

# EXHIBIT I

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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA - EASTERN DIVISION

JOANNE SIEGEL and LAURA  
SIEGEL LARSON,

Plaintiffs,

vs.

TIME WARNER INC.; WARNER  
COMMUNICATIONS INC.;  
WARNER BROS. ENTERTAINMENT  
INC.; WARNER BROS. TELEVISION  
PRODUCTION INC.; DC COMICS;  
and DOES 1-10,

Defendants.

Case No.: CV 04-8400 SGL (RZx)

Hon. Stephen G. Larson, U.S.D.J.  
Hon. Ralph Zarefsky, U.S.M.J.

**DEFENDANTS' BRIEF ON  
ADDITIONAL ISSUES**

Time: 3:00 p.m.  
Date: August 11, 2008  
Courtroom: 1  
Judge Stephen G. Larson

AND RELATED COUNTERCLAIMS

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## INTRODUCTION

The Court has held that “Siegel’s heirs regain[ed] . . . the copyright in the Superman material that was published in *Action Comics* Vol. 1” and recognized that “[w]hat remains is an apportionment of profits . . . .” *Siegel v. Warner Bros. Ent. Inc.*, 542 F. Supp. 2d 1098, 1145 (C.D. Cal. 2008) (“*Siegel II*”). Although these basic parameters of the case have now been established, what also remains to be determined is what exactly is to be “apportioned” between the parties, how that apportionment is to be conducted, who should conduct the apportionment, and which party has the burden of proof on establishing the proper apportionment of profits.<sup>1</sup>

Defendants respectfully submit that the facts of this case and established law mandate the following conclusions:

(1) That by their termination notices Plaintiffs have recaptured only the original copyrightable elements first appearing in the Superman story published in *Action Comics #1*<sup>2</sup> (the “*Action Comics #1 Story*”), as all later contributions by Siegel to the Superman *oeuvre* were made as work for hire;

(2) That any accounting to Plaintiffs for the profits attributable to the use of the *Action Comics #1 Story* in newly prepared post-termination derivative works

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<sup>1</sup> Accordingly, the parties have identified (via their February 21, 2008 Stipulation), and the Court has ordered briefing on (via its March 31, 2008 Order), the following seven issues: (1) the “work for hire” status of Jerome Siegel’s contributions on Superman works following the *Action Comics #1*; (2) the propriety of “apportioning” the profits from post-termination Superman works to account for factors other than Plaintiffs’ recaptured copyright; whether and how the apportionment should take into account (3) any mixed use of trademarks and copyrights, and (4) post-termination alterations to pre-termination derivative works; (5) if the apportionment analysis must be conducted on a work by work basis; (6) whether Plaintiffs’ accounting claims – including the apportionment analysis – is for the court or a jury; and (7) which party has the burden of proof on the accounting and apportionment issues. Additionally, the Court has stated that should Plaintiffs wish the Court to deal with the issues raised in their previously-filed Motion for Reconsideration which was denied, without prejudice, they may “append” them to their brief on these seven issues. (July 3, 2008 Order). In the event Plaintiffs do append their previous Motion for Reconsideration to their Opening Brief herein, Defendants respectfully refer the Court to their previously-filed Opposition to said Motion.

<sup>2</sup> Such original material would not include those copyrightable elements in the prior untermiated Superman Promotional Announcements (the “Announcements”).

1 will require the exclusion of the profits resulting from all other factors, including  
2 profits attributable to the copyrightable elements owned exclusively by defendant  
3 DC Comics as well as the contributions and efforts of DC and its licensees;

4 (3) That the apportionment analysis must take into account the profits  
5 attributable to the use of DC Comics' trademarks – in which Plaintiffs have no  
6 interest – even where combined with a copyright use in which Plaintiffs might  
7 share;

8 (4) That Plaintiffs will be entitled to share in the profits from the post-  
9 termination exploitation of a pre-termination work derivative of the *Action Comics*  
10 *#1 Story* only if the pre-termination derivative work has been sufficiently adapted,  
11 recast or transformed post-termination to constitute a wholly new derivative work;

12 (5) That the required apportionment analysis will have to be conducted  
13 separately on an individual work-by-work basis in order to fairly determine what  
14 portion of the profits of each post April 1999 derivative work can be attributed to  
15 the use of the *Action Comics #1 Story*;

16 (6) That since Plaintiffs' accounting claim is equitable in nature, the  
17 apportionment analysis must be conducted, and the determination made, by the  
18 Court, sitting without a jury; and

19 (7) That Plaintiffs have the burden of establishing (a) which post-termination  
20 derivative works contain any recaptured copyrightable elements from the *Action*  
21 *Comics #1 Story* and (b) their relative contribution to the gross revenues generated  
22 by the work, while Defendants have the burden of establishing the expenses  
23 properly deductible from those revenues in order to calculate the profits in which  
24 Plaintiffs can share.

25 Each of these seven issues is addressed and discussed in detail, below.  
26  
27  
28

**ARGUMENT**

**I. PLAINTIFFS HAVE RECAPTURED ONLY THE COPYRIGHT-ABLE ELEMENTS IN THE *ACTION COMICS #1 STORY*; ALL OF SIEGEL'S SUBSEQUENT WORK ON SUPERMAN WAS AS A WORK FOR HIRE AND IS CONSEQUENTLY OWNED EXCLUSIVELY BY DC**

Plaintiffs have made clear their intention to argue at trial that they have not only recaptured the copyright in the *Action Comics #1 Story*, but in scores of other *Superman* stories as well. However, as shown below, the only copyright that could have been recaptured by Plaintiffs is the *Action Comics #1 Story*, and their right to share in any profits from the post-termination exploitation of Superman must be measured by the contents of that story alone.

Under an agreement dated March 1, 1938, pursuant to a December 1937 option, Siegel and Shuster granted to DC's predecessor, Detective Comics (DC and Detective are sometimes referred to herein as "DC"), all right, title and interest in the Superman character, including the preexisting Superman story. Once that grant was made, DC owned all existing Superman material – including the Superman character – outright, and any subsequent authorized derivative Superman works could only have been produced with DC's permission. The vast majority of the subsequent Superman works were created wholly without Siegel's involvement. The few that do contain Siegel's contributions, principally *Action Comics #2-61*, were created as works for hire and therefore are not subject to termination under the express terms of the statute.

Defendants, nevertheless, expect Plaintiffs to proffer evidence concerning profits not merely from post-termination uses of the *Action Comics #1 Story*, but also from post-termination works attributable to the subsequent derivative works published in *Action Comics #2-61* as well as from the thousands of other Superman works appearing before April 1999.

Despite such unfounded *gestalt* contentions, Plaintiffs' recapture is limited to a single work – the thirteen pages of the *Action Comics #1 Story* – for three



1 reasons. First, it is self-evident that Plaintiffs, as Siegel's heirs, cannot employ the  
 2 Copyright Act's termination provision to recapture rights in any works that Siegel  
 3 did not author. Second, any contributions that Siegel may have made to post-  
 4 *Action Comics #1* Superman comics were works for hire and therefore are not  
 5 subject to termination under the express terms of section 304(c). Third, Plaintiffs  
 6 can not escape the consequences of the fact that Siegel was not the legal author of  
 7 any Superman work except the *Action Comics #1 Story* by loosely contending they  
 8 amorphously recaptured "the Superman character," because the right of copyright  
 9 termination, like copyright protection and ownership, is provided on a work-by-  
 10 work basis, and not for any separate components of a work such as  
 11 characterization.

12 There can be no dispute about the work for hire status of Siegel's  
 13 contributions to *Action Comics #2-61* or any other Superman comic books  
 14 published after *Action Comics #1*. On March 1, 1938 Siegel and Shuster  
 15 transferred to DC their entire rights in all of the Superman material they had  
 16 created, and also agreed they could not thereafter at any time use the Superman  
 17 character, story or title without the written consent of DC. In consequence, at that  
 18 moment, the right to create derivative, *i.e.*, further new works using or based upon  
 19 all existing Superman material, including the first Superman story, reposed  
 20 exclusively in DC, and any such works could only have been created at the  
 21 instance of DC. Siegel and Shuster were thereafter employed by DC to prepare  
 22 and regularly furnished the continuity and artwork for all new episodes of the  
 23 Superman series. In these circumstances, under the clear and well established rules  
 24 of the applicable 1909 Copyright Act work for hire test,<sup>3</sup> all of the new Superman  
 25 material following *Action Comics #1* was produced at the instance and expense of  
 26

27 <sup>3</sup> The Court has already thoroughly explicated the controlling law – the 1909 Act work  
 28 for hire test – in earlier addressing its application to Siegel's proposed 1940 script for a  
 Superboy comic book (the "1940 Superboy Script"). See *Siegel v. Time Warner Inc.*, 496  
 F. Supp. 2d 1111 (C.D. Cal. 2007) ("*Siegel I*").

1 the publisher, subject to its right of control.

2 **A. The Facts Relevant to This Issue Are Undisputed**

3 The parties and the Court have the benefit of an extensive documentary  
4 record of numerous undisputed facts, including numerous judicially binding fact  
5 findings, many of which are relevant to the remaining questions of the legal  
6 authorship and copyright ownership of all Superman works that followed the first  
7 *Action Comics #1 Story*. See *Siegel I*, 496 F. Supp. 2d at 1127.

8 **1. Preclusive Findings of Fact from Previous Litigations**

9 In *Siegel v. National Comics Publications, Inc. et al.*, No. 1099-1947 (Sup.  
10 Ct. Westchester) (the “Westchester Action”),<sup>4</sup> Siegel and Shuster sought in part to  
11 annul and rescind previous agreements with Detective in an effort to recover all the  
12 rights in the Superman character that Siegel and Shuster had transferred to  
13 Detective on March 1, 1938. Following a bench trial the referee rejected Siegel’s  
14 and Shuster’s claims of ownership of Superman. (*Id.* Ex. R.) Thereafter, in April  
15 of 1948 he issued detailed findings of fact and conclusions of law expanding on his  
16 earlier trial opinion. (*Id.* Ex. F hereinafter “FOF”.) The parties’ subsequent Final  
17 Consent Judgment vacated the referee’s findings but upheld the validity of the  
18 parties’ previous agreements, including that of March 1, 1938, which had “validly  
19 transferred to Detective Comics, Inc.” all of Siegel and Shuster’s rights in the “first  
20 release of the comic strip SUPERMAN” in the June, 1938 issue of the magazine  
21 “Action Comics” making Detective “the absolute owner” thereof. (*Id.* Ex. V.) As  
22 this Court has noted, while the referee’s findings did not address or decide the  
23 questions of federal copyright law at issue today, “[c]ertainly the referee made  
24 findings dealing with the parties’ business and contractual relationship concerning  
25 Siegel’s Superboy submission, factual issues that touch upon the work for hire  
26 question . . .” *Siegel I*, 496 F. Supp. 2d at 1136.

27 <sup>4</sup> See Declaration of Michael Bergman filed on April 20, 2007 in support of Defendants’  
28 Motion for Partial Summary Judgment (“Bergman SJ Decl.”), Ex. Q. Given the  
extremely bulky nature of that previously filed Declaration and Exhibits, Defendants are  
not filing a second copy herewith.

1 In *Siegel v. National Periodical Publications, Inc.*, 508 F.2d 909 (2d Cir.  
 2 1974) (“*National*”) Siegel and Shuster sued again, this time to claim the renewal  
 3 copyright in the *Action Comics #1 Story*. In affirming the summary judgment for  
 4 Detective’s successor, National, the Second Circuit relied on various of the  
 5 referee’s findings of fact in the Westchester Action, holding that the Final Consent  
 6 Judgment was *res judicata* as to National’s renewal copyright ownership and as to  
 7 whether Siegel and Shuster intended to transfer all of their Superman copyright  
 8 rights to Detective by their March 1, 1938 agreement. *National*, 508 F.2d at 912-  
 9 13.<sup>5</sup> Because these findings were wholly consistent with the terms of the Final  
 10 Consent Judgment as to the copyright ownership of the *Action Comics #1 Story*,  
 11 National did not question their preclusive effect with regard to Superman works.  
 12 Although Defendants have previously objected to giving such findings preclusive  
 13 effect as to the copyright ownership of the Superboy property – for the reason that  
 14 they were inconsistent with and vacated by the Final Consent Judgment – this  
 15 Court has now held them to be preclusive and binding as to the facts therein found.  
 16 *Siegel I*, 496 F. Supp. 2d at 1127.<sup>6</sup>

## 17 2. Siegel and Shuster’s Creation of the First of the Superman 18 Comic Strips and Their March 1, 1938 Grant to Detective

19 As this Court has noted, “in 1933, Siegel conceived of the *idea of a comic*  
 20 *strip* featuring a character named ‘Superman,’” for which he and Shuster  
 21 developed material that they unsuccessfully shopped around for several years to  
 22 numerous publishers. *Siegel I*, 496 F. Supp. 2d at 1113 (emphasis added); *Siegel*

23 <sup>5</sup> The Second Circuit declined to affirm the District Court’s work for hire conclusion on  
 24 the basis of the referee’s fact findings because the referee had found that Siegel and  
 25 Shuster had already created the first Superman story several years before submitting it to  
 Detective. *Id.* at 914. Under such circumstances, Detective could not have been the  
 “motivating factor” in its creation which was therefore not produced at its instance. *Id.*

26 <sup>6</sup> This Court held that the 1940 Superboy Script submitted to Detective was not a work  
 27 for hire, principally because the expense requirement was not satisfied. *Siegel I*, 496 F.  
 28 Supp. 2d at 1139. Defendants have assumed the binding status of such finding for the  
 purpose of this brief, but respectfully reserve their right to appeal on this and the broader  
 question of the binding nature of factual findings vacated by and thus not incorporated in  
 the Final Judgment.

1 *II*, 542 F. Supp. 2d at 1102-08. In December 1937, after Detective acquired two  
2 other comic strips penned by Siegel and Shuster, called “Slam Bradley” and “The  
3 Spy,” Detective entered into “a written contract of employment” with them to  
4 provide material for these strips for the next two years. *Id.* at 1106; *Siegel I*, 496 F.  
5 Supp. 2d at 1114. This agreement provided that Detective as “employer” would be  
6 deemed the “sole creator” of their material for these strips and that “any new and  
7 additional features which the Employees produce for use in a comic magazine are  
8 to be first submitted to Employer, who reserves the right to accept or reject same  
9 within a period of sixty days.” (Bergman SJ Decl. Ex. A). At that time, Detective  
10 discussed with Siegel and Shuster the possibility of their furnishing material for a  
11 new comic magazine at the increased rate of \$10 per page. *Siegel I*, 496 F. Supp.  
12 2d at 1114. *See also* FOF ¶ 16.

13 In early 1938 Detective decided to proceed with its new magazine, titled  
14 *Action Comics*. *Siegel I*, 496 F. Supp. 2d at 1114; *Siegel II*, 542 F. Supp. 2d at  
15 1106. *See also* FOF ¶ 17. When the McClure Newspaper Syndicate brought  
16 Siegel and Shuster’s Superman strip to Detective for consideration as a new series  
17 for *Action Comics*, Detective decided to “exercise . . . the option granted to it by  
18 said agreement of December 4, 1937” (FOF ¶ 29; *see also Siegel I*, 496 F. Supp. 2d  
19 at 1113-14; *Siegel II*, 542 F. Supp. 2d at 1106) to publish the original Superman  
20 story. (*Siegel I*, 496 F. Supp. 2d at 1114; *Siegel II*, 542 F. Supp. 2d at 1107; FOF  
21 ¶¶ 19 & 24-29).

