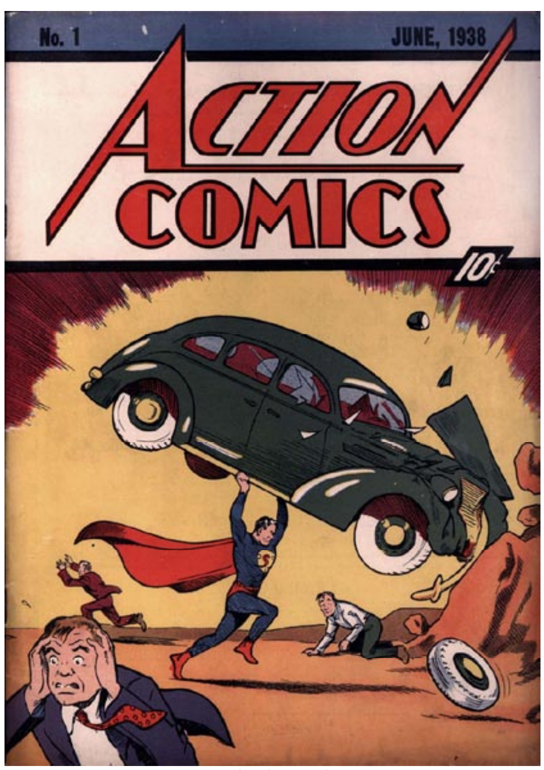
This article will explore why DC prevailed against the Shuster heirs, in contrast to losing against the Siegel heirs, focusing on the respective contract issues in the two decisions. It will also explore the practical implications if both decisions stand, focusing on the copyrights of co-authors and the right of contribution between them. The possible impact of a new attack by DC Comics on the heirs' attorney based on allegations of withholding evidence is also explored.

Just The Facts

The prior NYIPLA Bulletin article "Comics and Copyrights and a Super Legal Battle" by the author (April/May 2012) summarized the creative and legal background of Superman. The October 2012 Superman decision and other pleadings since the first article add some more facts. For reader ease, the facts from all these sources will be combined here for background and context.

* * * * *

It was a hot summer night in 1934 in Glenville, Ohio when the teenaged Jerry Siegel conceived of Superman as an alien with super powers hiding in plain sight as Clark Kent. The next morning he rushed over to Joe Shuster, his high school friend and the artistic half of the pair. Together, they developed the characters.



Cover of Action Comics #1

Jerry and Joe tried for years to interest publishers in a Superman comic strip, since in the 1930s there was more money for artists in syndicating a comic strip than in the nascent comic book industry. In late 1937 Siegel & Shuster ("S&S") signed a two-year employment agreement with DC stating that all work done by them "during said period of employment, shall be and become the sole and exclusive property of the Employer, and the Employer shall be deemed the sole creator thereof. . . ."[4] This language illustrates a "work for hire," although that term is not used in that agreement. Shortly thereafter, DC decided to launch a new comic book entitled, "Action Comics," and the now famous Action Comics No. 1 introduced Superman to the world.

In 1938 S&S and DC entered into an agreement that assigned copyrights to DC:

> This release sold and transferred to Detective [i.e., DC] such work and strip [Superman], all good will attached thereto and exclusive rights to the use of the characters and the story, continuity and title of strip contained therein, to you [Detective] and your assigns to have and to hold forever and to be your exclusive property . . . . The intent hereof is to give you exclusive right to use and acknowledge that you own said characters or story and the use thereof exclusively. . . ."[5]

As will be shown, the differences between these two contracts (work-for-hire and assignment) were critical.

After signing the contracts, Siegel and Shuster continued to work out of their studio in Cleveland, developing further aspects of Superman, including his ability to fly, X-ray vision, super hearing, heat vision, his weakness to kryptonite and the

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characters of Jimmy Olsen and Lex Luthor. The timing of each of those Superman aspects and supporting characters and whether they were created before or under the work-for-hire contract figured in the legal battles that followed.

After the end of World War II, Siegel and Shuster became increasingly unhappy about their compensation, leading them to file suit in 1947 against DC seeking, *inter alia*, to annul and rescind their assignment of copyright for lack of mutuality and consideration. After a trial in Westchester County, New York, the "official referee" found the 1938 assignment valid and affirmed DC as the exclusive owner of all rights to Superman. Eventually the case was settled in 1948 with DC paying $94,000 to Siegel and Shuster and S&S affirming DC's full ownership of Superman.

The second act of this legal saga began in 1969, when S&S filed a declaratory judgment action seeking the copyright renewal rights to Superman under the then extant 1909 Copyright Act. Under that Act, copyrights had two 28-year terms, the initial and the renewal. S&S lost on summary judgment,[6] because the Supreme Court had held that an assignment of "all rights" applied to the renewal term, even though it had not yet vested.[7]

The summary judgment also applied *res judicata* to the 1947 state court judgment of assignment of copyright. This would later become an issue in a more recent case. Despite these losses, as detailed in the prior article Siegel, Shuster and DC in 1975 negotiated pensions and medical benefits for life for them and Siegel's wife. This settlement stated that the pensions would end if either Siegel or Shuster sued for any rights to the copyright in Superman.

The next year, Congress passed the Copyright Act of 1976, which, among other things, added section 304(c), which allows an author to terminate an assignment of "all rights" with respect to the renewal term of a copyright. But an author could not terminate if the copyright vested in a "work made for hire." The 1976 Act specifically defined "work prepared by an employee within the range of his or her employment" as a work for hire. [8] A simple example of work for hire is an artist employed by Disney to draw cels for an animated film. The 1976 Act also stated that if an author (in copyright parlance, an artist is an author) is "specially ordered or commissioned" to create a contribution to a "collective work" and "expressly agree[s] in a written instrument signed by them that the work shall be considered a work made for hire," then legally it is.[9] The renewal termination provisions of section 304(c) of the 1976 Act applied only to copyrights in existence as of January 1, 1978, and only to assignments executed before that same date.

In 2001, the attorney for the Siegels apparently reached an agreement in principle with DC for immediate payments plus ongoing royalties. He sent a letter to DC outlining the terms. At about that time, Marc Toberoff, a copyright lawyer involved in a movie production company called Pacific Pictures Joint Venture, got in touch with the Siegels. DC alleges that Toberoff induced the Siegels to breach the 2001 agreement that had been reached.[10] Jerry Siegel's daughter Laura has denied this in a comics blog, saying there never was a binding agreement because she rejected the terms in DC's counterproposal as too onerous. As explained below, this letter and the surrounding incidents would later become part of the ongoing litigation.

Believing no binding agreement had been reached with DC, Siegel's widow Joanne and daughter Laura filed suit in 2004 against DC and Warner Brothers (which had purchased DC), asserting the section 304(c) termination rights. Shuster's estate gave similar termination notices.

Eventually, the Siegel claim was teed up on the issues of: (1) whether the termination notices were effective and (2) if so, what aspects of the copyright in Superman were subject to termination and which were subject to the work-for-hire exception. In other words, the key issue was what work belonged to Warner Brothers and DC because it was performed under the employment work-for-hire agreement and what belonged to the Siegels because its creation predated the work-for-hire agreement. Remember that only the assignment of the renewal term (but not work for hire) could be terminated.

The district court decision on March 26, 2008 was a victory for the Siegels, holding that:

> After seventy years, Jerome Siegel's heirs regain what he granted so long ago – the copyright in the Superman material that was published in *Action Comics*, Vol. 1.[11]

The holding is based on Siegel and Shuster creating much of the content of Action Comics No. 1 before there was an employment agreement creating a work for hire. For this content, there was only an assignment, and the assignment of the renewal term was null and void under the statute because of the termination notices. The appeal of this decision is still pending at the time this article went to press.

That is the Siegel claim. But what about Shuster? In 1992 Shuster's sister Jean, as his heir, executed an agreement under which DC would pay Jean $25,000 a year for life plus cover Joe's debts. "In exchange, Jean and Frank [her brother] re-granted all of Shuster's rights to DC and vowed never to assert a claim to such rights."[12] This agreement would prove to be the key document in DC's recent victory.

