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CASES OF INTEREST

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IP/Entertainment Law Weekly Case Update for Motion Picture Studios and Television Networks

February 16, 2012

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Frerck v. John Wiley & Sons, Inc., USDC N.D. Illinois, February 7, 2012

 [Click here for a copy of the full decision.](#)

- District court denies plaintiff's motion for a preliminary injunction to prevent future infringement of his copyrighted works, holding that although plaintiff demonstrated likelihood of success on the merits of his copyright claim, the harm he suffered could be adequately remedied with money damages.

Plaintiff Robert Frerck, a photographer, entered into limited license agreements with defendant John Wiley & Sons, Inc., a textbook publisher, for use of a number of plaintiff's photographs in defendant's publications. Plaintiff alleged that its licenses expressly defined the number of permissible copies, image size, distribution area, form of media, and duration of each publication, and that defendant's use of its photographs either exceeded the use permitted by the terms of the licenses or, in some cases, were without prior permission. Plaintiff asserted claims against defendant for copyright infringement and fraud, and sought a preliminary injunction preventing defendant from future infringements of his copyrighted products. The court denied plaintiff's motion for a preliminary injunction, finding that while plaintiff established a likelihood of success on the merits of his copyright claim, the harm he suffered – and would allegedly continue to suffer as a result of continued infringements – could be adequately remedied by money damages.

A party seeking a preliminary injunction must demonstrate (1) its case has some likelihood of succeeding on the merits, (2) no adequate remedy at law exists, and (3) it will suffer irreparable harm if preliminary relief is denied. In support of his claim for copyright infringement, plaintiff submitted evidence that he owned the copyrights to the photographs that he licensed to defendant and that he licensed only a limited right to copy the photographs at issue or did not license them at all. Finally, plaintiff presented evidence that defendant printed some of his photographs without any license and maintained that defendant printed beyond specified limits in other licenses. Based on this evidence, the court concluded that plaintiff had a significant likelihood of success on the merits.

Despite reaching this conclusion, however, the court held that plaintiff was not entitled to a preliminary injunction because he could not establish irreparable harm that could not be redressed through money



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damages. Plaintiff argued that defendant's unauthorized use of his copyrighted works forced him to grant licenses to defendant and stripped plaintiff of the ability to control his copyrighted works. Defendant noted that plaintiff is in the business of licensing his photographs for a fee and argued that any harm to plaintiff was purely monetary and could be adequately remedied with money damages. The court agreed, emphasizing that, in contrast to cases cited by plaintiff where monetary damages were found to be an insufficient remedy, plaintiff had not argued that his losses could not be quantified, that the market for his product had been damaged, or that his brand, business reputation and good will would be irreparably harmed simply because his photographs appeared in defendant's textbooks in unauthorized quantities. Accordingly, the court found that plaintiff's copyright claim centered on the loss of monetary damages – the fee for each use of his photographs under the terms of the license, as well as any costs and fees that he would be entitled to should he prevail in the lawsuit.

While the court noted the appeal of one of plaintiff's contentions – that the “continuous litigation” model was a losing proposition for him and therefore an inadequate remedy – the court found that the argument did not compel injunctive relief. The Copyright Act already provides the owner of a copyright with a potent arsenal of remedies against an infringer of his work, including a recovery of his actual damages and any additional profits realized by the infringer, or a recovery of statutory damages and attorneys' fees.

The court also denied defendant's motion to dismiss, finding that plaintiff adequately stated a claim for promissory fraud under Illinois law. Plaintiff alleged that, at the time defendant requested specific, limited permission to use his photographs, defendant knew that its actual use under the licenses would exceed the permission requested, and that defendant did this on a continuous basis. The court concluded that, if proven to be true, defendant's actions – evidencing an attitude that it is cheaper to infringe now, hope not to get caught, and pay later if necessary – would be fraudulent.

Stan Lee Media, Inc. v. Conan Sales Co., LLC, USDC S.D. California, February 10, 2012

 [Click here for a copy of the full decision.](#)

- District court denies plaintiff's motion to void 2002 bankruptcy order approving settlement transferring intellectual property rights in "Conan the Barbarian" character to defendants, holding that plaintiff failed to establish any due process violations or fraud on the court voiding the order.