22 On March 1, 1938, Detective executed an agreement with Siegel and Shuster  
23 to obtain all rights in their pre-existing Superman materials and the Superman  
24 character. *Siegel I*, 496 F. Supp. 2d at 1107; *Siegel II*, 542 F. Supp. 2d at 1114.  
25 *See also* FOF ¶¶ 25, 33. In this agreement Siegel and Shuster transferred all of  
26 their rights and good will in the Superman materials, including “the exclusive right  
27 to the use of the characters and story . . . contained therein” and also agreed:

28 not to employ said characters or said story in any other strips or sell  
any like strip or story containing the same characters . . . at any time

hereafter to any other person, firm or corporation, or permit the use thereof by said other parties without obtaining your written consent therefor.

(Bergman SJ Decl. Ex. B (hereinafter "March 1938 Agreement"))).

### 3. The Business and Contractual Relationship of the Parties After March 1, 1938

At the time that Siegel and Shuster entered into the March 1938 Agreement, the only existing Superman materials were the Superman strips created some years earlier as expanded in their 13-page comic book format, as well as some additional continuity by Siegel that was never used. (Bergman SJ Decl. Exs. X & Y (Notices of Termination of December 4, 1937 and March 1, 1938 agreements, ¶ 3; ("the said grant included all Superman works in existence up through said date (March 1, 1938)")); see FOF ¶¶ 32-33; *Siegel II*, 542 F. Supp. 2d at 1107. All of that pre-existing Superman material was conveyed to Detective, and Detective used certain of this material in the first issue of *Action Comics #1* published on April 18, 1938. (FOF ¶ 31).

Because it was no longer possible under the March 1938 Agreement for Siegel and Shuster "to employ" their original Superman material without Detective's "consent" (Bergman SJ Decl. Ex. B), the only way they could prepare further Superman material for ensuing features without infringing copyright was to do so with Detective's authorization. Detective obtained the material for such sequels from Siegel and Shuster, paid them for it, and published it "at regular intervals." (FOF ¶ 36); see Plaintiffs' First Amended Complaint ("FAC"), ¶ 28; *Siegel I*, 496 F. Supp. 2d at 1114.<sup>7</sup>

"Siegel and Shuster continue[d] to be paid at the agreed rate of \$10 per page." (FOF ¶ 36); *Siegel I*, 496 F. Supp. 2d at 1114. Both of them also understood that that they could be discharged at any time and that Detective could

<sup>7</sup> Unlike the situation pertaining to the 1940 Superboy Script, the record is clear that Siegel and Shuster were paid for these Superman works at an agreed fixed page rate, and Detective also had the right at any point not only to modify or reject Siegel's and Shuster's submissions but further to replace them with other writers.

1 continue to produce materials containing Superman without their involvement.  
 2 (FOF ¶¶ 37-38, 42 and Conclusion of Law 5.)<sup>8</sup> Detective undertook the financial  
 3 risk of publishing the later Superman features and devoted considerable resources  
 4 to the promotion of its new *Action Comics* magazine and the Superman strip.  
 5 (FOF ¶ 35.) As noted above, Detective at all times also had the ultimate right to  
 6 reject the post March 1, 1938 submissions.

7 The arrangements for Superman's appearances after *Action Comics #1* were  
 8 based on the parties' earlier December 4, 1937 contract and were formally  
 9 reconfirmed in their September 22, 1938 employment agreement. This agreement  
 10 (the "September 1938 Employment Agreement") expressly sets out the terms on  
 11 which Siegel and Shuster had been supplying and would "continue" to furnish the  
 12 new episodes. (Bergman SJ Declaration, Ex. F). More specifically, the parties:

- 13 • Reiterated that Siegel and Shuster "have been doing the art work and  
 14 continuity for said comics [including Superman] for us." (pg. 1)
- 15 • Stated that "we [Detective] wish you to continue to do said work and hereby  
 16 employ and retain you for said purposes for the period of this contract." (pg.  
 17 1)
- 18 • Affirmed that Siegel and Shuster expressly confirmed that Detective  
 19 Comics, Inc. was the "exclusive owner" of "comic strip[s] known by the  
 20 title[] 'Superman'...and to the rights to publish comic strips carrying said  
 21 titles and characters contained therein and continuity thereof." (pg. 1)
- 22 • Confirmed that Siegel and Shuster shall furnish "such matter [Superman  
 23 material] exclusively to us [Detective] for the duration of this a reement *as  
 24 such matter may be required by us or as designated by us in writing.*" (pg.  
 25 1)
- 26 • Provided that Siegel and Shuster would continue to be paid at the same rate  
 27 of \$10 per page. (pg. 2)
- 28 • Confirmed that Detective possessed editorial control over the content of the

<sup>8</sup> See also Declaration of Michael Bergman in Support of Defendants' Reply In Support of Motion for Partial Summary Judgment filed on June 25, 2007 ("Bergman Reply Decl.") at 73 (1941 Saturday Evening Post article based on interviews with Siegel indicates Siegel and Shuster's awareness in March of 1938 not only that Detective would be sole owner of Superman but also that henceforth Detective would at its sole discretion decide whether to hire them or some other team to draw the strip.) In his March 1, 1973 affidavit in the *National* litigation, Siegel referred to this article without questioning its accuracy. See Declaration of Michael Bergman in Opposition to Plaintiffs' Motion for Partial Summary Judgment in the Superman Action filed May 29, 2007 ("Bergman Opp. Decl.") Ex. H.

1 Superman comics, reserved “the right to reasonably supervise the editorial  
2 matter of all features” and mandated that that the “comics shall be equal to  
the present standards.” (pg. 1, 3)

- 3 • Reiterated that other artists could be substituted and Siegel and Shuster  
4 could be terminated if the standards were not met; (pg. 2) and
- 5 • Made clear that Detective was the copyright owner of all works covered,  
including Superman. (pg. 2)

6 *Id.* (emphasis added); *see also Siegel I*, F. Supp. 2d at 1114.

7 Over the years, Detective exercised considerable control over the direction  
8 of Siegel’s creations, eventually requiring Siegel to submit synopses for advance  
9 approval. (FOF ¶ 86. *See also* December 19, 1939 Agreement (Declaration of  
10 Michael Bergman In Support of Defendants’ Brief on Additional Issues (“Bergman  
11 Decl.”) Ex. A) (requiring confirmation “([t]hat we have the unrestricted right to  
12 adapt, arrange, change, transpose, add to and otherwise deal with any or all said  
13 comic strips and the titles, characters, and continuity thereof as we on our sole  
14 discretion may deem it necessary or advisable to do so.”)).<sup>9</sup> Indeed, the Superman  
15 story and characters evolved on an issue-by-issue basis under the guidance and  
16 direction of the editors of Detective, and then DC. *See also Siegel II*, 542 F. Supp.  
17 2d at 1110-11. By the end of 1947, Siegel had ceased providing regular continuity  
18 for Superman comic books and no longer played any role in furnishing Superman  
19 material to Detective or its successors.

#### 20 4. Plaintiffs’ Notices and Copyright Termination Claim

21 In April 1999, Plaintiffs served notices of termination under 17 U.S.C. §  
22 304(c) purporting to terminate grants by Siegel of renewal copyrights to DC’s  
23 predecessors in specified Superman works, including his first appearance in *Action*  
24 *Comics #1*, as well as certain unpublished, unregistered early versions of such  
25 story (the “Notices”), all effective as of April 16, 1999. (Bergman SJ Decl. Exs.

26 \_\_\_\_\_  
27 <sup>9</sup> In fact, when Siegel and Shuster were unable to meet their workload, the work was  
28 occasionally ghost written by others at the direction of Detective. (FOF ¶ 58, 87). Even  
when Siegel was no longer involved as a contributor, the production of Detective’s  
Superman works continued. (FOF ¶¶ 63; 92 (120 releases of Superman published in  
magazines between 1943 and 1947 including when Siegel was away during the war.))

1 X-DD.) The Notices with respect to the December 4, 1937 and March 1, 1938  
 2 grants state that such agreements “included all SUPERMAN works in existence up  
 3 through said date (March 1, 1938) . . .” (*id.* at 551), and each identifies the  
 4 terminated works as “an illustrated comic book constituting a front cover and  
 5 pages 1-13, inclusive, in the body of Action Comics, Vol. 1, No. 1, June 1938  
 6 issue, publication date April 18, 1938 . . . Copyright Reg. No. B379787 . . .,” the  
 7 previous unpublished and unregistered works upon which this first published  
 8 Superman comic feature was based, as well as a 550 page list of additional  
 9 “remaining works,” that include “each and every work (in any medium . . .  
 10 wherever created)” that includes any Superman “element.” *Id.*

11 In this action, Plaintiffs allege that their Notices have had the effect of  
 12 terminating and recapturing joint copyright ownership for the extended renewed  
 13 term of “(i) the copyrightable ‘Superman’ character; (ii) the 1934 Superman  
 14 Comic Strip and the Revised 1934 Comic Strip, both published as/in Action  
 15 Comics No. 1; (iii) the material published as/in Action Comics Nos. 1-6 (statutory  
 16 copyright to Action Comics No. 6 was secured on September 26, 1938); (iv) the  
 17 material published as/in Action Comics Nos. 7-61 (statutory copyright to Action  
 18 Comics No. 61 was secured on April 13, 1943), and/or (v) subsequent works  
 19 involving ‘Superman’, all as set forth in the Notice of Termination.” (FAC ¶ 39.)  
 20 Plaintiffs also allege that all Superman works created by Siegel and Shuster after  
 21 the first Superman story appeared in *Action Comics #1*, including Superman stories  
 22 in *Action Comics #2-61*, were not works made for hire (*Id.* ¶¶ 30-32 & 34).  
 23 Reciting the master-servant criteria for determining whether Siegel and Shuster  
 24 were traditional employees (a claim never made by Defendants) – which are  
 25 irrelevant to the 1909 Act work for hire test for independent contractors – and  
 26 without regard to the parties’ actual business and contractual relationship, Plaintiffs  
 27 claim that such works are not made for hire. (*Id.* ¶ 34).

28 Defendants have denied each of these allegations, and DC Comics’ Fifth



Alternative Counterclaim seeks a declaration that the copyright rights in the newly added material in any of the “derivative works based upon and that post-date Action Comics no. 1 . . . are owned exclusively by DC Comics” and not subject to copyright termination (Am. Ans. and Counterclaim ¶¶ 118-20).

**B. All Works Created By Siegel Subsequent to the Action Comics #1 Story Were Works for Hire Created At the Instance and Expense of Detective Comics**

Because the above facts are not and cannot be disputed, resolution of the copyright ownership issues raised herein calls upon the Court to do “exactly what the Second Circuit did in its time” and what this Court previously did in deciding the work for hire status of the 1940 Superboy Script, namely, to “apply the copyright law under the 1909 Act” to the established facts, including relevant findings of the referee and “render a legal judgment” as to the works at issue. *Siegel I*, 496 F. Supp. 2d at 1137.

Works for hire are excluded from termination under the express terms of the statute. *See* 17 U.S.C. § 304(c). As this Court has previously noted, “if a work is one for hire, then Siegel’s heirs cannot seek to terminate his earlier grant . . . to defendants’ predecessors in interest, such a grant being merely a superfluous act that did not alter the pre-existing ownership rights to that copyright. *Id.* at 1135 (citing *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 554 (2d Cir. 1995) (“Once it is established that a work is made for hire, the hiring party is presumed to be the author of the work”))). Accordingly, copyrightable material contributed by Siegel to subsequent Superman works pursuant to a work for hire relationship is not subject to termination and recapture, and has no relevance to the remaining issues in this case.<sup>10</sup>

<sup>10</sup> Under Fed. R. Evid. 402, irrelevant evidence must be excluded. Accordingly, in the interest of efficiency, this court has the authority to exclude irrelevant evidence prior to trial. *Fournier v. McCann Erickson*, 242 F. Supp. 2d 318, 334-35 (S.D.N.Y. 2003) (“The purpose of a motion in limine is to allow the trial court to rule in advance of trial on the admissibility and relevance of certain forecasted evidence.”) With the exception of the *Action Comics #1 Story*, evidence concerning Siegel’s contribution, if any, to the

1 1909 Act precedent determines whether Siegel's contributions to Superman  
 2 comic books after March 1, 1938 were works for hire. *Siegel I*, 496 F. Supp. 2d at  
 3 1136 (citations omitted)). In 1965 the Ninth Circuit was the first to formulate the  
 4 1909 Act "instance and expense" test to determine whether the copyright in a work  
 5 prepared by an independent contractor is owned by the engaging party as a work  
 6 for hire:

7 [w]hen one person engages another, whether as an employee or as an  
 8 independent contractor, to produce a work of an artistic nature, that in  
 9 the absence of an express contractual reservation of the copyright in  
 10 the artist, the presumption arises that the mutual intent of the parties is  
 11 that the title to the copyright shall be in the person at whose instance  
 12 and expense the work is done.

13 *Lin-Brook Builders Hardware v. Gertler*, 352 F.3d 298, 300 (9th Cir. 1965).

14 Under this test courts are required to focus their analysis on three factors: "(1) At  
 15 whose instance was the work prepared; (2) whether the hiring party had the power  
 16 to 'accept, reject, modify', or otherwise control the work; and (3) at whose expense  
 17 was the work created." *Siegel I*, 496 F. Supp. 2d at 1136; *see also Self-Realization*  
 18 *Fellowship Church v. Ananda Church of Self-Realization*, 206 F.3d 1322, 1326  
 19 (9th Cir. 2000); *Lin-Brook*, 352 F.2d at 300. In devising these criteria,  
 20 consideration of "objective" facts was required in order to avoid arguments based  
 21 upon after-the-fact self-serving assertions of subjective intent or other irrelevant  
 22 matters. *Estate of Hogarth v. Edgar Rice Burroughs, Inc.*, 62 U.S.P.Q.2d 1301,  
 23 1327 (S.D.N.Y. 2002), *aff'd*, 342 F.3d 149 (2d. Cir. 2003); *see May v. Moganelli –*  
 24 *Heumann Assocs.*, 618 F.2d. 1363, 1369 (9th Cir. 1980).<sup>11</sup>

25 thousands of other pre-termination Superman works is simply not relevant to Plaintiffs'  
 26 accounting claim.

27 <sup>11</sup> Satisfaction of the requisite inquiry resulted in "an almost irrebut[t]able presumption  
 28 that any person who paid another to create a copyrightable work was the statutory  
 'author' under the 'work for hire' doctrine." *Hogarth*, 342 F.3d at 158; *Easter Seal*  
*Soc'y for Crippled Children v. Playboy Enters.*, 815 F.2d 323, 327 (5th Cir. 1987). As  
 the Second Circuit explained, under the 1909 Act, "a party who hires another to create a  
 copyrightable work is the 'author' of the work for purposes of the statute, absent an  
 agreement to the contrary." *Playboy*, 53 F.3d at 554; *accord Siegel I*, 496 F. Supp. 2d at  
 1136.

1                   **1. Superman Works Subsequent to the *Action Comics #1***  
 2                   ***Story* Were Prepared at Detective Comics' Instance**

3                   The element of "instance" is satisfied by determining which party was the  
 4                   "motivating factor in producing the work." *Siegel I*, 496 F. Supp. 2d at 1139  
 5                   (quoting *Twentieth Century Fox Film Corp. v. Entm't Distributing*, 429 F.3d 869,  
 6                   879 (9th Cir. 2005)). Here, all of the established indicia of instance are present.

7                   First, it is clear that as early as 1933 when Siegel and Shuster created their  
 8                   original Superman material, that their efforts were intended to create an *ongoing*  
 9                   *comic strip feature*, not a one-shot story. Thus, all involved understood that after  
 10                  March 1, 1938 Detective would want and need more Superman material for  
 11                  sequels in later issues of *Action Comics* or otherwise.