Shuster's Heirs Try To Terminate

As explained above, the 1976 amendments to the Copyright Act gave authors certain rights to terminate the assignment of the renewal terms of copyrights.[13] If the author were dead, the termination could be exercised by, in varying circumstances, the author's widow or widower, the author's children, and the author's grandchildren.[14] In 1998, the Copyright Act was further amended to cover the situation if all those heirs were dead. In that instance the termination rights shall be owned by the author's executor, administrator, personal representative, or trustee.[15]

Since Shuster never married and had no children, this change gave the rights to his executors, empowering his sister Jean Shuster to terminate. Jean pledged to still honor the 1992 Agreement but asked for and received additional annual bonuses from DC from 1993 to 2001 (except for 1997). In 2001, the Shusters purported to transfer all their copyright interest (including termination rights) to Pacific Pictures Joint Venture (as mentioned earlier, Pacific is a movie production company) and attorney Marc Toberoff. The effect of this action will be analyzed below.

On November 10, 2003, Jean's son Mark (acting as substitute executor of the Shuster estate) sent DC a notice of termination of Shuster's prior assignments of his copyright renewals to Superman. Whether this notice was effective and, if so, whether there were rights that could be recaptured at all were the core issues in DC's lawsuit to secure Shuster's renewal rights.

DC's First Claim – The 1992 Agreement Supersedes

DC's first claim was that Jean's 1992 agreement with DC described above superseded the prior (1937 and 1938) agreements of copyright assignment. The 1992 date is important because the Copyright Act section 304 termination rights apply only to transfers of copyrights made prior to January 1, 1978. If the agreements before then were nullified because they were superseded, then there was no right to terminate, because the 1992 Agreement was entered into after 1977.

The court found the 1992 Agreement did supersede and replace the pre-1978 agreements, citing the contract language that it "fully settles all claims to any payments or other rights or remedies which [the Shuster heirs] may have under any other agreement or otherwise, whether now or hereafter existing regarding any copyrights."[16]

The court also held that the 1992 Agreement, having nullified all prior ones, then made a fresh assignment of Shuster's copyrights to DC. Being entered into after 1977, the 1992 Agreement was not terminable under section 304(d). Citing *Penguin Group (USA) Inc. v. Steinbeck*,[17] the court noted that the Shuster heirs had only one opportunity between them to "threaten (or . . . make good on a threat) to exercise termination rights and extract more favorable terms from early grants of an author's copyright."[18] While the decision is not explicit, the reference to early grants of copyright likely includes the 1938 assignment and perhaps the settlement of the 1947 lawsuit and the 1975 negotiated settlement described above.

Jean's 1992 Agreement thus barred her son's effort to assert termination rights to extract more money than provided in the 1992 Agreement she signed. In summary, DC won and Shuster lost because the 1992 Agreement nullified all prior agreements, and being post-1977, the 1992 Agreement was not subject to termination under section 304(d).

DC's Second Claim – Defective Notice

DC also claimed the termination notice was defective because it was not signed by a person or persons having more than one-half of Shuster's interest in the renewal term to the Superman copyright. DC contended that because in 2001 the Shusters had transferred and assigned all copyrights to Pacific Pictures (and attorney Marc Toberoff), the heirs had no rights to recover when the notice was sent to DC in 2003. The Court flatly rejected this argument because (a) under the Copyright statute, only the Shuster executor had the right to serve a termination notice that nullifies an assignment of renewal rights to copyrights and (b) such termination rights cannot be transferred by the heirs or executors to third parties prior to the effective date of termination. To hold otherwise would "essentially rewrite copyright law, allowing parties to traffic in future rights."[19] So Mark as substitute executor for Joe Shuster had the power to sign a termination notice but it was ineffective because under the decision on the first claim, Shuster's 1992 agreement with DC had already conveyed the renewal rights to DC. This was a partial victory without a difference for Shuster's heirs.

DC's Third Claim – Right Of First Refusal

DC's third claim asserted that even if its 1992 Agreement with Jean Shuster were not binding, the 2001 purported copyright transfer from the Shusters to Pacific Pictures was invalid because of section 304(c)(6)(D).[20] Joe Shuster's executor Mark served the termination notice on DC on November 10, 2003, citing October 26, 2013 as the effective date of termination.[21] DC argued that until 2013, it was the only party that could enter into an agreement with the Shusters to transfer the termination of Superman renewal copyrights. The Court agreed, saying that the statute in effect gives DC a right

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of first refusal.[22] For this reason as well, the purported transfer of copyright termination rights from Shuster's heirs to Pacific Pictures was held invalid.

So Now What?

Unless overturned on appeal, this decision seems to end any claim to copyrights in Superman by Shuster's heirs. But that is not the end of this story, as the claims of Siegel's heir Laura were upheld in a separate case[23] which is still pending on appeal in the 9th Circuit.

In its 9th Circuit Appeal Brief,[24] DC alleged there is a contract based upon the previously mentioned 2001 letter written by Laura's then-attorney. However, DC did not argue it contained the type of superseding language in the Shuster agreement. Instead, DC's arguments were based on contractual assignment of copyright, which the court held was properly terminated under section 304.

Further, applying the Shuster holding, to the extent the Siegels attempted to assign renewal rights to Pacific Pictures, those agreements are invalid. Thus Laura's claim to the termination rights of her father should be unaffected by the Shuster decision.

The 9th circuit oral argument on Siegel's case dwelled at length on whether the attorney's 2001 letter established a binding contract. However, it should be noted that section 204(a) of the Copyright Act expressly states that:

> A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

This statutory requirement has repeatedly been held absolute, with no exemption.[25] Therefore, if no written instrument with express works of assignment was signed by Siegel's heirs or their authorized agent, it would seem there was no assignment. In oral argument in the 9th Circuit, Laura's attorney Toberoff argued section 204(a) more as an afterthought. In the author's view it should have been emphasized, because "failure to comply with section 204 (a) invalidates the agreement."[26]

If DC loses on section 204, perhaps it could continue to assert the tort of tortious interference with contractual relations against attorney Toberoff based on the allegation that Toberoff induced the Siegels to back away from a contract with DC. However, damages might be problematic if the fact finder credits Laura's statements that she backed away from signing the much longer contract version proposed by DC because of its onerous terms, not because of anything Toberoff allegedly said. But regardless of how the tortious claim comes out, it should have no impact on Laura's underlying ownership of the renewal copyrights.

Alternatively, if the 2001 letter is held to be a valid contract satisfying section 204(a), then DC might end up with all the rights to Superman. Depending on how the 9th Circuit rules, future battles might focus on (a) whether there was an offer and acceptance with sufficient material terms to form a contract (the 9th Circuit oral argument had much discussion of this issue); (b) interpreting the terms if there is a contract and especially whether it violates section 204(a); or (c) determining contribution by DC to Laura if she still owns some renewal rights.

A Little Out of Joint

In the (c) scenario, DC (as assignee of Schuster) would own the renewal rights of Shuster's heirs and Laura (as Siegel's heir) would own her father's renewal rights. In other words, they would be joint owners. Joint owners of a copyright each own a 50% interest in the whole. Such a co-owner may alone sue for infringement. However, a joint owner alone may also grant a non-exclusive license. Further, a licensee or assignee of rights from a co-owner cannot be sued for infringement by the other co-owner.[27] Thus DC's victory in obtaining Shuster's renewal rights would likely bar a copyright infringement action by Laura against DC.

This actually is a little more complicated. DC would own 100% of the interest in the aspects of Superman created under the work-for-hire doctrine after DC hired Siegel and Shuster, because the termination of renewal rights does not apply to work for hire. By standing in Shuster's shoes, DC also owns a 50% interest in the work both Siegel and Shuster created before the work-for-hire doctrine applied. What is left for Laura Siegel Larson is a 50% interest in this pre-work-for-hire material, which includes the origin story of Superman, aspects of Superman's costume, Clark Kent, Lois Lane, etc.

DC's cross appeal in the 9th Circuit focuses on the division between work-for-hire and pre-work-for-hire aspects of Superman. Laura's oral argument by attorney Toberoff urged a question of law on this work-for-hire issue based on incorrect application of collateral estoppel from *dicta* in the 1948 decision.