During the pendency of bankruptcy proceedings for plaintiff Stan Lee Media Inc. (SLMI), the court approved a settlement agreement with defendant Conan Sales Co. (CSC) transferring all of the stock of Conan Properties Inc. (a wholly owned subsidiary of CSC) back to CSC. The settlement arose from a stock purchase deal between the parties in which SLMI purchased all of the stock in Conan Properties and, in return, CSC received SLMI stock subject to certain price protection guarantees. The Stock Purchase Agreement gave CSC the right to foreclose on the intellectual property rights related to the "Conan the Barbarian" character in the event of a default, which CSC sought to exercise when SLMI filed for bankruptcy protection. The settlement, negotiated by the committee of SLMI's unsecured creditors and CSC, provided that CSC would pay \$275,000 to SLMI, in exchange for a transfer of all of the Conan Properties shares and related contract rights. Defendant Junko Kobayashi, plaintiff's controller at the time, executed the settlement agreement and the bankruptcy court, on motion by counsel for the committee, issued an order approving the settlement.

More than a decade later, however, SLMI sued various parties involved in the settlement, including



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defendant Arthur Lieberman, company co-founder Stan Lee's personal lawyer, former executive officers, including Kobayashi, and CSC, seeking, among other things, to invalidate the transfer and regain the intellectual property rights in Conan, as well as for an accounting for profits related to use of the intellectual property, including profits from the *Conan The Barbarian 3D* movie. Plaintiff requested relief from the bankruptcy court order, arguing that defendants secured the approval by failing to disclose key facts to the court and that these facts, including that the company's shareholders were not given notice of the proposed settlement, that defendant Kobayashi did not have authority to execute the settlement agreement, and that defendant Lieberman had an undisclosed conflict of interest and adversely influenced the settlement, rendered the order void.

Construing plaintiff's request as one for relief from a judgment under Federal Rule of Civil Procedure 60(b)(4), which "voids" a judgment only in rare instances – when a judgment is premised either on certain jurisdictional error or on a violation of due process that deprives a party of notice or opportunity to be heard – the court concluded that plaintiff had failed to provide any evidence establishing that the order was void on due process grounds. The court also rejected plaintiff's argument that the alleged failure to disclose certain key facts to the court constituted fraud on the court sufficient to void the order under Federal Rule 60(b)(3).

Noting that plaintiff had no standing to assert claims on behalf of its shareholders and no evidence existed that the shareholders themselves would have had standing to contest the settlement, the court rejected plaintiff's argument that the order approving the settlement must be void because no notice of the settlement was given to the company's 1800 shareholders. None of the cases upon which plaintiff relied established that either the Bankruptcy Code or the procedural rules governing bankruptcy proceedings required that the companies' shareholders be given notice of the proposed settlement.

The court likewise rejected plaintiff's argument that the settlement and subsequent approval were adversely influenced by defendant Lieberman, who owned an interest in both SLMI and CSC. Lieberman readily and regularly disclosed his interests during the negotiation of the original stock purchase agreement and again when issues arose between SLMI and CSC. The creditors' committee negotiated the settlement that the bankruptcy court approved and plaintiff made no showing that Lieberman provided any services to SLMI or the committee, or in any way influenced the negotiations. The court also noted the absence of any authority for voiding an order based on an allegation of adverse domination.

Plaintiff also argued that the approval order should be voided because SLMI did not have a CEO at the time the settlement was negotiated and that defendant Kobayashi, the company controller, only worked part time and did not have the authority to approve the settlement without separate board authorization. The court disagreed, noting that companies in bankruptcy are often unable to compensate their management and employees for full-time service and that plaintiff had provided no authority to support its contention that proceedings involving companies in this position may subsequently be set aside. In addition, plaintiff's own submissions in the bankruptcy proceedings established that defendant Kobayashi did, in fact, have the authority to approve the settlement.

The court also held that plaintiff had failed to meet its heavy burden of establishing that defendants secured the approval of the settlement through fraud on the court – clear and convincing evidence of the existence of an unconscionable plan or scheme designed to improperly influence the court. Noting that nondisclosure generally does not rise to the level of fraud, the court concluded that plaintiff had offered no evidence showing that counsel for the creditor's committee, who negotiated the settlement and requested



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court approval, acted other than in the best interests of the committee or that he somehow participated in defendants' allegedly fraudulent scheme. In addition, even assuming, as plaintiff had argued, that counsel for the committee had likewise been duped by defendants, this does not provide a basis for finding fraud on the court. The court concluded: "[i]n short, while SLMI claims that Defendants committed a fraud on the court, what SLMI is really alleging is fraud on a party, which is not a basis for relief under Rule 60(d)(3)."

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