12                  Second, on March 1, 1938 it was clear that Detective had become the  
 13                  absolute owner of all the Superman material then "in existence" and that Siegel  
 14                  and Shuster could not make any further use of Superman for any purpose without  
 15                  Detective's permission. *See supra* Section I(A)(1); *National*, 508 F.2d at 913-14.  
 16                  But for Detective's consent, Siegel and Shuster would have been forbidden from  
 17                  creating the Superman stories in *Action Comics #2-61* or any other Superman  
 18                  comic strips, which were derivative works because they were based on the  
 19                  copyrighted material, including the character delineation of Superman, in the  
 20                  *Action Comics #1 Story*. *See* 17 U.S.C. §§ 101 (def. of "derivative work") &  
 21                  103(b); *cf. Siegel II*, 542 F. Supp. 2d at 1124.<sup>12</sup> Thus, Detective was necessarily  
 22                  "the motivating party" in the production of all of the new Superman material: it  
 23                  was Detective alone who supplied the underlying material to Siegel and Shuster  
 24                  and who required and paid them for the derivative works based thereon. Unlike  
 25                  the Superman material furnished for the *Action Comics #1 Story*, none of this  
 26                  material was preexisting – all was subsequently prepared. Under the controlling

27                  <sup>12</sup> Even with regard to the 1940 Superboy Script, Plaintiffs did not deny its derivative  
 28                  nature based on the prior Superman works, *Siegel I*, 496 F. Supp. 2d at 1153; *a fortiori*,  
 the subsequent Superman features were derivative works based on the *Action Comics #1*  
*Story*.

1 cases as well as this Court's prior decision, this is precisely the situation where the  
 2 derivative nature of the works at issue and the need for permission to prepare them  
 3 from the copyright owner of the underlying works has been held to signify that  
 4 they were prepared at the instance of the party who was then the copyright owner  
 5 of the preexisting material. *Siegel I*, 496 F. Supp. 2d at 1143 (discussing *Hogarth*,  
 6 62 U.S.P.Q.2d 1301 and *Picture Music, Inc. v. Bourne, Inc.*, 457 F.2d 1213 (2d  
 7 Cir. 1972)); *see also* 3 Melville B. Nimmer & David Nimmer, *Nimmer on*  
 8 *Copyright* ("Nimmer") § 9.03[D] at 28-3 (2005).<sup>13</sup>

9 Third, although "[t]he work for hire presumption can be overcome by  
 10 evidence of an agreement by which the employee or independent contractor  
 11 retained the copyright in his work," *Dolman v. Agee*, 157 F.3d 708, 712 (9th Cir.  
 12 1998), the parties here fully *reinforced* and *extended* the presumption in their  
 13 September 1938 Employment Agreement. This agreement memorialized an  
 14 already existing classic work for hire relationship. It provided that "You [Siegel  
 15 and Shuster] have been doing the artwork and continuity for said comics *for us*  
 16 [Detective Comics]" and used the unequivocal work for hire language that  
 17 Detective would "employ and retain" Siegel and Shuster to "continue" to provide  
 18 such material on the same basis. (Bergman SJ Decl. Ex. F at 1). *See Hogarth*, 62  
 19 U.S.P.Q.2d at 61 (term "employ and engage" traditional indicia of work for hire).  
 20 *Accord Siegel I*, 496 F. Supp. 2d at 1140 (ensuring Superman material part of  
 21 "regular job duties"). That neither Siegel nor Shuster was "a formal employee" in  
 22 the traditional sense, as this Court has noted, has nothing to do with whether Siegel  
 23 and Shuster were furnishing material as independent contractors on a work for hire  
 24 basis. *Id.* at 1138 (*quoting Playboy*, 55 F.3d at 555).

25 Fourth, instance is also established where a publisher has a right to  
 26 supervise, reject or modify an independent contractor's creative efforts, *Twentieth*

27  
 28 <sup>13</sup> Defendants do not contend that the derivative work status of the Superman features in  
*Action Comics* #2-61 or any other post-March 1, 1938 Superman works requires the  
 conclusion that these were works for hire, but only that such status signifies "instance".

1 *Century*, 429 F.3d at 879-880 (“instance” requirement also “shaped in part by the  
 2 degree to which the hiring party had the right to control or supervise the artist’s  
 3 work”); *accord Siegel I*, 496 F. Supp. 2d at 1143. The fact that after March 1,  
 4 1938 Siegel and Shuster could not use the Superman character or any of the  
 5 Superman continuity without the consent of Detective necessarily gave Detective  
 6 right to accept or reject any submissions. *See* Section I(B)(3) *infra*.

7 Fifth, before *Action Comics* #2 was created Detective had obtained all rights  
 8 to all Superman material then in existence. (Bergman SJ Decl. Ex. B). The parties  
 9 already had a prior employment relationship (evidenced by the December 4, 1937  
 10 agreement) with respect to “Slam Bradley” and “The Spy” to produce content at  
 11 regular intervals. (FOF ¶¶ 15, 33). Under that agreement Siegel and Shuster were  
 12 also to submit material for any other new properties to Detective, which could then  
 13 accept or reject it. (Bergman SJ Decl. Ex. A). At that time, they were told that  
 14 they would be paid \$10 per page for any comic that was subsequently accepted for  
 15 publication in Detective’s new comic magazine, *Action Comics* #1. (FOF ¶ 16).  
 16 In subsequently accepting the Superman strip for *Action Comics* on March 1, 1938,  
 17 Detective exercised the option granted to it in the December 4, 1937 agreement.  
 18 (FOF ¶ 29). Thereafter, for each subsequent issue of *Action Comics*, which “was  
 19 published at regular intervals,” Plaintiffs were told to and submitted the requested  
 20 additional strip. (*See* FOF ¶ 36); *see Siegel I*, 496 F. Supp. 2d at 1138 (regular  
 21 payments and work indicative of work for hire relationship). (*See also* Bergman  
 22 Decl. Ex. B (Liebowitz letter (“we have loaded you up with 43 pages a month . . .  
 23 the success of the magazine is dependent on the type of work done by yourself and  
 24 other contributing artists . . . “)).

## 25 2. *Action Comics* #2-61 and Other Superman Strips after 26 March 1, 1938 Were Created at the Expense of DC Comics.

27 The fact that Siegel and Shuster were paid a sum certain for each page of  
 28 Superman content they produced satisfies the expense requirement of the work for  
 hire test. *See Playboy*, 53 F.3d at 555 (requirement met when “hiring party simply

1 pays an [employee or] independent contractor a sum certain for his or her work.”)  
 2 After March 1, 1938, upon acceptance of Superman submissions to be used in  
 3 *Action Comics* #2 and forward, Siegel and Shuster were paid by Detective at the  
 4 agreed upon rate of \$10 per page (per the December 4, 1937 agreement). (See FOF  
 5 ¶¶ 16, 36). *Siegel I*, 496 F. Supp. 2d at 1138 (“regular, periodic payments of a  
 6 sum certain bear the hallmark of the wages of an employee required to produce the  
 7 work in question for his or her employer, and not that of a party who is free to  
 8 engage [others] in marketing his or her work.”) (citing *Donaldson Pub. Co. v.*  
 9 *Bregman, Vocco & Conn., Inc.* 375 F.2d 639 (2d Cir. 1967)). The amount of the  
 10 payment was increased over time. (FOF ¶ 52).<sup>14</sup>

### 11 3. Detective Comics had the Power to Accept, Reject, Modify 12 or Otherwise Control the Work.

13 With respect to this final factor of the work for hire test, the recipient need  
 14 only possess the power to “accept, reject, or modify” the work at issue. *Twentieth*  
 15 *Century*, 429 F.3d at 880 (quoting *Picture Music*, 457 F.2d at 1217). This inquiry  
 16 is concerned with the abstract ability to control, and not whether the right was  
 17 actually exercised. See *Easter Seal Soc’y for Crippled Children*, 815 F.2d at 327  
 18 (hiring party is “thought to maintain the ‘right’ to control simply by paying for the  
 19 work and having the power to refuse to accept it.”); see *Martha Graham School*  
 20 *and Dance Foundation, Inc. v. Martha Graham School of Contemporary Dance,*  
 21 *Inc.*, 380 F.3d 624, 635 (2d Cir. 2004) (“The right to direct and supervise the  
 22 manner in which the work is created need never be exercised.”)

23 If the post-March 1, 1938 Superman materials were derivative works based  
 24 on the *Action Comics #1 Story*, “such a designation would have vested Detective  
 25 Comics with the right to control that material (Detective Comics’ consent being  
 26 necessary for the material’s production.)” *Siegel I*, 496 F. Supp. 2d at 1144.

27 <sup>14</sup> Unlike the situation pertaining to the 1940 Superboy script, there is no dispute that  
 28 after March 1, 1938 Siegel and Shuster were paid the agreed amount per page for all of  
 their contributions of Superman material for publication in *Action Comics*, as confirmed  
 by the September 1938 Employment Agreement.

1 Because Detective controlled the underlying works upon which the Siegel and  
 2 Shuster's post-March 1, 1938 submissions were based, it alone possessed the right  
 3 to direct and supervise any work derived therefrom. *Hogarth*, 342 F.3d at 163  
 4 ("the copyright proprietor has the right to 'direct and supervise' the work of the  
 5 commissioned party sufficient to render it a work for hire.") (internal citations  
 6 omitted). Detective made it clear to Siegel and Shuster that it alone owned all  
 7 rights to the Superman strips; that Siegel and Shuster could be discharged at any  
 8 time; and that Detective could continue to produce materials containing Superman  
 9 without the involvement of Siegel and Shuster. (FOF ¶¶ 37-38). This right was  
 10 confirmed in the September 1938 employment agreement, which reserved the  
 11 "right to reasonably supervise the editorial matter of all features." (Bergman SJ  
 12 Decl. Ex. F).<sup>15</sup> Accordingly, this final element of the work for hire test is also  
 13 satisfied.<sup>16</sup>

14 **C. Plaintiffs Have Not Recaptured The "Superman Character" As**  
 15 **Only Specific, Individual Works Are Subject To Recapture**

16 **1. Copyright Protection and Ownership, Including the Right**  
 17 **of Termination, is Provided for on a Work by Work Basis**

18 Copyright protection and ownership subsists on an individual basis for any

19 <sup>15</sup> As noted above, Detective at all times also had the ultimate right to reject the post  
 20 March 1, 1938 submissions.

21 <sup>16</sup> Assuming, *arguendo*, that any of the post-*Action Comics #1* Superman works were not  
 22 created at the instance and expense of DC (and therefore were not works for hire),  
 23 Plaintiffs' recapture interest would in any event be limited to only those derivative works  
 24 actually authored by Siegel. As explained in its legislative history, the purpose of Section  
 25 304(c)'s termination provision is to give "the author or the dependents of the author . . . a  
 26 chance to benefit" from the extension of the renewal copyright term for 1909 Act works.  
 27 H.R. Rep. No. 94-1476, 94th Cong. 2d Sess. (1976) ("H. Rep."), at 140. Accordingly,  
 28 termination rights are afforded only to "the author" or, if he is dead, to certain  
 "designated" persons related to the author of any particular copyrighted work. 17 U.S.C.  
 § 304(c)(1) & (2). It is self-evident that one cannot claim an initial copyright ownership  
 interest in works he did not author. See 17 U.S.C. § 201 (a) & (b). Here, Siegel had no  
 involvement in the creation of the vast majority of works listed in the Notices. See, e.g.,  
 Bergman SJ Decl. Ex. X at 493 (Lois & Clark television series), 547 (theme from the  
 movie *E.T.*, which is alleged to include theme from the Superman film), 477a (action  
 figure of Lex Luthor/Kryptonite.) Without any creative participation, Siegel could not  
 possibly be considered the "author" of these later works on any theory. As a result,  
 neither he nor his heirs after his death were given any termination right with regard to  
 such works.

1 particular work: “copyright protection subsists . . . in *original works of authorship*  
 2 fixed in any tangible medium of expression.” 17 U.S.C. 102(a). *See also* 17 U.S.C.  
 3 §§ 102(a), 201(a) (“[c]opyright *in a work* protected under this title vests” in its  
 4 author or authors) (emphasis added). These bedrock provisions carry forward prior  
 5 law under the 1909 Act. *See generally* H. Rep. at 51-57 and 120-21.

6 In the 1976 Act’s provisions embodying the newly provided termination  
 7 right, Congress similarly structured this benefit to authors in terms of the copyright  
 8 in particular works. Thus, section 304(c) enables an author or his heirs designated  
 9 therein to terminate pre-1978 grants “[i]n the case of *any copyright* subsisting in  
 10 either *its* first or renewal term on January 1, 1976, other than *a copyright in a work*  
 11 *made for hire.*” 17 U.S.C. § 304(c) (emphasis added). Pursuant to 17 U.S.C. §  
 12 304(c)(4)(B), the Register of Copyright required a terminating party to specifically  
 13 identify “each work to which the notice of termination applies . . . and . . . the  
 14 original copyright registration number.” 37 C.F.R. § 201.10(b)(1)(ii). That section  
 15 304(c) and the Copyright Office Regulations speak in terms of a “*copyright*” and a  
 16 particular “*work*,” and provide for the right of termination of grants with respect to  
 17 particular copyrighted *works* – not in terms of groups of copyrights, or any  
 18 components or aspects of a copyright – follows from the above statutory provisions  
 19 pertaining to copyright protection and ownership.

20 Thus, the right to terminate prior grants under section 304(c), which relates  
 21 to copyright ownership can only be effected on a work by work basis. *See Siegel*  
 22 *II*, 542 F. Supp. 2d at 1134 (“The instant matter, although couched in terms of  
 23 terminating the 1938 grant, is in effect one for co-ownership of the copyright in the  
 24 Superman material contained in Action Comics, Vol. 1.”).

## 25 **2. Plaintiffs Can Not Under Section 304(c) Amorphously** 26 **Recapture a Character**

27 Although Plaintiffs assert their entitlement to recapture the “copyrightable  
 28 ‘Superman’ Character,” *see* FAC ¶ 39, their right to recapture rights in particular  
 works does not entitle them to separately recapture protectable components of any



1 particular work, such as a character in a literary or dramatic work, on an  
 2 amorphous basis. This is because characterization, along with plot and setting or  
 3 locale, are not works themselves, but only components of literary, pictorial and  
 4 audio visual works. Thus, section 102(a), which lists the categories of works of  
 5 authorship for which copyright protection subsists, does not include characters. As  
 6 explained by Patry:

7 Characters are not enumerated in the statute as a separate class of  
 8 copyrightable work and cannot be separately registered . . . This is,  
 9 however, a purely administrative matter with no effect on copy-  
 rightability.

10 1 William F. Patry, Patry on Copyright ("*Patry*"), § 3:164 (1st ed. 2007) (citations  
 11 omitted). Insofar as copyrightability is concerned – which is not at issue here –  
 12 copyright protection for characters *as part of the works in which they are*  
 13 *incorporated* has long been upheld where the character is sufficiently delineated.  
 14 *See, e.g., Rice v. Fox Broad. Corp.* 330 F. 3d 1170, 1175-76 (9th Cir. 2003);  
 15 *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930).

16 To the extent that a character is adequately developed therein, recapture of  
 17 copyright in a work by termination would enable the terminating party to regain  
 18 the ownership benefits of all the work's protectable components, including such  
 19 character delineation, but only copyrightable material from a particular "work"  
 20 subject to termination can be recaptured. This is made clear by section 304(c)'s  
 21 express terms which only permit termination of "any copyright," *i.e.*, work,  
 22 "subsisting in either its first or renewal term on January 1, 1978." Moreover,  
 23 where a terminated agreement has granted the right to use a character, the only way  
 24 to recapture *the entirety* of the copyrightable components of a character as  
 25 delineated in a series of works is to recapture the copyright in all of the works in  
 26 which he and his exploits are depicted. *See Burroughs v. Metro-Goldwyn-Mayer,*  
 27 *Inc.*, 683 F.2d 610, 622-23 (2d Cir. 1982). In other words, where, as here,  
 28 termination is limited to the rights granted in the first work because the sequels are  
 works for hire (*see* Section I, above), termination will not recapture expanded

1 character delineation in sequels.<sup>17</sup>

2 Finally, that the requirement to specify “each work to which the notice  
3 applies” cannot be satisfied by only identifying generally a separate creative  
4 component found in a work, such as a character, is also confirmed by Plaintiffs’  
5 own Notices which specify “each work to which” they apply but nowhere identify  
6 as the subject of Plaintiffs’ purported terminations “the Superman character,”  
7 whose delineation has been expanded in many subsequent works not subject to  
8 recapture. (*See* Bergman SJ Decl. Exs. X-DD ¶¶ 2-3).