Ultimately, there does not seem to be a scenario under which DC gets everything and pays nothing. First, if Laura is successful on appeal, she would have the right to grant non-exclusive licenses to others during the renewal term to Superman, even movie rights, that do not include work-for-hire features like Lex Luthor or Kryptonite. Second and more important, Laura could sue DC in state court for an accounting to share the profits from the exploitation of Superman.[28] With the new Superman movie coming out in 2013, the latter is still a powerful economic weapon, though it may be complicated by Hollywood's notorious accounting of profits on movies. This accounting issue might be simplified by DC's assertion that DC licenses Warner Bros. Any royalty payments under such a license would tend to isolate the profits due to copyright. However, that would not avoid the complexity of separating out the relative value of Laura's rights to the pre-work-for-hire material compared to the work-for-hire material.

Even if DC were to win the full rights to Superman copyrights, it would not be totally free. DC would likely still have to pay Laura under what DC alleges is the 2001 contract. This includes, *inter alia*, an advance of $2 million, a signing bonus of $1 million and royalties of (a) "6% of Superman/Spectre Gross Revenues" from "all media" other than publications and "1% of the cover price of DC Comics' publications."[29] In the 9th Circuit oral argument, DC's attorney conceded that under this scenario, Laura would be entitled to at least $20 million.

And Now, a Turn to the Dark Side

Just when it seemed the legal history of Superman could not get more convoluted, it took a turn to the dark side. In an October 2012 motion in *DC Comics v. Pacific Pictures et al.*,[30] DC Comics alleged that Mr. Toberoff, the attorney for the Shuster and Siegel heirs "suppressed relevant evidence" and "refused to disclose the existence or nature of key evidence; submitted false and misleading privilege logs to mask or conceal non-privileged documents; and made affirmative misrepresentations – including under oath – about the existence, location, and provenance of evidence."[31] DC asked for waiver of attorney-client privilege, appointment of a special master, and sanctions up to and including dismissal of the case.

Generally, egregious conduct by an attorney may support these types of relief. Of course, the court will have to decide if the allegations are true and, if so, what remedies are appropriate.

For discussion purposes, let us assume there is some substance to the allegations but the court does not dismiss the case and that Laura prevails (or at least gets a remand) in the 9th Circuit. What impact will the withheld evidence have on the merits? First, the evidence in question seems to revolve around letters between the heirs and their attorney stating that there had been a meeting of the minds between the heirs and DC to settle the litigation over the Superman copyrights. But even with the letters as evidence, absent express words of assignment in a valid contract signed by Laura or her agent, they should not affect the rights of the heirs, because of section 204(a). As discussed above, words of assignment signed by Laura or her then-"duly authorized agent" are what should control, not proposed offers or agreements to assign in the future.

Even if the allegations against the attorney are true (and Laura has indicated in a blog that she decided not to sign DC's written proposal because of its onerous terms, not because of representations by her attorney), this would not seem to affect Laura's underlying rights. In other words, after the storm and thunder, DC's attack motion may not affect Laura's rights, leaving either (a) DC and Laura as joint owners or (b) DC bound by contract to pay Laura.

Stay tuned for the upcoming decisions. One is the district court decision on DC's motion against Toberoff. Others will include the 9th Circuit decisions on appeal of the judgment granting Laura the renewal rights of her father, and on the scope of those termination rights. Reading the tea leaves from the 9th Circuit oral argument, there may be a remand. The Shuster heirs may also appeal their recent defeat.

In other words, this legal battle is shaping up to continue for as long as Superman himself.

(Endnotes)

1 James W. Gould has a B.S. in Chemical Engineering from Penn State and a JD from the University of Pennsylvania, with a stint in between doing research while in the U.S. Army. Since then he has been a litigator, for the last 30 years specializing in patent litigation in a wide range of technologies, including pharmaceuticals, medical devices, fine chemicals, catalysts, metallurgy, telecommunications, computers, software and consumer products. He has a special interest in patent damages and the interplay of patent and antitrust law. Formerly with Morgan & Finnegan, he is now a partner with Locke Lord LLP.

2 *DC Comics v. Pacific Pictures Corp.*, No. 2:10-cv-10-3633-ODW-RZ, 2012 WL 4936588 (C.D. Cal. Oct. 17, 2012).

3 *Siegel v. Warner Bros. Entm't Inc.*, 542 F. Supp. 2d 1098 (C.D. Cal. 2008).

4 *Siegel v. Nat'l Periodical Publ'ns, Inc.*, 508 F. 2d 909, 911 (2nd Cir. 1974).

5 *Id.*

6 *See Siegel v. Nat'l Periodical Publ'ns, Inc.*, 364 F. Supp. 1032 (S.D.N.Y. 1973), *aff'd*, 508 F.2d 909 (2d Cir. 1974).

7 *See Fred Fischer Music Co. v. M. Witmark & Sons*, 318 U.S. 643, 656-59 (1943).

8 17 U.S.C. §101.

9 *Id.*

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[10] DC Comics' Notice of Motion and Motion for an Evidentiary Hearing and Sanctions, Including Terminating Sanctions, Appointment of Special Master, and Other Relief at 4-6, *DC Comics v. Pacific Pictures Corp.*, No. 2:10-cv-3633-ODW-RZ (C.D. Cal. filed Oct. 10, 2012) (Doc. 500).

[11] *Siegel*, 542 F. Supp. 2d at 1145.

[12] *DC Comics*, 2012 WL 4936588, at *2.

[13] 17 U.S.C. § 304 (c)(1).

[14] 17 U.S.C. § 304 (c)(2)(A)-(C).

[15] 17 U.S.C. § 304 (c)(2)(D).

[16] *DC Comics*, 2012 WL 4936588, at *4.

[17] 537 F.3d 193, 202 (2d Cir. 2008).

[18] *DC Comics*, 2012 WL 4936588, at *6.

[19] *Id.* at *10.

[20] 17 U.S.C. § 304(c)(6)(D) states that "the reversion of rights is subject to … A further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if it is made after the effective date of the termination. As an exception, however, an agreement for such a further grant may be made between the author or any of the persons provided by the first sentence of clause (6) of this subsection, or between the persons provided by subclause (C) of this clause, and the original grantee or such grantee's successor in title, after the notice of termination has been served as provided by clause (4) of this subsection."

[21] This time lag between notice of termination and the effective termination date is due to statute. Notice must be sent during a five-year period commencing on the later of the beginning of the 57th year of copyright or January 1, 1978, and within 2-10 years before the effective termination. 17 U.S.C. §§ 304(c)(3) and 3A.

[22] *DC Comics*, 2012 WL 4936588, at *11.

[23] *Siegel,* 542 F. Supp. 2d 1098.

[24] Principal and Response Brief of Cross-Appellants and Appellees Warner Bros. Entertainment Inc. and DC Comics at 28-34, *Larson v. Warner Bros. Entm't Inc.*, Appeal Nos. 11-55863, 11-56034 (9th Cir. filed March 23, 2012).

[25] *Patry on Copyright* § 5.106.

[26] *Id.*

[27] *Patry on Copyright* § 5.7.

[28] *Id.*

[29] Principal and Response Brief of Cross-Appellants and Appellees Warner Bros. Entertainment Inc. and DC Comics at 29, *Larson v. Warner Bros. Entm't Inc.*, Appeal Nos. 11-55863, 11-56034 (9th Cir. filed March 23, 2012).

[30] DC Comics' Notice of Motion and Motion for an Evidentiary Hearing and Sanctions, Including Terminating Sanctions, Appointment of Special Master, and Other Relief at 4-6, *DC Comics v. Pacific Pictures Corp.*, No. 2:10-cv-3633-ODW-RZ (C.D. Cal. filed Oct. 10, 2012) (Doc. 500).

[31] *Id.* at i (Notice). It should be noted that the target of the attack appears to be the attorney, not any of the heirs.

Moving UP ▲ & Moving ON ➤➤➤

➤ Laurence Rickles, formerly of Johnson & Johnson, joined the Intellectual Property practice of Eckert Seamans Cherin & Mellott, LLC as a partner.

➤ Scott Balber, Walter Hanchuk, and John Kheit, all formerly of Chadbourne & Parke LLP, joined Cooley LLP. Balber is chair of Cooley's Financial Services Litigation practice group, and Hanchuk and Kheit are partners in the Intellectual Property Litigation practice group.

➤ Partners Joseph Robinson and Robert Schaffer, of counsel Heather Morehouse Ettinger, Ph.D., and associate Phoenix Pak joined the Intellectual Property practice of Troutman Sanders LLP from McDermott Will & Emery LLP.

➤ Jeffrey Hovden, formerly of Wilson, Sonsini, Goodrich & Rosati PC, joined the Life Sciences and Hatch-Waxman Intellectual Property Litigation Group of Robins, Kaplan, Miller & Ciresi L.L.P. as a partner.

The Bulletin's Moving Up and Moving On feature is for the Association's members. If you have changed your firm or company, made partner, received professional recognition, or have some other significant event to share with the Association, please send it to the Bulletin editors: Mary Richardson (mrichardson@kramerlevin.com) or Robert Greenfeld (rgreenfeld@mayerbrown.com).

SUPREME COURT 2012-2013 IP CASE PREVIEW

by Mayer Brown LLP's Supreme Court & Appellate Practice

As of publication, the Supreme Court will review five intellectual property cases during its October 2012 Term.

Kirtsaeng v. John Wiley & Sons, Inc., No. 11-697 (argued Oct. 29, 2012)

Issue: Copyright Act—First Sale Doctrine's Application to Goods Produced Abroad

Under the Copyright Act's first sale doctrine, codified at 17 U.S.C. § 109(a), "the owner of a particular copy . . . lawfully made under this title" may sell or otherwise transfer ownership of that copy without the authorization of the copyright owner. In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the Supreme Court held that the first sale doctrine is applicable to imported copies. In *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010), the Court granted *certiorari* to decide whether the first sale doctrine applies to imported goods that are manufactured abroad, but the lower court's decision in that case was affirmed in a one-line order by an equally divided Court (with Justice Kagan recused). On April 16, 2012, the Supreme Court granted *certiorari* in *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697, to decide the same question on which it was equally divided in *Costco*: whether the first sale doctrine applies to goods produced abroad and then imported into the United States. *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905 (2012).

Petitioner Supap Kirtsaeng arranged for family and friends in Thailand to purchase and send him foreign edition textbooks originally printed by the Asian subsidiary of respondent Wiley & Sons, Inc. to resell in the United States. Upon learning that the petitioner had resold these textbooks on commercial websites like eBay.com, respondent sued petitioner for copyright infringement in the Southern District of New York. Before trial, the district court rejected petitioner's first sale defense as a matter of law. The jury ultimately returned a verdict for respondent.

A divided panel of the Second Circuit affirmed, holding that "the phrase 'lawfully made under this title' in Section 109(a) refers specifically and exclusively to copies that are made in territories in which the Copyright Act is law, and not to foreign-manufactured works." *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 222 (2d Cir. 2011). Finding the statutory text "utterly ambiguous," the Second Circuit adopted an interpretation of Section 109(a) that it believed "best comports with both § 602(a)(1) [of the Copyright Act]" – which prohibits importing copyrighted works acquired abroad without the authorization of the copyright holder – "and the Supreme Court's opinion in *Quality King*." *Id.* at 221.

This case is important to importers, distributors, and retailers of copyrighted goods produced overseas. Offshore product manufacturing is increasingly common, and businesses need to know whether goods lawfully produced and sold abroad are subject to a copyright infringement action if imported into the United States without the authorization of the copyright owner.

The NYIPLA had filed an amicus curiae brief in the Second Circuit. *See* http://www.nyipla.org/images/nyipla/Documents/Amicus%20Briefs/WileySonsVKirtsaeng2009-4896.pdf

Already, LLC d/b/a YUMS v. Nike, Inc., No. 11-982 (argued Nov. 7, 2012).

Issue: Trademark Law – Effect of Covenant Not to Sue and Dismissal of Trademark Infringement Claim on Jurisdiction over Counterclaim Challenging Trademark's Validity

In a trademark infringement action, a district court has jurisdiction over a defendant's counterclaim challenging the validity of the underlying trademark. *See* 15 U.S.C. § 1119. On June 25, 2012, the Supreme Court granted *certiorari* in *Already, LLC d/b/a YUMS v. Nike, Inc.*, No. 11-982, to decide whether a district court is divested of jurisdiction over the counterclaim if the plaintiff trademark registrant enters into an agreement to refrain from asserting its trademark against the defendant's then-existing commercial activities and the plaintiff's suit is dismissed with prejudice.

The case arose from a trademark infringement action filed by respondent Nike against petitioner Already, LLC ("Already"), doing business as the YUMS brand, in the Southern District of New York. Nike claimed that

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two YUMS brand shoes infringed Nike's trademarked design of its Air Force I shoes. In response, Already filed a counterclaim seeking a declaratory judgment that Nike's trademark was invalid and should be canceled, and that Already has not violated any such trademark. During discovery, Nike entered into a covenant not to sue, in which Nike stated that Already no longer infringed Nike's trademark at a level sufficient to warrant continued litigation, and in which Nike agreed to refrain from bringing any action to enforce its trademark against any of Already's current or previous athletic-shoe designs.

On Nike's motion, the district court dismissed both the infringement action and, over Already's objection, the counterclaim. The Second Circuit affirmed, agreeing with the district court that, in light of Nike's broad covenant not to sue and the dismissal of its infringement action, there was no longer any "actual case or controversy" and the district court did not have subject matter jurisdiction over the remaining counterclaim. *Nike, Inc. v. Already, LLC, d/b/a Yums*, 663 F.3d 89, 96 (2d Cir. 2011). The Second Circuit's decision conflicts with a Ninth Circuit decision holding that a covenant not to sue was insufficient to divest the district court of jurisdiction to hear a challenge to the validity of a trademark. *See Bancroft & Masters, Inc. v. August National Inc.*, 223 F.3d 1082 (9th Cir. 2000).

The case is important to businesses involved in potential trademark disputes because the Court's decision will determine whether filing a trademark infringement action opens the door to litigation of the validity of the trademark regardless of the outcome of the infringement action.

Gunn v. Minton, No. 11-1118
(set for argument on Jan. 16, 2013)

Issue: Federal Jurisdiction – Legal Malpractice Claims Involving Patent Disputes

Pursuant to 28 U.S.C. § 1338(a), federal courts have exclusive jurisdiction over any action "arising under" federal law relating to patents, plant-variety protection, copyrights, and trademarks. In 2007, the Federal Circuit, which hears all patent appeals, held that the jurisdiction conferred by Section 1338(a) extends to legal malpractice cases brought under state law when the underlying action involves patents. *See Air Measurement Tech., Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262 (Fed. Cir. 2007), and *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, 504 F.3d 1281 (Fed. Cir. 2007).

On October 5, 2012, the Supreme Court granted review in *Gunn v. Minton*, No. 11-1118, to determine whether the Federal Circuit's Section 1338(a) jurisprudence is consistent with the standard for "arising under" jurisdiction articulated in *Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308 (2005). Under *Grable*, for a state-law claim to arise under federal law, it must "necessarily raise" a federal issue that is "actually disputed and substantial" and can be heard by a federal court "without disturbing any congressionally approved balance of federal and state judicial responsibilities." *Id.* at 314.

Petitioners in *Gunn* are the defendants in a legal malpractice action. In 2004, Plaintiff Minton brought a patent infringement suit against the National Association of Securities Dealers (NASD). The district court granted summary judgment in favor of the NASD on the basis of the "on sale bar," finding that the technology that Minton sought to patent had been the subject of a commercial lease more than a year before Minton filed his application. Minton asked his lawyers to move for reconsideration, and to raise for the first time the argument that the "experimental use" doctrine precluded application of the on-sale bar. The district court denied reconsideration, and the Federal Circuit affirmed the summary-judgment ruling.

Minton then sued his lawyers in Texas state court for failing to argue experimental use in the first place. The trial court granted summary judgment in favor of the lawyers, but while Minton's appeal was pending, the Federal Circuit decided *Air Measurement* and *Immunocept*. On the basis of those decisions, Minton asserted that the state courts were without jurisdiction to hear his malpractice claim. The Texas Court of Appeals rejected Minton's argument, but a divided Texas Supreme Court followed the Federal Circuit in holding that the federal courts had exclusive jurisdiction over Minton's action. *Minton v. Gunn*, 355 S.W.3d 634, 636 (Tex. 2011). In dissent, three justices argued that *Grable* did not permit such an expansive reading of "arising under" jurisdiction. *Id.* at 647.