9 **II. PROFITS FROM THE DOMESTIC EXPLOITATION OF EACH**  
10 **POST-TERMINATION SUPERMAN WORK MUST BE SEPAR-**  
11 **ATELY “APPORTIONED” TO DETERMINE WHAT PERCENTAGE**  
12 **IS ATTRIBUTABLE TO THE *ACTION COMICS #1* STORY**

13 As the Court has noted, “the accounting sought by plaintiffs in this action is  
14 an equitable remedy” that will involve “an apportionment” to determine what  
15 profits are recoverable. *Siegel II* 542 F. Supp. 2d at 1145. “Apportionment,” in  
16 the copyright context, refers to determining what percentage of a defendant’s total  
17 profits garnered from the exploitation of a particular work can reasonably be  
18 attributed to the copyrightable elements of the underlying work which plaintiff  
19 owns or shares. *See Sheldon v. Metro-Goldwin Pictures Corporation*, 106 F.2d 45  
20 (2d Cir. 1939), *aff’d* 309 U.S. 390 (1940). While the apportionment concept was  
21 developed and has generally been applied in copyright infringement cases, there is  
22 no principled reason why the concept should not also be applied where, as here,  
23 there is an accounting issue between co-owners of a copyright as to their respective  
24 shares of the profits generated by works utilizing the co-owned copyright<sup>18</sup> –

25 <sup>17</sup> In *Burroughs*, the Second Circuit held that notwithstanding the effectiveness of the  
26 termination of the grantee’s rights in the first work in which the character Tarzan  
27 appeared as well as in some but not all of the ensuing Tarzan stories, defendant MGM  
28 “still had the right to reuse Tarzan and whatever other characters it had used in the 1932  
film [the first licensed work] if they appeared in any” of the later books not terminated.  
*Id.*, 683 F.2d at 623.

<sup>18</sup> The Court has ruled that Plaintiffs have successfully terminated, effective as of April  
16, 1999, Siegel’s grant to Detective. *Siegel II*, 542 F. Supp. 2d at 1142, 1145. However,  
since there has not yet been an effective termination of Shuster’s concurrent grant to  
Detective of the same Superman materials and rights, DC retains all of Shuster’s

1 particularly since a defendant co-owner, unlike an infringer, is not a wrong-doer.<sup>19</sup>

2 Plaintiffs have asked this Court for an accounting and an award of a share of  
3 Defendants' profits attributable to the exploitation of all Superman derivative  
4 works newly prepared after the April 16, 1999 effective date of their termination.<sup>20</sup>  
5 However, because virtually all of these post-termination works contain  
6 copyrightable elements that have not been recaptured by Plaintiffs but are instead  
7 owned exclusively by DC (including DC's other superhero characters), Defendants  
8 respectfully submit that, as the Court has recognized, any determination of  
9 Plaintiffs' accounting claim will necessarily require an equitable apportionment of  
10 the profits generated by each of Defendants'<sup>21</sup> post-termination Superman works to  
11 determine what percentage of those profits is properly attributable to the original  
12 *Action Comics #1 Story*, and what percentage is attributable to everything else –  
13 including the copyrightable elements in the Announcements or other elements  
14 (copyrightable or not) authored or contributed thereafter by DC or its licensees.

15 Plaintiffs have previously taken the position that no apportionment analysis  
16 should be conducted for certain types of works (*e.g.* works prepared by  
17 Defendants' licensees), and that Plaintiffs are entitled to a flat 50% of Defendants'

18 copyright interests in the *Action Comics #1 Story*, and remains fully entitled to continue  
19 to exercise such co-ownership rights to this day. *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d  
1081, 1086 (9th Cir. 1989); *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984).

20 <sup>19</sup> The Court has also ruled that Plaintiffs' Notices did not reach the two Announcements  
21 for *Action Comics #1*, which were copyrighted by Detective prior to April 16, 1938,  
22 *Siegel II*, 542 F. Supp. 2d at 1126, and which contain the first published image of  
23 Superman. Therefore, DC remains the sole owner of the copyrightable content of the  
24 Announcements, and remains entitled to exploit that content without sharing with  
25 Plaintiffs the proceeds attributable to that content. *Id.* Finally, since all of Siegel's post-  
*Action Comics #1* contributions to Superman were as works for hire, DC remains the sole  
proprietor of all of the new copyrightable content of the Superman works published after  
*Action Comics #1* and through the effective date of Plaintiffs' termination. (*See* Section I,  
*infra.*)

26 <sup>20</sup> *See* FAC at ¶¶ 58, 66-73, 105(d), 106, 108-110.

27 <sup>21</sup> Defendants' consider that Plaintiffs are entitled to share only in defendant DC Comics'  
28 profits, and not in the profits of any other defendant. However, Defendants recognize  
that the Court has reserved for trial the issue of whether DC's licenses to defendant  
Warner Bros. Entertainment Inc. ("WBEI") constitute so-called "sweetheart deals,"  
entitling Plaintiffs to reach the profits of WBEI in connection with the works prepared  
pursuant to those licenses.

1 profits from all such works.<sup>22</sup> Further, Plaintiffs have argued that where an  
 2 apportionment analysis might be appropriate, such apportionment should be  
 3 weighted heavily in favor of the *Action Comics #1 Story*.<sup>23</sup> But whatever the trier  
 4 of fact might ultimately decide regarding the relative weights of the parties'  
 5 respective contributions and the resulting percentages to be applied to the profits  
 6 from post-termination works, it is clear as an initial matter that an apportionment  
 7 analysis must in fact be conducted,<sup>24</sup> and that the analysis must be conducted on a  
 8 work-by-work basis: The Superman character and mythology have been  
 9 significantly expanded with new characteristics, characters and story elements in  
 10 the decades since *Action Comics #1* was published, and those new elements –  
 11 which were never owned by Siegel and accordingly were not recaptured by  
 12 Plaintiffs – permeate all of the post-termination works in varying amounts.  
 13 Moreover, Superman has appeared in myriad works either in a cameo role or  
 14 joined with major characters outside the “Superman family” – as part of the  
 15 “Justice League” team or co-starring with Batman. Under these circumstances,  
 16 both established copyright law and the equitable principles of co-ownership  
 17 accounting mandate that each post-termination work at issue be separately  
 18 considered so that the *Action Comics #1 Story* elements in that work are identified  
 19

20 <sup>22</sup> In the FAC, Plaintiffs’ acknowledge that there is an “apportionment” issue relating to  
 21 whether the profits, in which they claim the right to a joint owner’s 50% share, should be  
 22 limited to profits attributable to the use of copyrighted material from “the underlying  
 23 Recaptured Copyrights co-owned by Plaintiffs” (FAC, ¶ 58(c)) or should also include  
 24 profits attributable to other material not found in such underlying works but contributed  
 25 later to the “‘Superman’ franchise” by any of Defendants’ predecessors in interest (*id.*).  
 However, they argue that there should be either “no apportionment” at all (*id.* ¶ 106(c))  
 or “[a]lternatively, that apportionment should apply only to profits from the exploitation  
 of the Recaptured Copyrights in derivative works created by a Defendant, but not to  
 profits from licensing of the Recaptured Copyrights (*id.* ¶ 106(d)) (italics omitted). *See,*  
*also,* FAC at ¶¶ 58(b), 73, 106-109.)

26 <sup>23</sup> *See, e.g.,* FAC, ¶ 106(e). “[A]pportionment . . . should weigh strongly in Plaintiff’s  
 27 [sic] favor, since the value of the Superman Franchise is largely attributable to the unique  
 ‘Superman’ character and other elements created by Siegel and Shuster and protected by  
 the Recaptured Copyrights, in a percentage that the court may deem just and proper.”

28 <sup>24</sup> In oral argument on September 16, 2007, Plaintiffs’ counsel acknowledged the  
 necessity for certain apportionments to be made in connection with Plaintiffs’ equitable

1 and quantified, and that Plaintiffs' recovery does not extend to profits attributable  
2 to the other elements in the work in which they have no ownership interest.

3 **A. Numerous New Characters, Characteristics and Story Elements**  
4 **Have Been Created By DC Comics and Its Licensees Since *Action***  
5 ***Comics #1*, and Those New Elements Permeate the New Post-**  
6 **Termination Works**

7 It is beyond dispute that, in the 70 years since Superman's first appearance,  
8 Superman has developed substantially, and his "universe" has expanded  
9 exponentially. As judicially recognized, the presentations of Superman since the  
10 first *Action Comics #1 Story* were not a static depiction but an ever-evolving  
11 portrayal, adding new super powers, new villains and new components to the  
12 Superman mythos and backstory. *See Warner Bros., Inc. v. American*  
13 *Broadcasting Cos.*, 654 F. 2d 204, 205-06 (2d Cir. 1981). Indeed, the Superman  
14 story and characters evolved on an issue-by-issue and episode-by-episode basis as  
15 directed by the editors of Detective, and then DC, for decades. As this Court has  
16 observed, "[t]hese additional works have added decades of new material to further  
17 define, update, and develop the character (such as his origins, his relationships, and  
18 his powers and weaknesses) in an ongoing flow of new exploits and supporting  
19 characters, resulting in the creation of an entire fictional Superman 'universe.'" *Siegel II*, 542 F. Supp. 2d at 1110.

20 Significantly, many of Superman's powers that are among his most famous  
21 today did *not* appear in the *Action Comics # 1 Story*, but only appeared in later  
22 publications. These include his ability to fly; his super-vision which enables him  
23 to see through walls ("x-ray" vision) and across great distances ("telescopic"  
24 vision); his super-hearing which enables him to hear conversations at great  
25 distances; his ability to survive in space without atmospheric protection; and his  
26 "heat vision," the ability to aim rays of extreme heat with his eyes. *Siegel II*, 542  
27 F. Supp. 2d at 1110-11. Also absent from the *Action Comics # 1 Story* was any  
28 reference to some of the more famous story elements now associated with

accounting claims. (See Bergman Decl. Ex. C (Hearing Transcript) at 16 & 22).

1 Superman but at the time not yet created, such as “Kryptonite” or the name of  
 2 Superman’s home planet “Krypton,” the “Fortress of Solitude,” and the “Daily  
 3 Planet.” (*Id.*) In addition, some of the most famous supporting characters  
 4 associated with Superman do not appear in the *Action Comics #1 Story*, including  
 5 Jimmy Olsen and villains Lex Luthor and Brainiac. (*Id.*) Even Lois Lane lacked a  
 6 last name – it was added later.

7 Numerous “Superman universe” works and products embodying such post-  
 8 *Action Comics #1 Story* components have been created by DC and its licensees  
 9 following the April 16, 1999 effective date of Plaintiffs’ termination. These works  
 10 include hundreds of Superman comic books and graphic novels; the *Smallville*  
 11 television series of which in excess of 150 episodes have been produced; and the  
 12 2006 motion picture *Superman Returns* – all of which feature varying amounts of  
 13 new Superman story elements. (Declaration of Paul Levitz submitted herewith  
 14 (“Levitz Decl.”), ¶ 3). The post-termination works also include a myriad of works  
 15 and products that include and feature DC superhero characters *in addition to*  
 16 Superman – such as Batman, Wonder Woman, Green Lantern and Flash –  
 17 marketed under the titles, *inter alia*, of *Justice League*, *Legion of Superheroes*, and  
 18 *Infinite Crisis*. (*Id.*) Additionally, DC has licensed the production and sale of  
 19 literally thousands of consumer products – including toys, games and apparel – that  
 20 include not only Superman imagery, but also to a large extent, as labeling, DC’s  
 21 Superman-related trademarks. (*Id.* ¶ 4).<sup>25</sup> In many instances, these trademarks  
 22 involve no copyrightable matter, while in others a copyrightable aspect of the  
 23 Superman character, such as his image, is used only to identify the product’s  
 24 source or origin.

25  
 26 <sup>25</sup> These examples of post-termination Superman works are provided to the Court by way  
 27 of example only for purposes of this motion, and are by no means an exhaustive  
 28 representation of all the relevant Superman works created since April 16, 1999 that will  
 be proffered at trial. Those works, particularly in the consumer products area, are  
 extremely voluminous, and most of the works are unique in the specific mix of Superman  
 elements they contain.

1 The elements that have not been recaptured by Plaintiffs – namely the new  
 2 Superman character delineation, entirely new characters and story elements owned  
 3 by DC and the non-Superman characters and story components, as well as the first  
 4 published image of Superman in the Announcements and DC’s Superman-related  
 5 trademarks – that is, all the things in addition to the copyrightable elements of the  
 6 *Action Comics #1 Story*, contribute in varying amounts to the success and therefore  
 7 the profits of the numerous post-termination works.

8 **B. Applicable Copyright and Equitable Principles Mandate an**  
 9 **Apportionment Analysis Here**

10 Because Plaintiffs are not the sole owners of the copyrightable elements in  
 11 the *Action Comics #1 Story*, and because DC and its licensees authored the post-  
 12 termination Superman works and therefore own all the new material included in  
 13 those works, several key copyright principles are implicated, as discussed below.

14 First, it is established copyright law that each co-owner (such as Plaintiffs or  
 15 DC) can use or license the co-owned copyrighted work (such as the *Action Comics*  
 16 *#1 Story*) as he sees fit, subject only to a duty to account to his co-owner for a  
 17 share of the profits from that exploitation. *S.O.S., Inc.*, 886 F. 2d at 1086; *Oddo v.*  
 18 *Ries*, 743 F. 2d. 630, 633 (9th Cir. 1984); *Nimmer*, § 6.12[A], [B] at 6-38.4 - 6-  
 19 38.7.<sup>26</sup>

20 Second, under Section 103(b) of the 1976 Copyright Act, in the case of so-  
 21 called “derivative works,” (*e.g.* any works based on the *Action Comics #1 Story*)

22 <sup>26</sup> Section 201 of the 1976 Copyright Act carried forward the basic principles of prior law  
 23 that copyright “vests initially in the author or authors of the work,” and that “authors of a  
 24 joint work are co-owners of [the] copyright.” 17 U.S.C. § 201(a) & (b). *See also Siegel*  
 25 *I*, 496 F. Supp. 2d at 1144-45. Under the 1976 Copyright Act, pre-existing, *i.e.* 1909 Act,  
 26 “court made law . . . on the rights and duties of co-owners of a work . . . is left  
 27 undisturbed . . . [and] co-owners of a copyright . . . [are] treated generally as tenants in  
 28 common . . . subject to a duty to account to other co-owners for any profits.” *See* H. Rep.  
 at 120-21. Under the 1909 Act, as today, each joint author is a co-owner who possesses  
 “an undivided ownership in the entire work, including all of the contributions contained  
 therein,” 1 *Nimmer* § 6.03 at 6-7; *see Pye v. Mitchell*, 574 F.2d 476, 480 (9th Cir. 1978);  
*Siegel I*, 496 F. Supp. 2d at 1144, and who can nonexclusively exercise all the rights of  
 the copyright owner subject only to a duty to account to other co-owners for their share of  
 “profits” earned from such use or licensing. 1 *Nimmer* § 6.10[A] at 6-34 - 6-36; *Oddo v.*  
*Ries*, 743 F.2d at 632-33.

1 “the copyright ... extends only to the material contributed by the author of such  
 2 [derivative] work, as distinguished from the pre-existing material employed in the  
 3 work.” 17 U.S.C. § 103 (b).<sup>27</sup> Thus, unless a co-owner actually participates in the  
 4 creation and preparation of a derivative work by the other co-owner, he can not use  
 5 the new version at all without the permission of the co-owner who prepared the  
 6 new matter. *Weissmann v. Freeman*, 868 F.2d 1313, 1317 (2d Cir.), *cert. denied*,  
 7 493 U.S. 883 (1989).

8 In *Weissmann*, plaintiff and defendant had jointly authored a number of  
 9 scholarly articles in the field of nuclear medicine over the course of several years.  
 10 Plaintiff took one such jointly-authored article, and revised and updated it, with  
 11 new photo illustrations, references to current scholarly literature, additional textual  
 12 material, and substantial reorganization and rearrangement of the prior material,  
 13 *id.* at 1322, and indicated that she was the sole author of this revised work, *id.* at  
 14 1320. Defendant conceded that the new material was created entirely by plaintiff,  
 15 but argued that his later reproduction and use of the revised work without  
 16 plaintiff’s permission (removing plaintiff’s name as author and substituting his  
 17 own) was nonetheless not an infringement, because he was in effect also the co-  
 18 author of the new work as well as the prior works on which it was based. The  
 19 district court agreed and, after a bench trial, found for defendant, holding that the  
 20 entire series of the parties’ works – including the work alleged to have been  
 21 infringed – constituted a single evolutionary joint work. *Id.* at 1317. The Second  
 22 Circuit, noting that “[t]he finding was made based on the district court’s mistaken  
 23 view that joint authorship of the prior existing works automatically makes the two  
 24

25 <sup>27</sup> As this Court has previously explained, “the 1909 Act . . . recognized that such  
 26 additional material contained within a derivative work was itself ‘subject to copyright’  
 27 protection. 17 U.S.C. § 7 (repealed). For this reason, cases decided under the 1909 Act  
 28 recognized that ‘[t]he aspects of a derivative work added by the derivative author are that  
 author’s property, but the element drawn from the pre-existing work remains on grant  
 from the owner of the pre-existing work.’ *Stewart v. Abend*, 495 U.S. 207, 223 (1990).”  
*Siegel I*, 496 F. Supp. 2d at 1142-43; *see also id.* at 1151-52; *Siegel II*, 542 F.Supp. 2d at  
 1124.



1 joint authors co-owners of the derivative work,” reversed, stating that “[s]uch a  
2 ruling stands copyright law on its head.” *Id.*

3 In explaining its decision, the Second Circuit first noted that “Congress  
4 endeavored to ‘make [] plain that copyright in a derivative work is independent of,  
5 and does not enlarge the scope of rights in, any pre-existing material incorporated  
6 in it.” *Id.* at 1318, citing H. Rep. at 120. Accordingly,

7 Even though one co-author has the right to revise a joint work in order  
8 to create an individual derivative work, the other co-author acquires  
9 no property rights in the newly created work prepared without his  
10 involvement. *Dynamic Solutions, Inc. v. Planning and Control, Inc.*,  
11 646 F. Supp. 1329, 1338-39 (S.D.N.Y. 1986) (even sole author/owner  
of pre-existing material contained in derivative work has no property  
right in new matter created for the derivative work added without his  
participation); see *Weinstein v. University of Illinois*, 811 F.2d 1091,  
1095 (7th Cir. 1987); *H. Rep.* at 120; 1 *Nimmer* § 6.06[B], at 6-15.

12 *Id.* Consequently, since the passive co-owners (such as Plaintiffs) attain no  
13 property ownership interest in the new matter contained in derivative works (such  
14 as that contained in the post-termination Superman works prepared by DC and its  
15 licensees), as a matter of statute they are not entitled to any income from the new  
16 matter, and their interest is limited to those profits of the derivative work that are  
17 attributable to the original, underlying co-owned material.

18 In *Oddo v. Ries*, *supra*, the Ninth Circuit explained that the duty to account  
19 between co-owners “comes from ‘equitable doctrines relating to unjust enrichment  
20 and general principles of law governing the rights of co-owners’” and not from  
21 copyright’s “proscription on infringement.” *Oddo v. Ries*, 743 F. 2d. at 633.<sup>28</sup>  
22 Accordingly, the sharing of profits between co-owners with respect to joint  
23 licensing or licensing by only one of them must be done on an equitable basis. *Id.*  
24 In the absence of an agreement to the contrary, the co-authors will each have equal  
25 shares (1/2 for two, 1/3 for three, etc.) in the profits generated from their jointly  
26 owned work. 1 *Nimmer* § 6.08 at 6-33. As set forth above, however, because a  
27

28 <sup>28</sup> A joint author *cannot* be liable for infringement of copyright from such use or  
licensing. *Id.* at 632-33. See also *Zuill v. Shanahan*, 80 F.3d 1366, 1369 (9th Cir. 1996).

1 passive co-owner owns no property interest in any new matter in a derivative work,  
 2 under this approach, in order to be fair and equitable, the sharing of profits will  
 3 have to involve determining the relative value of the jointly owned underlying  
 4 material (*i.e.*, the *Action Comics #1 Story* less the Announcements), as compared  
 5 with the solely owned newly added material (everything else) in the myriad post-  
 6 termination derivative works in which Plaintiffs seek to share.

7 This approach is quite similar to the formula used for determining what  
 8 profits of an infringer are awarded to the copyright owner of the infringed work.  
 9 See 1 *Nimmer* § 6.12 [C][3] at 6-40 (fact that apportionment concept “involved  
 10 apportionment of profits payable by an infringer rather than by a joint owner does  
 11 not render it any less applicable in these circumstances”). Under section 504(b) of  
 12 the 1976 Copyright Act (concerning infringement), a copyright infringement  
 13 victim is “entitled to recover . . . any profits of the infringer that are attributable to  
 14 the infringement and are not taken into account in computing the actual damages.”  
 15 In addition, “[i]n establishing the infringer’s profits, . . . the infringer is required to  
 16 prove . . . the elements of profit attributable to factors other than the copyrighted  
 17 work.” *Id.*<sup>29</sup> Per the legislative history, the language of this provision makes clear  
 18 that “where some of the defendant’s profits result from the infringement [use of the  
 19 prior work] and other profits are caused by different factors, it will be necessary for  
 20 the court to make an apportionment.” H. Rep. at 161.

21 The leading “apportionment” case is *Sheldon v. Metro-Goldwin Pictures*  
 22 *Corporation, supra*, 106 F.2d 45, which was decided in the infringement context.  
 23 In that case, Judge Learned Hand evaluated what portion of the profits of a motion  
 24 picture could be attributed to the copyrighted play from which it was adapted  
 25

26 <sup>29</sup> This provision deals with the reality that, in any new work making use of a prior work  
 27 – that is, a derivative work – the revenues, and therefore the profits, from sales of the new  
 28 work are only partially attributable to the prior work. Per *Nimmer*, the statutory  
 command means that “no recovery may be ordered for the elements of profits attributable  
 to factors other than the copyrighted work, whether public domain or otherwise.” 4  
*Nimmer* §14.03 at 4-14.

1 (without the permission of the copyright proprietor).<sup>30</sup> Judge Hand discussed a  
 2 two-part apportionment: (1) apportioning out the contributions of others (*e.g.*,  
 3 actors, directors, producers, etc.) to the success of the motion picture, and (2)  
 4 apportioning out the contributions of non-infringing elements (*e.g.*, newly created  
 5 dialogue, characters, scenes, etc.) to the success of the motion picture.  
 6 Recognizing that that there were many factors other than the underlying play that  
 7 contributed to the success of the film, Judge Hand's analysis led him to the  
 8 conclusion that only 20% of the defendant movie company's profits from the film  
 9 were attributable to the underlying copyrighted work. A leading copyright  
 10 commentator, William Patry, correctly notes that "while in *Sheldon* the court  
 11 awarded 20% of the profits, this was only out of an abundance of caution, with  
 12 10% being the favored figure."<sup>31</sup>

13 The principles of apportionment as established by Judge Hand in *Sheldon*  
 14 were quickly adopted and have universally been applied. *See, e.g., Twentieth*  
 15 *Century-Fox Film Corp. v. Stonesifer*, 140 F.2d 579, 584 (9th Cir. 1944) ("It is  
 16 now settled that that where a portion of the profits of an infringing work is  
 17 attributable to the appropriated work, to avoid an unjust course by giving the  
 18 originator all profits where the infringer's labor and artistry have also to an extent  
 19 contributed to the ultimate result, there may be a reasonable approximation and  
 20 apportionment by the court of the profits derived therefrom."); *Abend v. MCA, Inc.*,  
 21 *supra*, 863 F.2d 1465, 1480 (court must apportion profits because factors other  
 22 than the copyrighted story clearly contributed to the subject work's success:  
 23 "Defendants' fear that [plaintiff] could receive 100% of their profits is unfounded.

24

25 <sup>30</sup> While Judge Hand noted the "insoluble" difficulty in an apportionment of determining  
 26 what "evidence of separation" courts will accept "to disentangle" the contributions of the  
 27 prior work from other factors resulting in the success of the second work, *id.* at 48, he  
 28 "resolved to avoid the one certainly unjust course of giving the plaintiffs everything  
 because the defendants cannot with certainty compute their own share." *Id.* at 51; *see*  
*also Abend v. MCA, Inc.*, 863 F.2d 1465, 1478 (9th Cir. 1988), *aff'd on other grounds*,  
 495 U.S. 207 (1990).

<sup>31</sup> 6 Patry § 22:147 at 22-352.

[Plaintiff] can receive only the profits attributable to the infringement. . . . While apportioning profits is not always an easy task in these cases, neither is it a new or unusual one.”); *Frank Music Corp. v. MGM Inc.*, 886 F.2d 1545, 1549 (9th Cir. 1989) (“[w]here a defendant alters infringing material to suit its own unique purposes, those alterations and the creativity behind them should be taken into account in apportioning the profits of the infringing work.”); *Cream Records v. Jos. Schlitz Brewing Company*, 754 F.2d 826, 828 (9th Cir. 1985) (value of non-infringing, independently created material excluded from profits attributed to copyrighted work).<sup>32</sup>

While these cases, too, were in the infringement context, there is no basis in copyright jurisprudence for treating a co-owner who must *share* his profits with his co-owner any worse than an infringer who must *disgorge* his illegally obtained profit to a victim. Moreover, in the infringement context, because the defendant is a tortfeasor the analysis is skewed in favor of the plaintiff, whereas no such public policy is present in this context where one co-owner, here DC Comics, had and has the absolute and unfettered right to make use of the copyrighted work subject solely to a profits accounting. Indeed, apportionment is even more appropriate in a co-ownership context because any sharing between co-owners must be on an “equitable” basis, and it would be inequitable to require a co-owner – who was fully entitled to use the co-owned copyright in a new derivative work – to share *all* of the profits derived from the new work even if the underlying co-owned work comprised only a small fraction of the new work.<sup>33</sup>

<sup>32</sup> See also *Sygma Photo News Inc. v. High Society*, 778 F.2d 89 (2d Cir. 1985) (draw of brand name more significant than photo on cover – 20% of profits awarded); *Gaste v. Kaiserman*, 863 F.2d 1061 (2d Cir. 1988) (in apportioning profits, elements of profit attributable to factors other than copyrighted work include added independent contributions). Numerous other cases, in various Circuits at both the district court and appellate levels, apply the apportionment analysis in infringement cases, and the necessity of apportioning profits has become a core principle in copyright jurisprudence.

<sup>33</sup> Where such apportionment must be made to share profits earned by one co-owner of copyright from exploitation of a derivative work based upon the jointly owned work, the co-owner providing such an equitable accounting does so as a trustee, not as an infringer. *Shapiro Bernstein & Co. v. Jerry Vogel Music Co.*, 223 F.2d 252, 254 (2d Cir. 1955)

**III. AN EQUITABLE APPORTIONMENT REQUIRES A SEPARATE ANALYSIS OF EACH OF THE INDIVIDUAL POST-TERMINATION WORKS IN WHICH PLAINTIFFS CLAIM AN INTEREST TO DETERMINE THEIR RESPECTIVE PERCENTAGES, IF ANY, ATTRIBUTABLE TO THE *ACTION COMICS #1 STORY***

Here, there are hundreds of comic books and graphic novels, thousands of consumer products, and scores of media properties involving Superman that were published and/or produced under license in the nine years since the April 16, 1999 effective date of the Superman terminations notices, and Plaintiffs have requested an accounting, and a share, of the profits of all of them. Accordingly, the profits generated by these post-termination works will have to be allocated, in proportion, to the respective contributions of (1) the recaptured copyrightable elements of the *Action Comics #1 Story* (which Plaintiffs share) and (2) everything else (which they do not).

The “everything else” consists, in large part, of the 70 years of new matter, updated delineation of Superman himself, new Superman family characters, numerous non-Superman family characters teamed with Superman, and new dimensions, expansions and developments to the Superman character and his story that have been added by DC and its predecessors and licensees, resulting from the creative talent of the artists and writers who over the years have imbued Superman with continued vigor and consumer appeal. It also consists of the copyrightable elements contained in the Announcements depicting the cover of *Action Comics #1*, which Announcements were not recaptured by way of Plaintiffs’ termination notices.<sup>34</sup> Finally, a significant portion of the post-termination works – and particularly the consumer products works – only make use of Superman references as trademarks to identify product origin and not to entertain. These trademarks

(“As to the scope of the accounting it is clear that each holder of the renewal copyright on a joint work should account to the other for his exploitation thereof, – not as an infringer but as a trustee.”).

<sup>34</sup> That depiction remains the exclusive property of DC Comics, and DC continues to have the right to prepare derivative works based on that depiction with no need to account to Plaintiffs for any resulting profits. *See Siegel II*, 542 F. Supp. 2d at 1126.

1 remain the exclusive property of DC Comics, and accordingly are also to be  
 2 factored out in the calculation of profits to be shared with Plaintiffs. (*See Section*  
 3 *IV, infra.*)

4       Once again, given the paucity of apportionment authority in the co-  
 5 ownership context, cases analyzing infringement claims must provide the  
 6 necessary guidance to determine how multiple content works are to be reviewed  
 7 and apportioned, when each of the multiple content works is claimed to derive, in  
 8 some part, from the plaintiff's copyrighted work. Practically speaking, this issue  
 9 does not arise frequently in infringement cases because most of those cases involve  
 10 a one-by-one comparison of the infringed and infringing works. However, as  
 11 shown below, those few infringement cases that do involve "multiple" works either  
 12 explicitly or implicitly require a separate analysis of each allegedly infringing work  
 13 to determine first if there was, in fact, infringement, and if so, the extent of profits  
 14 attributable to each use of infringing material. Under the principles applied in  
 15 these cases, each of the post-termination Superman works published by DC, and  
 16 each of the Superman merchandise and media products created and distributed  
 17 under license from DC, must be assessed separately and individually to determine  
 18 whether and to what extent they incorporate elements of the *Action Comics #1*  
 19 *Story*, and therefore what portion of the revenues (and ultimately the profits)  
 20 generated by those works can fairly be attributed to those recaptured copyrightable  
 21 elements. *See, e.g., Brown v. McCormick et al.*, 87 F. Supp. 2d 467 (D. Md. 2000);  
 22 *Blackman v. Hustler Magazine, Inc.*, 620 F. Supp. 792 (D. D.C. 1985); *ABKCO*  
 23 *Music, Inc. v. Harrisongs Music, Ltd.*, 508 F. Supp. 798 (S.D.N.Y. 1981).<sup>35</sup>

24 \_\_\_\_\_  
 25 <sup>35</sup> *Cf. Columbia Broad. Sys., Inc. v. Superior Court*, 69 Cal. Rptr. 348, 350, 353-56 (Cal.  
 26 App. 1968) (where plaintiff alleged that two episodes of a 132-episode television series  
 27 "copie[d] and use[d] a script, and the ideas, characters, characterizations, plot, theme and  
 28 story line contained therein," defendant was ordered to answer an interrogatory  
 requesting information on the profits it had earned on those particular episodes); *Twin*  
*Peaks Prods., Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366, 1381 (2d Cir. 1993) (holding  
 that separate episodes of the *Twin Peaks* television series are separate "works" for  
 purposes of statutory damages under 17 U.S.C. §504(c), stating that "The author of eight  
 scripts for eight television episodes is not limited to one award of statutory damages just

1 *Brown* provides an illustration of the proper application of this work-by-  
 2 work analysis in a case involving infringement across several mediums. In *Brown*,  
 3 plaintiff Quiltmaker alleged that defendants had infringed two copyrighted quilt  
 4 designs and, therefore, that various displays of those two quilts were infringing,  
 5 including displays in the movie *How to Make an American Quilt*; on T-shirts and  
 6 tote bags promoting the movie; in a painting and in prints of the painting; on cable  
 7 television programs; at quilting exhibitions; and in a book. *Brown*, 87 F. Supp. 2d  
 8 at 469. Accordingly, the court analyzed each separate display to determine  
 9 infringement, finding some of the accused works to be infringing, and some not.  
 10 *Id.* at 481-82.