Gunn v. Minton is significant for the business community because its resolution will affect the scope of federal court jurisdiction.

Bowman v. Monsanto Co., No. 11-796
(not yet set for argument; last brief due on Jan. 16, 2013)

Issue: Patents – Exhaustion Doctrine – Self-Replicating Technologies

The patent exhaustion doctrine limits the right of patent holders to control or prohibit the use of their patented invention after an authorized sale occurs. On October 5, 2012, the Supreme Court granted review in *Bowman v. Monsanto Co.*, No. 11-796, to resolve questions about how the doctrine applies to subsequent generations of self-replicating technologies like genetically modified seeds.

Monsanto's patented Roundup Ready soybean seed is resistant to certain herbicides, including Monsanto's own Roundup product. Farmers who use the genetically modified seeds can therefore apply herbicides more liberally than they otherwise could, without damaging their crops.

Because the herbicide-resistant genes are passed down to successive generations of seed, Monsanto requires purchasers to sign a Technology Agreement that allows them to use the Roundup Ready seed to plant a commercial crop in a single season only, and prohibits them from saving any of their crop for use as seed for future plantings, from using the seed for breeding or research, and from giving the seed to anyone else. Monsanto does, however, permit growers to sell second-generation seed to local grain elevators as a commodity, and does not require them to place any restrictions on the grain elevators' subsequent sales of the seed.

Indiana farmer Vernon Bowman purchased Roundup Ready, signed Monsanto's Technology Agreement, and used the seeds for his first planting of the season. But for his second planting, he purchased "commodity seeds" with Monsanto's patented Roundup Ready genes from a local grain elevator; and he then saved the seed harvested from his second crop for replanting in future years.

Monsanto sued Bowman for patent infringement, and both the district court and the Federal Circuit ruled in Monsanto's favor, holding that the patent exhaustion doctrine did not protect Bowman because the Technology Agreement that he had signed was valid and controlling.

The case has broad implications for businesses in the agribusiness, biotech, and high-tech fields because it will determine the scope of patent protection for self-replicating technologies.

Association for Molecular Pathology v. Myriad Genetics, Inc., No. 12-398
(cert. granted Nov. 30, 2012)

Issue: Patent Law – Patentability of Human Genes

Federal patent law broadly permits an inventor to patent "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. § 101. Interpreting this language, the Supreme Court has long held that "'[l]aws of nature, natural phenomena, and abstract ideas' are not patentable." *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293 (2012) (quoting *Diamond v. Diehr*, 450 U.S. 175, 185 (1981)). On November 30, 2012, the Supreme Court granted *certiorari* in *Association for Molecular Pathology v. Myriad Genetics, Inc.*, No. 12-398, to decide whether the identification and isolation of a particular human gene is patentable under § 101.

Within each human cell are chromosomes of deoxyribonucleic acid ("DNA"), which have a

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double-helix shape corresponding to matched pairs of nucleotides. Particular sequences of nucleotides represent the "codes" for building cellular proteins. Together, sequences of particular protein codes are termed "genes." Naturally occurring alterations – mutations – in genes are known to result in certain diseases or increased risk of developing a disease.

In the 1990s, Myriad Genetics identified two human genes, BRCA1 and BRCA2, linked with increased risks of breast and ovarian cancer. Myriad then filed for patents on (1) molecules of nucleotide sequences comprising the isolated genes, removed from a chromosome and with half the double-helix removed; (2) molecules of nucleotide sequences comprising solely the "coding" portions of these genes ("cDNA"); (3) any sequence from BRCA1 or BRCA2 of at least 15 nucleotides; and (4) methods for comparing an individual's DNA to known mutations in BRCA1 or BRCA2 linked with increased risks of breast and ovarian cancer.

Upon identification of BRCA1 and BRCA2, numerous physicians began offering tests to determine whether their patients possessed a mutation in one of these genes associated with higher risks of cancer. This process involved use of or comparison with the nucleotide sequences that Myriad patented. Citing these patents, Myriad Genetics sent these doctors letters requesting that they cease offering the tests to patients unless they used Myriad's labs to make the genetic comparison. A number of these doctors, along with other physician groups, filed suit for a declaratory judgment that Myriad's patents were invalid. The district court agreed and invalidated the patents. *Assoc. for Molecular Pathology v. U.S. Patent & Trademark Office*, 702 F. Supp. 2d 181 (S.D.N.Y. 2010).

On appeal, a panel of the Federal Circuit substantially reversed, with each of the judges filing a separate opinion. 653 F.3d 1329 (Fed. Cir. 2011). Judge Lourie wrote that the isolated genes, patented cDNA, and nucleotide sequences differ chemically from the BRCA1 and BRCA2 genes as they exist within human chromosomes. Therefore, Judge Lourie concluded, the patents in question were not merely describing "laws of nature" or naturally existing phenomena. Judge Moore concurred, observing that the U.S. Patent Office had created settled expectations by permitting patents for isolated genes since at least 2001. Judge Bryson dissented, arguing that merely identifying a gene and isolating it from a chromosome was not sufficiently transformative to remove the discovery from the laws-of-nature exception to patentability.

The Supreme Court granted a petition for *certiorari* from the plaintiffs, vacated the Federal Circuit's decision, and remanded the case for reconsideration in light of the Supreme Court's recent decision in *Mayo*. 132 S. Ct. 1794 (Mar. 26, 2012). On remand, each judge issued substantially the same opinion as before on the questions of the patentability of isolated genes and cDNA sequences. 689 F.3d 1303 (Fed. Cir. Aug. 16, 2012). The judges agreed that *Mayo* was not relevant to whether they were "laws of nature." But in light of *Mayo*, which addressed patents on methods of performing tasks and comparisons, the judges agreed that the vast majority of Myriad's patents describing methods for comparing a patient's genes to the known nucleotide sequences and DNA molecules were invalid.

Plaintiffs again petitioned for *certiorari*, raising three questions, including whether human genes are patentable. In response, Myriad conceded that human genes, as they exist within the body, are not patentable. But, Myriad argued, the proper question was whether it was possible to patent a distinct set of molecules, separate from a chromosome and with only half the DNA's double-helix. Numerous medical and physician groups filed amicus briefs in support of the petition. The United States did not file an amicus brief with respect to the petition, but had previously filed an amicus brief in the court of appeals arguing that the isolated genes are not patentable while the cDNA molecules are. The Supreme Court granted review solely on the question whether human genes are patentable.

The case is of significant interest to many members of the business community. Most concretely, it may directly affect the medical and pharmaceutical industries, as well as research institutions. Since the U.S. Patent and Trademark Office first started issuing patents on isolated genes, it has approved numerous requests for such patents on genes associated with a wide variety of diseases and risk factors. In clarifying the "laws of nature" and "natural phenomenon" exceptions to § 101, the Supreme Court's decision may also affect all businesses that make use of basic scientific principles in their patented inventions.

Notable Trademark Trial and Appeal Board Decisions

By Stephen J. Quigley, Of Counsel, Ostrolenk Faber LLP

Member of the NYIPLA Trademark Law and Practice Committee

(All decisions are precedential.)

35 Years of Use Does Not Overcome a Descriptiveness Rejection

CENTER OF SCIENCE AND INDUSTRY is merely descriptive for operating a museum and conducting workshops, programs and demonstrations in the field of science. Notwithstanding 35 years of use, 20 million visitors, media coverage, and national awards, the applicant did not show sufficient evidence of use to demonstrate that its name had acquired distinctiveness. Among the factors cited by the Board were the third-party websites featuring this term – this showed a competitive need for the name – and the display of the acronym COSI in conjunction with virtually every depiction of CENTER OF SCIENCE AND INDUSTRY. *In re Franklin County Historical Society*, 104 U.S.P.Q.2d 1085 (TTAB 2012).

Fraud Not Considered When Abandonment Will Accomplish the Objective

The Board steered around the cancellation petitioner's claim of fraud where the registrant had never used its mark on 109 of the 113 clothing items in his use-based application. Since the mark was found to be no longer in use on the other four items, the registration was canceled solely on the ground of abandonment. *ShutEmDown Sports, Inc. v. Carl Dean Lacy*, 102 U.S.P.Q.2d 1036 (TTAB 2012).