11 After determining which uses were infringing, the Court then evaluated the  
 12 plaintiff's damages claims with respect to each alleged infringement. That  
 13 damages award included, *inter alia*: (1) an award of \$1 nominal damages for  
 14 exhibiting an infringing quilt because plaintiff did not suffer any damages and  
 15 defendants did not earn any profits from the exhibition; (2) \$0 for including an  
 16 infringing quilt on tote bags and T-shirts to promote the movie because plaintiff  
 17 did not suffer any damages and defendants did not earn any profits from the  
 18 merchandising of the movie; (3) statutory damages in the amount of \$500 per  
 19 infringement of each of the 14 copyrighted patterns that made up one of the  
 20 infringing quilts as damages for including a picture of that quilt in a book; (4)  
 21 statutory damages in the amount of \$500 per infringement of each of the 14  
 22 copyrighted patterns that made up one of the infringing quilts as damages for the  
 23 unauthorized display of that quilt in a cable television program; and (5)  
 24 0.0001176% of producer Amblin Entertainment's \$2m fee on the movie (\$2.35),  
 25 which the Court determined after an apportionment analysis.<sup>36</sup> *Id.* at 481-83.

26  
 27 because he or she can continue the plot line from one episode to the next and hold the  
 28 viewers' interest without furnishing a resolution.""); *Columbia Pictures Indus., Inc. v.*  
*Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1193-94 (9th Cir. 2000) (same).

<sup>36</sup> The Court did not award plaintiff any profits from co-defendant Universal City Studios  
 because it lost money on the movie.

1 The *Blackman* Court also evaluated multiple infringements. There, the  
2 defendant Hustler Magazine was accused of infringing plaintiff's copyrighted  
3 photographs by including them in several of its magazines without permission.  
4 Specifically, defendant published "11 [of plaintiff's photographs] in its September,  
5 1976 issue and subsequently republished nine of those photographs in 'The Best of  
6 Hustler #2', and republished one [of plaintiff's] photograph[s] in its July, 1979  
7 anniversary issue." *Blackman*, 620 F. Supp. at 795. To analyze infringement, the  
8 Court undertook an analysis of each specific work: "Because each of Hustler's  
9 three successive publications of [plaintiff's] photographs was issued at a different  
10 time and involved a distinct set-up and arrangement of copy, they shall be treated  
11 as three separate infringements for the purpose of assessing damages." *Id.* at 796.  
12 The Court undertook an apportionment with respect to each individual magazine at  
13 issue, apportioning 60% of the profits from the September, 1976 issue to the  
14 infringing photographs, 35% of the profits from Best of Hustler #2 to the  
15 infringing photographs, and 3% of the profits from the July, 1979 Anniversary  
16 issue to the infringing photograph. *Id.* at 801-02.

17 The *ABKCO* Court likewise analyzed a plaintiff's claim of damages from  
18 multiple content works that infringed its copyrighted work. Specifically, the Court  
19 had previously concluded that the George Harrison song "My Sweet Lord"  
20 infringed plaintiff's song "He's So Fine," and the plaintiff sought damages with  
21 respect to defendant's sale of three particular works – the single "My Sweet Lord,"  
22 and the albums "All Things Must Pass" and "The Best of George Harrison" – each  
23 of which included "My Sweet Lord" as one of its songs. The Court conducted  
24 separate apportionments with respect to each infringing work, apportioning 70% of  
25 the mechanical royalties from the sale of the single to "My Sweet Lord" (which  
26 included another song on the B-side) and 50% of the mechanical royalties from the  
27 sale of the album "All Things Must Pass" to "My Sweet Lord." *ABKCO*, 508 F.  
28 Supp. at 800-01. Given the lack of evidence concerning the relative importance of



1 “My Sweet Lord” to the sale of the “Best of George Harrison” album, the Court  
 2 refused to apportion any more than the song’s own mechanical royalties to that  
 3 infringing use. *Id.* at 801. Given that the song was the same in each instance, the  
 4 Court then calculated the profits (revenues minus expenses) with respect to each  
 5 album and the deducted one fourth of that amount to account for the contributions  
 6 of “other factors” to the success of the song, such as “the words and the popularity  
 7 and stature of George Harrison in this particular field of music.” *Id.* at 801-02.<sup>37</sup>

8 These cases highlight the core principle that the trier of fact must examine  
 9 each targeted work to determine whether, and how much, of the plaintiff’s  
 10 copyright is incorporated into that work.<sup>38</sup> This is crucial in an infringement  
 11 analysis to establish the fact and extent of the infringement, if any. Similarly, it is  
 12 essential in an equitable apportionment analysis between co-owners, where no  
 13 infringement has occurred, to ensure that plaintiff’s recovery is commensurate with  
 14 the amount of the shared copyrighted material actually used by defendants.  
 15 Accordingly, the proper way to analyze whether or not – and, if so, to what extent  
 16 – the various post-termination Superman works incorporate the *Action Comics #1*  
 17 *Story* is for the court to be presented with each work in which Plaintiffs assert an  
 18 interest, and for Plaintiffs to explain how the *Action Comics #1 Story* has been used  
 19 in that specific work. Only after an analytic comparison by the court can it  
 20 properly be determined what portion, if any, of the profits from any of the post-  
 21 termination works can equitably be attributed to the *Action Comics #1 Story*.

22 \_\_\_\_\_  
 23 <sup>37</sup> Where a plaintiff claims the profits from a series of television shows or movies at  
 24 issue, the courts make a detailed, separate review of the entire body of such works. *See*  
 25 *Flynn v. Surnow et al.*, 2003 U.S. Dist. Lexis 26973 (C.D. Cal. 2003) (court watched the  
 26 entire first season of the television series *24* in making its “detailed comparison of the  
 27 allegedly infringing and infringed works”); *Lone Wolf McQuade Associates v. CBS Inc.*,  
 28 *et al.*, 961 F. Supp. 587 (S.D.N.Y. 1997) (court reviewed the series “Walker, Texas  
 Ranger” on defendant’s motion for summary judgment of plaintiffs’ claim that the series  
 infringed plaintiff’s copyright in the 1983 picture “Lone Wolf McQuade”); *Cavalier v.*  
*Random House, Inc.*, 297 F.3d 815 (9th Cir. 2002) (court looked in detail at both disputed  
 books in determining infringement).

<sup>38</sup> Plaintiffs have confirmed this work-by-work approach in their prior briefing. *See*  
 Plaintiffs’ Opposition to Defendants’ Motion for Partial Summary Judgment at 27 (mixed  
 use of copyright and trademark) and 29 (derivative works).

1 In practical application here, the trier of fact will have to isolate the  
 2 recaptured elements of the *Action Comics #1 Story* that have been used in each  
 3 post-termination derivative work, and assign a percentage value to the profits from  
 4 that work that are attributable to those *Action Comics #1 Story* elements.<sup>39</sup> This  
 5 process will need to be applied separately to each and every work in which  
 6 Plaintiffs claim they are entitled to share profits because the aspects of each that  
 7 are attributable to the *Action Comics #1 Story* vary in each case, often  
 8 substantially.<sup>40</sup> If the profits of any defendant other than DC Comics are at issue,

9  
 10 <sup>39</sup> As mentioned above, not to be included in the profits Plaintiffs are entitled to a share  
 11 are those profits attributable to: (a) trademark uses (such as the use of the name  
 12 “Superman” or the “S-in-Shield” Device); (b) those portions of mixed uses attributable to  
 13 non-Superman elements (e.g. Superman as part of a team of heroes along with, for  
 14 example, Batman and Wonder Woman); (c) new elements added after the *Action Comics*  
 15 *#1 Story*, such as characters (e.g., Lex Luthor, Perry White, Jimmy Olsen, Lana Lang),  
 16 superpowers (e.g., the ability to fly, x-ray vision, heat vision); new plot elements (e.g.,  
 17 the “Fortress of Solitude” and Kryptonite); (d) new story lines; (e) the pre-1999  
 18 independently created derivative portions of post-1999 works; (f) the appearance of  
 19 Superman in costume as he appears in the Announcements; and (g) DC Comics’  
 20 contributions as “steward” over the Superman stories, characters, and marketing, that has  
 21 maintained Superman’s value for an unprecedented number of years.

22 <sup>40</sup> The various “Superman related” comic series published by DC illustrate the need for a  
 23 work by work apportionment. For example, in series such as *Justice League of America*,  
 24 each comic features a group of superheroes including Batman, Wonder Woman, Green  
 25 Lantern, Vixen and others as well as Superman. Often Superman plays a very minor role  
 26 in these comics; e.g., the November 2006 issue (Bergman Decl. Ex. D) where Superman  
 27 appears in three panels of the entire comic. Moreover, the depictions of Superman in the  
 28 various comic series reveal a superhero markedly different from his *Action Comics #1*  
 counterpart; he has different physical features, greatly expanded powers and reflects far  
 different attitudes. As will be demonstrated at trial, this is not “your father’s Superman.”  
 Similarly, just as the success of a motion picture is due to the contributions of actors,  
 directors, cinematographers, and many others, so too is the success of a comic or series of  
 comics which embody the combined talent of writers, pencillers, inkers, colorists, cover  
 artists, editors and others. This is particularly true of the modern, post-1999 comics  
 based on complex storylines and containing elaborate graphics far different than the  
 simple, structured frames of *Action Comics #1*. (See, e.g., Bergman Decl. Ex. E). The  
*Smallville* television series further illustrates the need for a work by work analysis. For  
 these episodes, it will be necessary to evaluate how much of each of the 150-plus  
 episodes is attributable to protectable elements from the *Action Comics #1 Story* and not  
 from other works created by Defendants, general ideas, stock concepts, and other  
 unprotectable elements. The importance of the *Action Comics #1 Story* differs drastically  
 from episode to episode, and as the series has progressed it has increasingly devoted  
 more of its story lines to the supernatural and science fiction – with, among other things,  
 a focus on Clark’s discovery of his origins on the planet Krypton and his father, Jor-El.  
 Indeed, some episodes contain little of Clark, focusing instead on other characters,  
 including Lex Luthor or Aquaman. (Hage Decl. in Support of Defendants’ Motion for  
 Partial Summary Judgment, Ex. E (Season Five, Episodes 4 and 9) and Ex. F (same).) It  
 is undeniable that in a fair accounting, Plaintiffs would not be entitled to the same

1 further apportionments may be necessary to determine the extent to which the  
 2 creative and marketing elements relating to motion pictures and television  
 3 programs produced by DC's licensees, such as the skill and reputation of the  
 4 producer and director, the actors, newly added dramatic and plot elements, scenery,  
 5 standing of the studio and the advertising on which exhibitors and viewers rely, *see*  
 6 *Sheldon*, 106 F.2d at 48-49, contributed to the gross revenues and resulting royalty  
 7 to DC from such exploitation.<sup>41</sup> Defendants recognize that, given the amount and  
 8 nature of the post-termination Superman works, such an analysis will be  
 9 cumbersome and time-consuming. Defendants therefore are willing to work with  
 10 Plaintiffs and the Court to establish a workable process for this evaluation –  
 11 perhaps through the appointment of a special master – so long as their right to a  
 12 particularized work-by-work review is not compromised.

13 **IV. PLAINTIFFS ARE ENTITLED TO SHARE PROFITS OBTAINED**  
 14 **FROM MIXED USES OF ANY RECAPTURED COPYRIGHT**  
 15 **MATERIAL AND TRADEMARKS ONLY INASMUCH AS SUCH**  
 16 **PROFITS ARE ATTRIBUTABLE TO THE RECAPTURED COPY-**  
 17 **RIGHTABLE ELEMENTS IN THE *ACTION COMICS #1 STORY***

18 With respect to profits from any derivative work newly prepared after April  
 19 16, 1999, the effective date of Plaintiffs' copyright termination, the Court has held  
 20 that any such "profits defendants garner from the use of Superman trademarks that  
 21 'are purely attributable to [those] trademark rights,' . . . are not subject to  
 22 accounting," *Siegel II*, 542 F. Supp. 2d at 1142-43. This leaves for adjudication at  
 23 trial and on a full record the apportionment issues relating to Plaintiffs' claims to  
 24 participate in profits from so-called "mixed use of trademark and copyright" in  
 25 post termination derivative works based on the *Action Comics #1 Story* after the  
 26 effective date of Plaintiffs' termination. *Id.* at 1142. While the law addressing  
 27 apportionments between profits attributable to the copyright and trademark

28 proportion of the profits from an episode that re-thinks and re-casts the original  
 Superman origin story as they would be from a more distant, modern and sophisticated  
 episode, based principally or entirely upon newly added materials.

<sup>41</sup> Both Plaintiffs and Defendants have designated expert witnesses to testify on many of these apportionment issues.

1 components of works is sparse, certain established principles provide useful  
2 guides to assess instances of such alleged “mixed use.”

3 **A. Legal Background and Nomenclature**

4 While trademark and copyright are two areas of intellectual property law  
5 that are commonly grouped together in various contexts, each protects different  
6 rights. The Constitution empowers Congress to provide the limited monopoly of  
7 copyright protection as a reward to induce the creation of artistic works for the  
8 public benefit. U.S. Const. Art. I, Sec. 1, Cl. 8. However, copyright protection  
9 only subsists “in original works of authorship,” 17 U.S.C. § 102(a), and not all  
10 aspects of a work are protected under copyright. *See* 37 C.F.R. § 202.1(a)  
11 (“Words and short phrases such as names, titles, and slogans” are “works not  
12 subject to copyright”). *See also* *Butler v. Target Corp.*, 323 F. Supp. 2d 1052,  
13 1059 n.4 (C.D. Cal. 2004) (words, names and titles are not subject to copyright  
14 protection); 1 *Nimmer* § 2.16 at 2-185 - 2-186 (“It is . . . clear, as a matter of  
15 statutory construction by the courts (as well as Copyright Office Regulations), that  
16 titles may not claim statutory copyright.”). In the same rubric of unprotected  
17 material are basic geometric shapes and simple forms of ornamentation such as  
18 stars and chevron stripes. (Compendium II of Copyright Office Practices (the  
19 “Compendium”) at 500-3 and *see infra*.)

20 A trademark, on the other hand, functions to identify the source of goods  
21 and services and serves to protect the public from being misled and to protect the  
22 trademark owner from unfair competition. *Playboy Enters., Inc. v. Netscape*  
23 *Comm. Corp.*, 55 F. Supp. 2d 1070, 1080 (C.D. Cal. 1999) (“A trademark is a  
24 word, symbol or device which identifies the source of goods or services.”). *See*  
25 *also* 1 J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Comp.*, § 6.14 at  
26 6-30 (4 Ed. 2008) (“Copyright law gives the author the right to prevent copying of  
27 the copyrighted work in any medium. Trademark law prevents the use of a similar  
28 mark on such goods and services as would probably cause confusion.”) To

1 illustrate the effect of the difference between copyright and trademark in the  
 2 context of this case, while the 2006 release of *Superman Returns*, which contains  
 3 some literary elements derived from *Action Comics #1*, would entitle Plaintiffs to  
 4 a share of DC Comics' profits, it is clear that Plaintiffs' recapture of certain  
 5 *copyright* elements would not entitle Plaintiffs to any share of DC's profits from  
 6 the sale of a t-shirt bearing the word "Superman" as a *trademark* to indicate DC as  
 7 the source of such product.

8 As noted above, trademarks are not limited to word marks. Instead, the  
 9 U.S. Trademark or Lanham Act protects "a broad spectrum of marks, symbols,  
 10 design elements and characters which the public directly associates with the  
 11 plaintiff or its product." *Warner Bros., Inc. v. Gay Toys, Inc.*, 658 F.2d 76, 78 (2d  
 12 Cir. 1981). It has also been held that

13 where the product sold by plaintiff is 'entertainment' in one form or  
 14 another, then not only the advertising of the product but also an  
 15 ingredient of the product itself can amount to a trademark protectable  
 under § 43(a) [of Title 15] because the *ingredient* can come to  
 symbolize the plaintiff or its product in the public mind.

16 *DC Comics, Inc. v. Filmmation Assocs.*, 486 F. Supp. 1273, 1277 (S.D.N.Y.1980)  
 17 (emphasis added). *See also DC Comics v. Kryptonite Corp.*, 336 F. Supp. 2d 324,  
 18 332 (S.D.N.Y. 2004) (DC owns rights under trademark law in KRYPTONITE);  
 19 *DC Comics, Inc. v. Powers*, 465 F. Supp. 843 (S.D.N.Y. 1978) (DAILY  
 20 PLANET); *Universal City Studios, Inc. v. TShirt Gallery, Ltd.*, 634 F. Supp. 1468,  
 21 1476, n.9 (S.D.N.Y. 1986) ("[i]t is not disputed that section 43(a)'s protections  
 22 'extend to the specific ingredients of a successful T.V. series'").

23 Furthermore, as explained in *Frederick Warne & Co., Inc. v. Book Sales*  
 24 *Inc.*, 481 F. Supp. 1191, 1196-97 (S.D.N.Y. 1979):

25 Dual protection under copyright and trademark laws is particularly  
 26 appropriate for graphic representations of characters. A character  
 27 deemed an artistic creation deserving copyright protection, *see Walt*  
*Disney Productions v. Air Pirates*, 581 F.2d 751 (9th Cir. 1978), *cert.*  
*denied*, 439 U.S. 1132, 99 S.Ct. 1054, 59 L.Ed.2d 94 (1979), may also  
 28 serve to identify the creator, thus meriting protection under theories of  
 trademark or unfair competition, *see Edgar Rice Burroughs, Inc. v.*  
*Manns Theaters*, 195 U.S.P.Q. 159 (C.D.Cal.1976); *Patten v. Superior*

1 *Talking Pictures*, 8 F. Supp. 196 (S.D.N.Y.1934); *see generally*  
 2 Waldheim, *Characters May They Be Kidnapped?* 55 T.M.R. 1022  
 3 (1965). Indeed, because of their special value in distinguishing goods  
 4 and services, names and pictorial representations of characters are  
 5 often registered as trademarks under the Lanham Act. 5 U.S.C. § 1052  
 & 1053; *see* Brylawski, *Protection of Characters Sam Spade Revisited*,  
 22 Bull.Soc.Cr. 77 (1974); Adams, *Superman, Mickey Mouse and*  
*Gerontology*, 64 T.M.R. 183 (1974).

6 In short, the law recognizes both copyright and trademark protection for different  
 7 aspects of entertainment properties such as those at issue here.

8 **B. Only Certain Superman Merchandise Could Possibly Implicate**  
**Plaintiffs' Recaptured Copyright in the *Action Comics #1 Story***

9 As the Court has previously recognized, Plaintiffs' termination rights under  
 10 section 304(c) of the Copyright Act "in no way affects rights arising under any  
 11 other Federal, State or foreign laws." 17 U.S.C. § 304(c)(6)(E); *Siegel II*, 542 F.  
 12 Supp. 2d at 1140. Accordingly, DC's trademark rights – including its right to  
 13 continue using its Superman trademarks – remain unaffected, and Plaintiffs have  
 14 no right to share in the profits attributable to Defendants' continuing exploitation  
 15 of such trademarks post-termination. The question arises as to what is properly  
 16 accountable to Plaintiffs when a particular work is neither pure trademark use (in  
 17 which Plaintiffs would not be entitled to share) nor a pure copyright use (in which  
 18 Plaintiffs would share to the extent the work incorporates copyrightable elements  
 19 from the *Action Comics #1 Story*) – for example, works which feature  
 20 copyrightable elements from the *Action Comics #1 Story* in addition to any  
 21 uncopyrightable word marks, titles, logos or other indicia of source or origin. This  
 22 so-called "mixed use" arises principally in connection with DC's product licensing  
 23 and merchandising, as opposed to its publications or licensed media properties.

24 Defendants contend that in this mixed use category of works, the Court  
 25 should look at each work keeping in mind the nature of the use, giving more  
 26 weight to the use of copyrightable imagery where elements of the character  
 27 delineation are integral and essential parts of the product (e.g., a "storytelling"  
 28 work such as a motion picture or comic book), as opposed to mere indicia of

1 origin or labeling ancillary to the product content. Of course, any profit from the  
 2 exploitation of Superman imagery in a new derivative work attributable to the  
 3 universe of recaptured Superman literary material would then need to be  
 4 apportioned to ensure that Plaintiffs only recover that to which they are entitled,  
 5 namely, profits attributable to copyrightable elements present in the *Action Comics*  
 6 *#1 Story*. See Section V, *infra*.

7 **1. Plaintiffs Are Only Entitled to an Accounting from New**  
 8 **Post-Termination Uses of Copyrightable Elements Derived**  
 9 **from the *Action Comics #1 Story*, as Opposed to**  
 10 **Uncopyrightable Elements, Such as Names and Logos**

11 Because words, names and titles are not protected by copyright, it is  
 12 axiomatic that Defendants' continuing use of Superman trademarks such as  
 13 iterations of the word SUPERMAN in different fonts and typestyles does not  
 14 involve use of any copyrightable material from *Action Comics #1*. See also H.  
 15 Rep. at 55 (no copyright protection for forms of typeface). Similarly, the use of  
 16 the S-shield in one or another form does not constitute the use of any material  
 17 protected by copyright. As explained in the Compendium (the official publication  
 18 intended primarily for use of the staff of the Copyright Office for their examining  
 19 and related practices), because a certain minimal amount of original creative  
 20 authorship is essential for registration,

21 it is not possible to copyright common geographic figures or shapes  
 22 such as the hexagon, or the ellipse, a standard symbol, such as an  
 23 arrow, or a five-pointed star. Likewise, mere coloration cannot  
 24 support a copyright even though it may enhance the aesthetic appeal  
 25 or commercial value of a work. . . . The same is true of a simple  
 26 combination of a few standard symbols, such as a circle, a star, or  
 27 triangle, with minor, linear or spatial variations.

28 Compendium at 500-3. Here there can be no dispute that the "S-in-Shield,"  
 particularly as it appears in *Action Comics #1*, simply does not overcome the  
 threshold for copyrightability explained above.<sup>42</sup>

<sup>42</sup> The issues of clarity concerning the "S-in-Shield" device set forth in *Siegel II*, 542 F.  
 F. Supp. 2d at 1126 in the Promotional Ads that Plaintiffs failed to recapture, similarly  
 exist in *Action Comics #1 Story*, as the following are the only two discernable shields  
 therefrom:

Moreover, as the Court has held, the accounting that results from Plaintiffs' termination of Siegel's March 1, 1938 grant "should not include any profits attributable to the 'post-termination exploitation of derivative works [of *Action Comics*, Vol. 1,] prepared prior to termination.'" *Siegel II*, 542 F. Supp. 2d at 1142 (quoting Pls. S.J. Reply Mem. at 28). Thus, Defendants remain free to continue to fully use *as a trademark* any pre-termination derivative images of the Superman character based on the appearance of the character in the *Action Comics #1 Story*. Furthermore, the use of these pre-termination derivative images on new merchandise – for example a different T-shirt or new watch face – does not constitute the preparation of a new post-termination derivative work. *See Nimmer*, §§ 3.03[B][1] & [B][2] at 3-17 - 3-18 (rejecting and noting broad disagreement with *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856, F.2d 1341 (9th Cir. 1988), which had held that removing reproductions of artworks from a compilation and mounting them on ceramic tiles constituted the creation of a derivative work). Finally, even the transformation of a two-dimensional drawing into a three-dimensional action figure, which could arguably constitute a new derivative work, would not qualify as adding sufficient newly protectable material to constitute a derivative work absent "artistic aspects" as opposed to "mechanical or utilitarian features." *Durham Indus., Inc. v. Tomy Corp.*, 630 F.2d 905, 912-13 (2d Cir. 1980).

## 2. The Kinds of Trademark Uses at Issue in this Case

For the purposes of addressing the "mixed use" question raised by the Court, it is important to understand the nature of DC's post-termination uses of



COVER



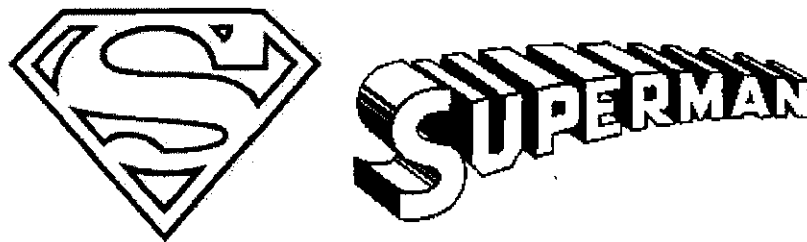
LAST PANEL

(Bergman SJ Decl. Ex. E). As detailed in Defendants' prior submissions, *neither* of these images was part of the original Superman story submitted by Siegel and Shuster to DC – both the cover and last panel were created *after* DC engaged Siegel and Shuster to reformat the Superman story for presentation in comic book form (Defs. Superman SJ. Opp. at 28-39).

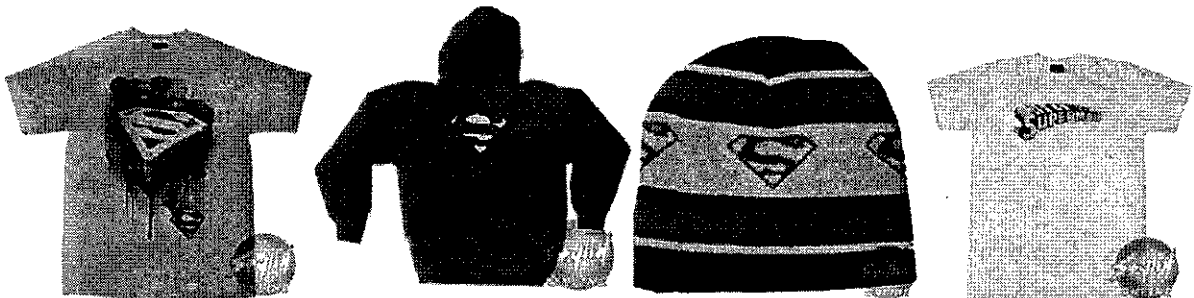


Superman in product licensing. These uses generally fall into two categories:

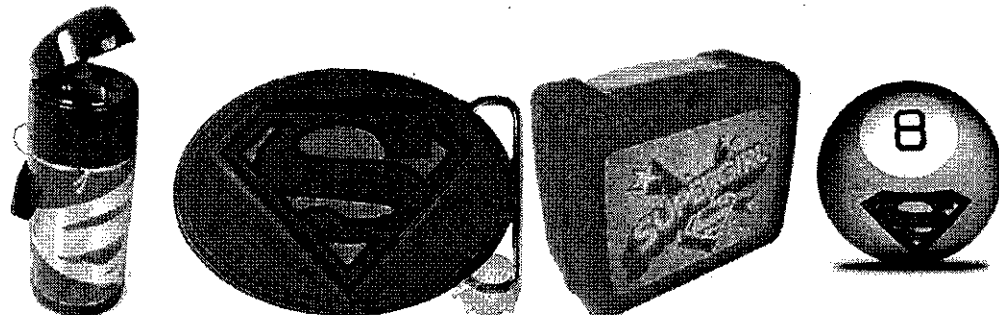
(1) **Pure Trademark Uses.** This category of merchandise features no copyrightable imagery from *Action Comics #1* whatsoever. This includes any uses of the "S-Shield" logo (as modified by DC) and telescoping Superman logo (again, created entirely by DC), shown below, without other images of Superman which could be protected under copyright:



Examples of currently offered "pure trademark use" products are shown here:



APPAREL

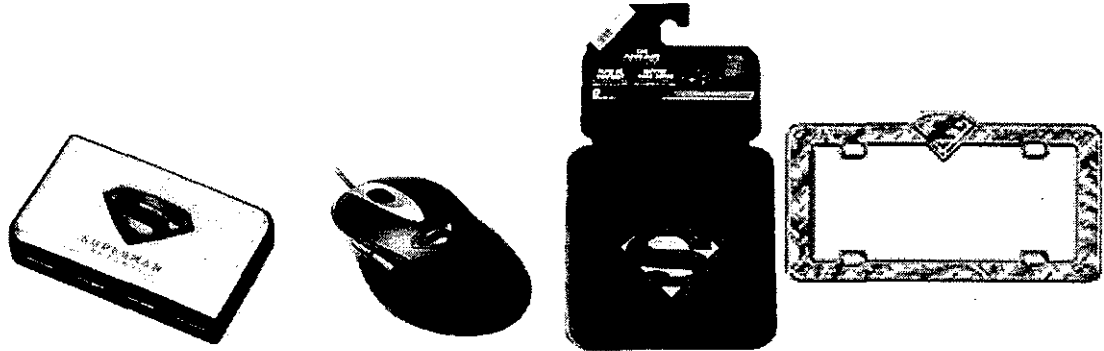


THERMOS

BELT BUCKLE

LUNCHBOX

MAGIC 8 BALL



USB HUB

MOUSE

FLOOR MAT

LICENSE HOLDER

(Declaration of Mario Ortiz submitted herewith ("Ortiz Decl."), ¶¶ 3-14 & Exs. A-L.) Pursuant to the legal authority discussed in subsection A, *supra*, and the Court's prior ruling, Plaintiffs are not entitled to an accounting for any profits earned by Defendants from such pure trademark uses.