No Parody – CRACKBERRY is Confusingly Similar to BLACKBERRY

The Board rejected a parody defense finding that CRACKBERRY for online chat rooms and retail store services for wireless device accessories is confusingly similar to BLACKBERRY for hand-held devices and related support services. A notable factor in the Board's ruling was the public's earlier adoption of "crackberry" as a term for those who are addicted to their BLACKBERRY phones. The Board also held that CRACKBERRY diluted the famous BLACKBERRY mark. *Research in Motion Limited v. Defining Presence Marketing Group, Inc. and Axel Ltd. Co.*, 102 U.S.P.Q.2d 1187 (TTAB 2012).

Acronym Made Up of Generic Words Is Not Necessarily a Generic Mark

CMS, which was derived from the generic names cabernet sauvignon, merlot, and syrah, is neither generic nor merely descriptive of wine. "[T]he fact that a term is derived from individual generic words or even a listing of generic words does not necessarily make the derived term generic. Nor does the fact that one can figure out the derivation of a term by seeing it in the context of the generic words make that term generic." The Board added that recognizing the derivation of CMS requires some thought which is the very essence of a suggestive mark. *Baroness Small Estates, Inc. v. American Wine Trade, Inc.*, 104 U.S.P.Q.2d 1224 (TTAB 2012).

Adding a Question Mark Materially Alters the Trademark

The Board confirmed the denial of the applicant's request to amend GOT STRAPS to GOT STRAPS? for online retail store services featuring straps and accessories for musical instruments because the question mark changed the commercial impression of the original mark from a declaratory statement to an interrogative phrase. The question mark "transforms not only the appearance and meaning of applicant's original mark but also the pronunciation. In other words, applicant's proposed amendment alters the essence of the original mark." *In re Guitar Straps Online, LLC*, 103 U.S.P.Q.2d 1745 (TTAB 2012).

GRAND HOTELS NYC Not Confusingly Similar to GRAND HOTEL

Because of the "highly suggestive" nature of the registered GRAND HOTEL trademark, the addition of NYC to GRAND HOTEL was enough to distinguish the marks. The proliferation of registered "Grand Hotel" marks and the unregistered trademark uses of "Grand Hotel" indicated that the mark "Grand Hotel" by itself is entitled to only a very narrow scope of protection. Consumers are able to distinguish between different GRAND HOTEL marks based on small differences in the marks, including the addition of a geographic term. *In re Hartz Hotel Services, Inc.*, 102 U.S.P.Q.2d 1150 (TTAB 2012).

THURSDAY, JANUARY 17, 2013, 8:00 AM to 5:00 PM

One-Day Patent CLE Seminar

Keynote Speaker Honorable Mitchell Goldberg

United States District Court for the Eastern District of Pennsylvania

Judge Goldberg was appointed as a United States District Court Judge for the Eastern District of Pennsylvania on October 31, 2008. Prior to his appointment, Judge Goldberg began his legal career in the trial and appellate divisions of the Philadelphia District Attorney's Office. In 1990, he joined the firm of Cozen O'Connor, where his practice initially focused on commercial litigation, and he eventually became manager of the firm's Arson and Fraud Unit. In 1997, Judge Goldberg became an Assistant United States Attorney for the Eastern District of Pennsylvania, where he focused on white collar crime cases. Judge Goldberg began his judicial career in February 2003 with an appointment to the Bucks County Court of Common Pleas, and was elected to a ten-year term on that Court in November 2003.

Judge Goldberg's remarks will be directed to the antitrust issues that arise in patent cases involving pharmaceutical companies and "reverse payments" licensing.

Panel 1 Implementation And Effects Of The America Invents Act

Moderator William Thomashower *Schwartz & Thomashower LLP*

- **New Rules Regarding First Inventor to File** William LaMarca *United States Patent and Trademark Office*
- **Reexamination Strategy** Sean Grygiel *Fish & Richardson, P.C.*
- **ADR, Judicial Recourse, and Estoppel in Post-Grant Review** Charles Miller *Dickstein Shapiro LLP*
- **Joinder** Stacey Cohen *Skadden, Arps, Slate, Meagher & Flom LLP*

Panel 2 Validity And Infringement Of Method Claims

Moderator Adda Gogoris *Merchant & Gould, P.C.*

- **Supreme Court and Federal Circuit Cases Regarding Abstract Ideas** Charles Macedo *Amster, Rothstein & Ebenstein LLP*
- **Supreme Court and Federal Circuit Cases Regarding Laws of Nature** Ronald Daignault *Robins, Kaplan, Miller & Ciresi LLP*
- ***Akamai* – Inducement of Infringement** Paul Ackerman *Dorsey & Whitney LLP*

Panel 3 Ethical Considerations In Patent Prosecution And Litigation

Moderator Wan Chieh (Jenny) Lee *King & Spalding LLP*

- **Supplemental Examination** Jonathan Ball *Greenberg Traurig LLP*
- **PTO New Regulations on Rule 1.56** Robert Katz *Eaton & Van Winkle LLP*
- **Update on Inequitable Conduct Decisions Since *Therasense*** Pablo Hendler *Ropes & Gray LLP*
- **Effect of *Hyatt* on Prosecution Strategy** Jon Gordon *Frommer Lawrence & Haug LLP*

Panel 4 Issues Arising In Licensing Patents

Moderator Andy Berks *Nostrum Pharmaceuticals LLC*

- **Allocation of IP Rights in Research Agreements** Andy Berks *Nostrum Pharmaceuticals LLC*
- **Licensing with Government Agencies and Academic Institutions** Steven Hoffberg *Ostrolenk Faber LLP*
- **Admissibility of Settlement Agreements** Richard Brown *Day Pitney LLP*

EARN 7 NYS/NJS CLE CREDITS INCLUDING 2 ETHICS CREDITS

The Princeton Club, 15 West 43rd Street, New York, NY 10036

Hosted by the Continuing Legal Education Committee, Co-Chairs Mark Bloomberg and Robert Rando

The New York Intellectual Property Law Association Announces

The 91st Annual Dinner

IN HONOR OF THE

Federal Judiciary

Friday, March 22, 2013

The Waldorf=Astoria Hotel, New York City

Dinner Speaker

Michael Strahan
Former NFL player for the New York Giants, and the new co-host on "Live! With Kelly and Michael"

Outstanding Public Service Award

Honorable Barbara S. Jones
United States District Court for the Southern District of New York

More information at www.nyipla.org

As Time Goes By – Which Do You Prefer: Paper or Plastic?

As with all organizations, change for the NYIPLA is an inevitable fact of life. One challenge, however, lies in timing the rate of change at a pace to maximize advantages for the Association and minimize inconvenience to our individual members.

The Association has undergone change in recent years as part of a transition from paper to electronic records. From its inception, paper records, including Bulletins, Greenbooks, photographs, and other hard-copy artifacts, have been key to maintaining a storehouse of knowledge about the Association's activities, as well as a sense of continuity in planning for the future.

It goes without saying that paper records have their pluses and minuses. Paper tends to yellow over time, and black-and-white photographs tend to fade along with our collective memory about the photos. Furthermore, paper records tend to be discarded or lost as our members and their firms and corporations move from one office location to another. Illustrative of the risks associated with paper records, NYIPLA Bulletins for the 1970s decade are missing from the Association's coffers and perhaps lost. Such a loss risks leaving a gap in our knowledge of the NYIPLA history of that era.

Over the course of the last decade, there has been a gradual shift away from paper and toward electronic record-keeping, both within and outside of the Association. There are upsides to this trend since electronic records can have a long shelf life, are relatively cheap to create and store, and tend to resist fading and other forms of degradation. The downside is that some members, particularly more senior ones among us, may not be as comfortable with using new technology, and may prefer paper records that seem more familiar to them.

A case in point is the Association's annual yearbook, the Greenbook. It was a substantial tome provided to the membership in hard copy format. It provided a listing of the names and addresses of the members, and identified committee participants, and past and present Officers and Directors, and included the NYIPLA Bylaws as well as photographs about activities during the previous Association year. In short, it contained a lot of reference material. Unfortunately, the Greenbook was relatively time consuming to assemble, and expensive to produce. Further, by the time it was finally off the presses, the Greenbook was often out-of-date, serving as a snapshot of a prior time, rather than as a handbook for the current one.

Dale Carlson, a partner at Wiggin and Dana, is NYIPLA Historian and a Past President.

In an effort to alleviate some of these problems, the Greenbook was replaced with a concise "Green Booklet," as supplemented by information contained on the NYIPLA website. The Green Booklet provides brief summaries of significant events occurring during an Association year, and is distributed fairly quickly since its production time is relatively short and production cost low.

Current and historical reference information about the Association is not located in the Green Booklet, but rather on the NYIPLA website. Advantages of having the reference information on the website include its ready accessibility online and the ease with which the information can be uploaded, downloaded, and updated as needed to keep current.

If you haven't visited the NYIPLA's new website (www.nyipla.org) yet, or haven't visited it recently, please consider doing so now. You may wish to know the answer to a question, for example, relating to the Association Bylaws or its former Board of Directors. In that case, simply click on "About Us" at the top of the home page, and then click on "Board of Directors Officers." On the left-hand portion of the page that pops up, you will find a menu. Toward the bottom of that menu, the Bylaws and Former Officers and Directors are accessible via click-on. Similarly, Greenbooks and Green Booklets are accessible by clicking on "News and Advocacy" at the top right of the webpage, and then clicking on "Association Annual Review." Bulletins are accessible in an analogous fashion.

Additional information about the NYIPLA website, including member login information needed to access a secure portion of the website, can be obtained by reaching out to NYIPLA Executive Administrator Feikje van Rein or the Projects Manager Lisa Lu. Feikje and Lisa can be reached at admin@nyipla.org or by phoning 1-201-461-6603.

Irrespective of whether you prefer paper or plastic, I hope that you will enjoy navigating the new website, and will find something useful on it to ponder.

With kind regards,

Dale Carlson

September 20, 2012 CLE Breakfast Program

"AIA Implementation: How to Update Your Patent Strategies"

by Steven Lendaris

On September 20, 2012, the NYIPLA Committee on Meetings and Forums hosted a Continuing Legal Education (CLE) breakfast at Philips Research North America's facility in Briarcliff Manor, New York. The program was entitled "AIA Implementation: How to Update Your Patent Strategies." Steve Lendaris of Baker Botts LLP served as moderator and the panel of speakers included Dana Colarulli, Director of the Office of Governmental Affairs for the U.S. Patent and Trademark Office; Raymond Farrell, Carter, DeLuca, Farrell & Schmidt, LLP; and Edward Blocker, Philips Intellectual Property & Standards.

The event kicked off with Dana Colarulli providing a brief history of the patent reform efforts that ultimately led to the passage of the America Invents Act ("AIA"), as well as an insider's view of how the Patent Office is tackling the phased implementation of the new law. Raymond Farrell followed with a detailed "nuts & bolts" discussion of several significant changes that the law has brought to current patent prosecution practice and offered practical strategies to ensure compliance with these new rules and requirements. Rounding out the discussion was a presentation from Edward Blocker contrasting current patent litigation strategies with the myriad of opportunities for pre- and post-grant patent challenges being phased in by the AIA. The large audience participated enthusiastically with the speakers, leading to a question-and-answer period that not only raised important practice points, but that also lasted well beyond the scheduled end of the CLE program.

The Meetings and Forums Committee thanks the speakers and the attendees for the stimulating presentations and excellent questions, as well as Philips Research North America for kindly opening its facility to our members for this event.

September 28, 2012 CLE Program

"USPTO AIA Roadshow"

by Peter Thurlow

The New York Intellectual Property Law Association (NYIPLA), in conjunction with the United States Patent and Trademark Office (USPTO), hosted a USPTO America Invents Act (AIA) Roadshow at the New York Public Library on September 28, 2012, followed by the NYIPLA & USPTO Networking Reception at Jones Day. More than 200 people attended the AIA Roadshow and approximately 75 people attended the reception at Jones Day. Attendees included NYIPLA members, in-house counsel and attorneys in private practice, law school students, and independent inventors from New York's growing independent inventor community.

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The USPTO representatives listed to the right attended the AIA Roadshow and reception. The USPTO representatives provided an update on the major provisions of the AIA including the new Inventor's Oath and Declaration, Supplemental Examination, Pre-issuance Submission, Patent Trial and Appeal Board procedures including the new post-grant and inter partes review proceedings, and first-inventor-to-file rules.

USPTO REPRESENTATIVES:

- Teresa Rea, Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the USPTO
- Peter Pappas, Chief of Staff to David Kappos, Under Secretary of Commerce for Intellectual Property and Director of the USPTO
- Janet Gongola, Patent Reform Coordinator, USPTO
- Honorable Mike Tierney, Patent Trial and Appeal Board
- Honorable Sally Medley, Patent Trial and Appeal Board
- Hiram Bernstein, Office of Patent Legal Administration
- Nicole Haines, Office of Patent Legal Administration
- Michelle Picard, Office of Chief Financial Officer
- Gerald Torres, Office of Chief Financial Officer

October 4, 2012 Panel

"Life as a New IP Associate"

by Lauren Nowierski

On October 4, 2012, the NYIPLA Young Lawyers Committee hosted a panel discussion and networking reception at New York University Law School. The program was titled "Life as a New IP Associate." Lauren Nowierski, an associate at Desmarais LLP, served as the moderator.

The panel of speakers also included Austin Ginnings, an associate at Fitzpatrick, Cella, Harper & Scinto; Jack Shaw, an associate at Mayer Brown LLP; and Gary Yen, an associate at Kenyon & Kenyon LLP.

The panelists generally discussed transitioning from law school to private practice. All panel members commented on their experiences at their respective law firms and practices, and offered practical advice based on their experience to the audience. An open question-and-answer session followed the moderated panel discussion. Following the question-and-answer session, all law students and young lawyers in attendance were invited to join in a reception for informal discussion and networking.

October 18, 2012 CLE Program

"Ethical Considerations in the Use of Social Media"

by David Bender

On October 18, 2012 the NYIPLA Meetings & Forums Committee, joined by the Internet & Privacy Law Committee and the Copyrights Committee, hosted a Continuing Legal Education Reception at the offices of Willkie Farr & Gallagher LLP. The program was entitled "Ethical Considerations in the Use of Social Media." The panel of speakers comprised Steven C. Bennett of Jones Day, David A. Lewis of Hinshaw & Culbertson, and Peter F. McLaughlin of Foley & Lardner. David Bender, Adjunct Professor at the University of Houston Law Center, moderated the session. The program was preceded by a cocktail reception for informal discussion and networking.

The panel discussed several hypothetical cases positing various situations in which the use of social media resulted in potential, if not actual, ethical problems. One situation dealt with a lawyer's attempt to elicit information useful in litigation from a represented adverse party by "friending" that party on Facebook, either directly, or by using a paralegal or acquaintance to make the approach. The panelists agreed that, whatever the manner of approach, friending a represented party for this purpose posed an ethical problem. Another situation concerned an attorney who, after a particularly contentious hearing, posted on his blog derogatory (and perhaps defamatory) statements about the presiding judge. There was agreement that, even if the judge acted improperly, this posting was not the way to approach the situation, as a lawyer has an obligation to preserve decorum in relations with the judiciary. Moreover, common sense dictated against making such injudicious comments in a public forum, and would result in a requirement that the lawyer disclose the incident to clients in any of his matters presently or subsequently assigned to that judge.

A third instance related to an attorney who, without soliciting it, was friended by an individual on Facebook. The issue was whether the attorney could ethically continue communicating with that individual after the latter became alternatively (i) a juror in a case in which the attorney represented a party, (ii) adverse counsel to the attorney in a suit, or (iii) in-house counsel to a party adverse to the attorney's client.

Minutes of September 11, 2012

Meeting of The Board of Directors of

The New York Intellectual Property Law Association

The Board meeting was called to order at The Princeton Club, 15 West 43rd Street, New York, NY 10036 at 5:35 pm. In attendance at the Board meeting were:

Thomas Meloro	Denise Loring
Kevin Ecker	Dorothy Auth
Ira Levy	Richard Parke
Theresa Gillis	Leora Ben-Ami
	Annemarie Hassett

Absent and excused from the meeting were Bruce Haas, Walter Hanley, Charlie Hoffmann, Anthony Lo Cicero, Wanli Wu, Alexandra Frisbie, and Jeffrey Butler. Board member participation by telephone was unavailable to due to system difficulties at the venue. Feikje van Rein, Robin Rolfe and Lisa Lu attended from the Association's executive office.

Tom Meloro called the meeting to order.

The Board approved the Minutes of the July 17, 2012 Board meeting.

Feikje van Rein provided a financial report, indicating that the organization continued to be on solid financial footing. Assets have increased by almost $250,000 over the same time last year. Membership has declined in some categories, but increased in others. There has been an increase in membership in the student and young lawyer categories, but a decline in membership of active members with greater years of practice. Given that active members pay higher dues than students and young lawyers, overall membership dues have declined over last year at this time by approximately $14,000. The Board discussed the reasons for the decline in active membership, noting that many law firms no longer pay membership dues and that firms have limited dinner attendance at the Judges Dinner, while encouraging nonmembers to attend the cocktail receptions. The Waldorf contract for suites for the Judges Dinner now requires that a certain number of tables be taken in order to have a suite, and the Board continues to evaluate ways to encourage active membership and attendance at the Judges Dinner.

Tom Meloro introduced three new policies to the Board, suggested by the organization's auditors. These policies include a document retention and destruction policy, a whistleblower policy, and a conflicts of interest policy. The Board members agreed that the policies should be reviewed and discussed during the October Board Meeting with the organization's auditors. Tom also asked Board members to send any questions for the auditors in advance of the October meeting.

The Board members were provided with a list of new members. Upon motion, it was agreed that the reading of the names of new members was waived for the year, as written information was being provided to the Board members. Members noted that the written materials do not indicate the residences of all new members. Therefore, the new members were approved subject to affirming the proper residency by Jeffrey Butler and Feikje van Rein.

The Amicus Briefs Committee then brought the Merck/Upsher-Smith case to the Board's attention, and suggested the Board consider filing an Amicus brief on the issue of reverse payments in the context of settlements between patent holders and generics in ANDA cases, seeking Supreme Court review given a split in the circuit courts of appeals. Terri Gillis and Tom Meloro recused themselves from discussion. Leora Ben-Ami noted that she might need to recuse herself (and subsequently recused herself). Several other members noted that they or their firms represented clients related to the issues being discussed, but did not believe they needed to recuse themselves. With Tom Meloro's recusal, Denise Loring ran the Board discussion. Following a discussion, the Board agreed that the Amicus Briefs Committee should draft a brief in favor of the Supreme Court reviewing the reverse payment issue. The Board further agreed to have a call on September 20th to discuss the brief and whether to file.

Annemarie Hassett then led a discussion on behalf of the CLE and Meetings and Forums Committees regarding results of the survey that had been sent to member firms. Annemarie reported that 60 surveys were sent out and 18 were received. The survey results suggested that there was some limited interest in "learning by doing" programs, depending on the nature of the faculty and whether the firms could provide the same training in house. The Board discussed the amount of preparation required for such programs versus the limited level of interest. Board members questioned whether firms would be willing to allow their associates to commit the amount of time needed for these programs. The Board agreed to continue the discussion, focusing on whether there were programs which are less time consuming which might be of interest. The Board thanked Annemarie and Feikje for the work on the survey, recognizing the difficulty in creating and reviewing the survey.

Tom Meloro provided an update on the Judges Dinner, indicating that the contract for the 2013 dinner had been signed. Tom noted that table minimums were going to be required for suites and that a quiet room would be set up. Tom suggested and the Board agreed that the Outstanding Public Service ("OPS") award would be presented to Judge Barbara Jones of the U.S. District Court for the Southern District of New York.

Terri Gillis provided an update on the Past Presidents' Dinner. Terri suggested that the dinner be moved to October 25th and that there be a Board meeting in the afternoon two hours before the dinner.

Annemarie Hassett reported on the Young Lawyers Committee, indicating that the Committee wished to integrate more with other committees.

Dorothy Auth reported on plans for the USPTO Roadshow on September 28th.

On the issue of new business, Kevin Ecker raised whether student articles should be published by the organization in the Bulletin. The Board's view was that such an activity might detract from the writing competition.

The Board determined that there was no need for an Executive Session and therefore the meeting was adjourned at 8:30 p.m.

CALL FOR NOMINATIONS!

2013 NYIPLA INVENTOR OF THE YEAR AWARD

Deadline: Friday, January 18, 2013

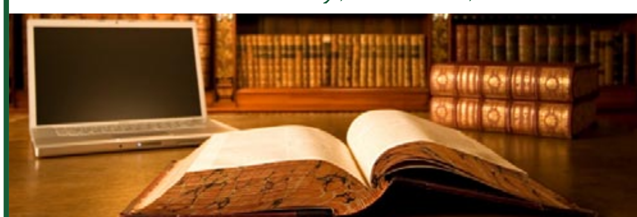
We invite you to nominate an individual or group of individuals who, through their inventive talents have made a worthy contribution to society by promoting the progress of Science and useful Arts. See the **2013 Call for Nominations – Inventor of the Year** rules and details on **www.nyipla.org**.

Should you have any questions, feel free to contact Jessica L. Copeland at **1.716.848.1461**, **jcopeland@hodgsonruss.com** or Eric H. Yecies at **1.212.459.7216**, **eyecies@goodwinprocter.com**.

The 2013 Inventor of the Year will be honored at the Association's Annual Meeting and Awards Dinner to be held at the Princeton Club of New York on Tuesday, May 21, 2013.

2013 NYIPLA HONORABLE WILLIAM C. CONNER INTELLECTUAL PROPERTY LAW WRITING COMPETITION

Deadline: Friday, March 8, 2013



The Winner will receive a cash award of $1,500.00

The Runner-up will receive a cash award of $1,000.00

Awards to be presented on May 21, 2013
NYIPLA Annual Meeting and Awards Dinner
at the Princeton Club in New York City

The competition is open to students enrolled in a J.D. or LL.M. program (day or evening). The subject matter must be directed to one of the traditional subject areas of intellectual property, i.e., patents, trademarks, copyrights, trade secrets, unfair trade practices and antitrust. Entries must be submitted electronically by March 8, 2013 to the address provided below.

See rules for details on **www.nyipla.org**.

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Update On Legislation For Copyright Protection Of Fashion Designs

By James L. Bikoff and Val Sherman, Silverberg, Goldman & Bikoff, LLP

The Innovative Design Protection Act, S.3523, was introduced on Sept. 10, 2012, by Senator Charles Schumer (D-N.Y.), to protect the most original in clothing, handbag, and eyewear fashion design by affording very limited, three-year quasi-copyright protection to such designs against piracy by cheap knockoffs. Currently, fashion designers based in the United States do not enjoy copyright protection, unlike their overseas counterparts. The bill would amend an existing law currently applicable only to design of boat hulls.

The bill, recently approved without amendment by the Senate Judiciary Committee, contains several provisions designed to narrow its scope and thus increase its chances of passing the Senate, where a similar bill, S.3728, stalled last year despite unanimous approval by the Committee. To qualify for protection, the design must "provide a unique, distinguishable, non-trivial and non-utilitarian variation over prior designs for similar types of articles" and this variation cannot lie in choice of color or print pattern. For a finding of infringement, the infringing design must be "substantially identical," although trivial differences will be overlooked.

To limit frivolous lawsuits, the new bill encourages out-of-court resolutions by requiring designers to give accused infringers a written notice 21 days before filing a suit and by limiting damages to those accrued after the suit is filed. Such limitations were viewed as sufficiently restrictive by the Committee majority who voted down the additional hurdle of a loser-pays provision proposed by Senator Michael S. Lee (R-Utah). Furthermore, internet service providers and sellers, importers, and distributors who merely purchase the goods are shielded from liability. According to Senator Schumer, the bill goes further than any other copyright bill to address concerns about abuse by the industry and to strike a "fair balance."

Nevertheless, opponents of the bill believe that creating new intellectual property rights for the fashion industry would put fashion out of the reach of many consumers, slow down innovation in the industry, as well as harm many businesses that depend almost entirely on copying. These concerns, coupled with concerns over increased litigation, threaten this bill's survival.

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