(2) **Mixed Copyright and Trademark Uses.** Other types of Superman licensed merchandise, however, involve both trademark uses, such as the S-Shield, telescoping logo, or other indicia of origin not subject to copyright protection (including the name Superman in stylized font, or the terms KRYPTONITE, LEX LUTHOR, THE DAILY PLANET) and a copyrightable character image. These uses mix or blend trademark use with certain copyrightable drawings and imagery derived in some form from *Action Comics #1*, as shown in the following examples:



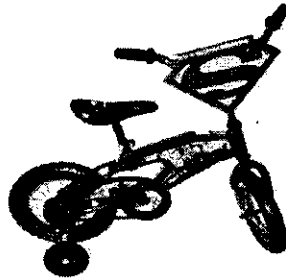
APPAREL

PARTY SUPPLIES

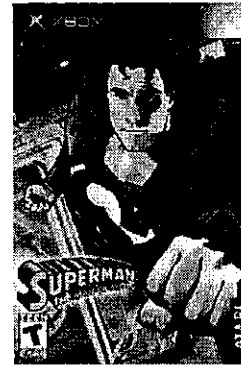
PIGGY BANK



LUNCHBOX



BICYCLE



VIDEO GAME ACTION FIGURE



(Ortiz Decl. ¶¶ 15-22 & Exs. M-T.) Defendants concede that Plaintiffs may be entitled to an accounting of some of the profits from their use of any post-termination, newly created Superman imagery<sup>43</sup> in product licensing of this kind.<sup>44</sup>

### 3. Principles to Be Applied in Any Accounting of Mixed Copyright and Trademark Uses

Since Plaintiffs are not entitled to share in the profits generated by Defendants' trademark uses (whether pre- or post-termination), Defendants submit that the following principles should govern any accounting of profits from the licensed merchandise involved in this case:

*First*, as explained in greater detail in Section III, *infra*, the Court (or a Special Master) will need to examine each item of merchandise to which Plaintiffs claim they are entitled to a share of profits in order to make a fair determination of the extent of post-termination use of recaptured Superman copyrightable material use in a particular product. Given the factual nature of this inquiry and the vast differences in uses of Superman imagery across product categories and licenses,

<sup>43</sup> The imagery used in the products depicted above is believed to be pre-termination in some instances.

<sup>44</sup> Defendants will establish at trial that, practically speaking, only a portion of the entirety of Superman merchandise (and thus the profits generated by the sale of such merchandise) uses images of the Superman character. Through testimony of knowledgeable witnesses, Defendants will show that: (i) in most instances, only the Superman word mark or the S-Shield trademark are used on or in connection with products; (ii) less than one-half of all Superman products actually use images of the character, as opposed to these traditional uncopyrightable source-identifying devices alone; and (iii) of those remaining products, many use copyrighted images solely to identify source, i.e., as a trademark and not as content to entertain a viewer or purchaser.

1 there is simply no logical equitable or fair way to determine the extent to which  
2 Plaintiffs are entitled to recover anything other than by looking to each product.  
3 In its analysis of each product, the fact finder will, in effect, need to factor out the  
4 trademark components and pre-termination imagery. Though, as noted above, no  
5 case directly undertakes such an effort, there are examples of courts factoring out  
6 profit drivers other than copyrightable subject matter in the infringement context  
7 which are directly analogous. *See, e.g., ABKCO*, 508 F. Supp. at 801-02  
8 (reducing profit award for infringement of “He’s So Fine” by George Harrison’s  
9 “My Sweet Lord,” in part, to account for Harrison’s fame); *Rogers v. Koons*, 960  
10 F.2d 301, 313 (2d. Cir. 1992) (reducing profit award in infringement action to  
11 account for fame and notoriety of artist as a component of sale of work).

12 *Second*, even in the “mixed use” category described above, there is a key  
13 dichotomy in the nature of the uses of any copyrighted Superman imagery that  
14 must be considered. On the one hand, in certain types of products (such as the t-  
15 shirts, piggy bank, lunchbox and bicycle shown above which make use of  
16 Superman artwork), the Superman copyrightable imagery and elements used on  
17 the products are employed primarily for the purpose of indicating that such  
18 products have been approved by Superman (*i.e.*, his publisher). Thus, even if the  
19 product may feature some newly created copyrightable imagery based on the  
20 *Action Comics #1 Story*, that imagery is not being used to entertain, as a  
21 copyrighted work is ordinarily employed, but instead is being used only in the  
22 nature of labeling to indicate source or origin. Defendants submit that for this  
23 kind of mixed use there should be only a minimal attribution of profit to the  
24 copyrightable components, as opposed to DC’s exclusively owned trademarks,  
25 because the purpose is not to sell copies of the image but to use the image  
26 *indirectly* to promote sales of the product, resulting in at best “indirect profits”  
27 under section 504(b) of the Copyright Act. *See, e.g., Polar Bear Prods., Inc. v.*  
28 *Timex Corp.*, 483 F.3d 700, 710-12 (9th Cir. 2004) (differentiating between

1 “‘direct profits’ – those that are generated by selling an infringing product-and  
2 ‘indirect profits’ – revenue that has a more attenuated nexus to the infringement”  
3 and holding that a plaintiff must demonstrate a causal link from a promotional use  
4 of a copyrighted work to sell a product in order to obtain any percentage of such  
5 “indirect profits”) (citing *Mackie v. Rieser*, 296 F.3d 909, 914 (9th Cir.2002)). *See*  
6 *also Cream Records*, 754 F.2d at 828 (awarding copyright holder one-tenth of one  
7 percent of profits from sale of beer where song was used without permission in  
8 commercial to promote sales of beer).

9 On the other hand, in certain types of Superman merchandise, such as action  
10 figures and video games, the copyrighted Superman material is not simply used  
11 for purposes of endorsement; rather, a replica of the Superman character is used in  
12 a more traditional copyright sense, as an integral and essential part of the product  
13 itself to entertain the purchaser or viewer. Here, any apportionment would need to  
14 take into account the more direct relationship between DC’s use of the copyrighted  
15 material and profits from the product. *See Polar Bear*, 483 F.2d at 710.  
16 Defendants therefore submit that, under an analysis of mixed copyright/trademark  
17 use, Plaintiffs would be entitled to a lower percentage of profits from the sale of  
18 products using Superman imagery only as indicia of origin or source and to  
19 promote sales, than from those which feature Superman himself to entertain.

20 *Third*, insofar as graphic images of the Superman character are involved,  
21 Defendants have the continuing right to use those that were created before April  
22 16, 1999 (the effective date of Plaintiffs’ termination) because these fall within the  
23 “derivative work exception” of section 304(c)(6)(A). *Siegel II*, 542 F. Supp. 2d at  
24 1142-43. Accordingly, it will need to be determined (on a work by work basis)  
25 whether any of the imagery used by Defendants on post-termination merchandise  
26 comes from pre-termination derivative works in order to properly account to  
27 Plaintiffs.

28 *Fourth*, even with respect to newly prepared post-termination derivative

works, such as a new image of the Superman character from the *Superman Returns* film, there would have to be an apportionment to determine the extent to which these new images are based copyrightable components of the *Action Comics #1 Story*<sup>45</sup> as distinguished from pre-termination derivative works created by DC. See Section II, *supra*; *Sheldon, supra*, 106 F.2d 45.

**C. Plaintiffs' Attempts to Avoid the Limitations on Any Accounting for Uses Involving Trademarks Are Unavailing**

Plaintiffs will undoubtedly emphasize the importance in any apportionment evaluation of what is attributable to the copyrightable material in the *Action Comics #1 Story* as opposed to the subsequent derivative works based thereon. As part of this effort, they have insisted earlier and will undoubtedly insist again that because *Action Comics #1* contained the first Superman story (although not the first Superman imagery), almost any post-termination derivative work should be seen as entirely comprised of Superman material that they have recaptured, in disregard of DC's pre-termination newly added material and the trademark components thereof.

In addition, Plaintiffs will no doubt try to avoid the independent significance of unaffected trademark rights by characterizing them as somehow "subsidiary" or inferior in significance to copyright law. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003), cited in Plaintiffs' summary judgment briefs, does not help their case. *Dastar* dealt not with a conflict between trademarks and copyright protection but instead with an attempt by Twentieth Century Fox ("Fox") to use the prohibition on "false designations of origin" set forth in section 43(a) of the 1946 Trademark Act (the "Lanham Act")<sup>46</sup>

<sup>45</sup> In order to be factored into the accounting, it is not sufficient that elements present in *Action Comics #1* be present in the use at issue, such elements must *also* be copyrightable. See, e.g., *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1443 (9th Cir. 1994); *Aliotti v. R. Dakin & Co.*, 831 F.2d 898, 901 (9th Cir. 1987); *Idema v. Dreamworks, Inc.*, 162 F. Supp. 2d 1129, 1176-77 (C.D. Cal. 2001, *aff'd in part, dismissed in part*, 90 Fed.Appx. 496 (9th Cir. 2003).

<sup>46</sup> The Lanham Act provides a broad array of remedies grounded in consumer protection law, including for infringement of a federally registered trademark (section 32(1)(a)),

1 to stop distribution of the defendant's video program, which used footage from a  
 2 Fox television series for which copyright protection had ceased due to failure to  
 3 renew. 539 U.S. at 25-27. In other words, *Dastar* dealt with an attempt by the  
 4 plaintiff to use Lanham Act principles to vindicate Fox's alleged authorship  
 5 attribution right under the Lanham Act to prevent use of public domain material at  
 6 a point where Fox no longer possessed any copyright rights to the work. The  
 7 Court refused to allow the Lanham Act to be extended so far as to cover Fox's  
 8 attribution claim. The Court did not, as Plaintiffs claim, hold that trademark law  
 9 was "subsidiary" to copyright law, but instead that trademark remedies for false  
 10 attribution of origin could not be extended to copying of communicative works, an  
 11 area clearly within the ambit of the Copyright Act (*id.* at 35-36), a proposition  
 12 entirely consistent with Defendants' position here.

13 In short, any argument that copyright rights must "trump" trademark rights  
 14 in any apportionment of mixed uses is wrong. A similar argument was rejected in  
 15 *Warne*, where the defendant maintained that the copyright public domain policy,  
 16 applicable because the *Peter Rabbit* books at issue there were no longer subject to  
 17 U.S. copyright protection, overcame plaintiff's trademark rights. As noted by  
 18 Judge Sofaer,

19 Defendant contends that the disputed questions of fact requiring  
 20 denial of plaintiff's motion [for summary judgment on its trademark  
 21 law claims] need not be reached to find in defendant's favor.  
 22 Defendant argues that its use of the illustrations and marks is legally  
 23 protected because they are part of copyrightable works now in the  
 24 public domain. This argument is not persuasive. The fact that a  
 25 copyrightable character or design has fallen into the public domain  
 26 should not preclude protection under the trademark laws so long as it  
 27 is shown to have acquired independent trademark significance,  
 28 identifying in some way the source or sponsorship of the goods. See  
*Wyatt Earp Enterprises v. Sackman, Inc.*, 157 F. Supp. 621 (S.D.N.Y.  
 1958). Because the nature of the property right conferred by copyright  
 is significantly different from that of trademark, trademark protection  
 should be able to co-exist, and possibly to overlap, with copyright  
 protection without posing preemption difficulties.

counterfeiting (section 32(1)(b)), unfair competition (section 43(a)(1)(A)), which  
 includes infringement of an unregistered trademark, false advertising (section  
 43(a)(1)(B)), dilution (43(c)) and cybersquatting (section 43(d)).

1 *Warne*, 481 F. Supp. at 1196. Indeed, any attempt to place Plaintiffs' recaptured  
 2 copyrights in a position superior to DC's long-held and expensively developed  
 3 trademark rights would disregard the Lanham Act and DC's rights thereunder, and  
 4 would render a nullity Congress' express mandate that the copyright termination  
 5 right "in no way affects rights arising under any other Federal, State, or foreign  
 6 laws." 17 U.S.C. § 304(c)(6)(E). Thus, it is clear that any accounting of mixed  
 7 copyright and trademark use must attempt, on a product-by-product basis, to fairly  
 8 gauge that balance.

9 \* \* \*

10 As Defendants will prove at trial, most uses of Defendants' Superman  
 11 trademarks after April 1999 have involved *pure* trademarks and uncopyrightable  
 12 matter. In addition, in most instances, any use of trademarks comprised of  
 13 copyrightable material will involve only uses of pre-termination derivative works  
 14 which are not subject to termination. And in those cases, many uses of Superman  
 15 imagery on products is simply to indicate source or origin, as opposed to the  
 16 communicative uses for entertainment purposes generally protected by copyright.  
 17 In those cases where Defendants might have created a new Superman image after  
 18 April 16, 1999 based on protectable material found in *Action Comics #1*, because  
 19 such image would itself be in part based on pre-termination derivative works, only  
 20 a small portion of that new image could be properly attributable to recaptured  
 21 *Action Comics #1 Story* imagery. It is not possible, in such a case, to state with  
 22 precision the specific apportionment percentage to which Plaintiffs' co-ownership  
 23 share of that story would in turn apply. On such an issue, the Court could only  
 24 make a fair and reasonable approximation on a case-by-case basis.

25 **V. PLAINTIFFS ARE ONLY ENTITLED TO AN ACCOUNTING OF**  
 26 **PROFITS FROM THE EXPLOITATION OF PRE-TERMINATION**  
 27 **DERIVATIVE WORKS IF THEY HAVE BEEN SUFFICIENTLY**  
 28 **ALTERED AFTER THE EFFECTIVE DATE OF THE SUPERMAN**  
**NOTICES TO CONSTITUTE NEW DERIVATIVE WORKS, AND**  
**THEN ONLY TO THE EXTENT OF SUCH ALTERATION**

The Court has held that, with respect to post-termination works, any "profits



defendants garner . . . from [their] use of unaltered pre-termination derivative works are not subject to accounting,” *Siegel II*, 542 F. Supp. 2d at 1142-43. The Court has now asked the parties to brief the issue of whether and to what extent “[p]ost-termination alterations to pretermination derivative works” “fall within the scope of what plaintiffs regained through their termination notices.” March 31, 2008 Order at 2. Defendants submit that, to the extent such altered works exist, if the alterations consist of sufficiently new original material to make the resulting new work a separate “derivative work” under the Copyright Act, then Plaintiffs are entitled to an accounting for profits from that work, subject to the apportionment principles described above in Section II, above. If, on the other hand, a pre-termination derivative work is simply re-released, post-termination, on a new format (such as a DVD or Blu-Ray Disc), or as a part of a compilation, then that would not constitute a new post-termination derivative work, and Plaintiffs accordingly would not be entitled to share in any profits therefrom.

**A. Post-Termination Alterations To Pre-Termination Derivative Works Must Be More Than Trivial To Qualify As A New Derivative Work**

Copyright protects “original works of authorship.” 17 U.S.C. § 102(a). Section 102(b) of the 1976 Copyright Act, which carries forward prior 1909 Act law, provides that “[i]n no case does copyright protection for an original work of authorship extend to any idea . . . concept, principle or discovery regardless of the form in which it is described, explained, illustrated, or embodied in such work.” 17 U.S.C. § 102(b). “[A] derivative work is ‘any work based in whole, or in substantial part, upon a pre-existing work, if it satisfies the requirements of originality. . . .’” (*Siegel I*, 496 F. Supp. 2d at 1151 (citing 1 *Nimmer* §3.01, at 3-3 and 17 U.S.C. § 7 (repealed)).) Section 103(b) of the 1976 Act, which also carries forward the 1909 rule, provides that “[t]he copyright in a . . . derivative work extends only to material contributed by the author of such work, as distinguished from the preexisting material employed in the work.” 17 U.S.C. § 103(b).

1 In order for a work to qualify as a derivative work (as opposed to merely a  
 2 copy of the underlying work), the statute requires that the new work “recast,  
 3 transform[], or adapt[]” the underlying work. 17 U.S.C. § 101 (definition of  
 4 “derivative work”). Moreover, the new aspects of the new work must be non-  
 5 trivial additions. *Durham Indus.*, 630 F.2d at 909. As the Court of Appeals for  
 6 the Ninth Circuit has explained, the “non-trivial additions” threshold

7 is necessary to ensure that copyright protection is not given to  
 8 derivative works whose originality is merely trivial. Section 103(b)  
 9 [of the Copyright Act] mandates that the copyright protection for  
 10 derivative works not affect the scope of any copyright protection in  
 11 the underlying work. Copyright protection for underlying works  
 12 would be affected - and, thus, § 103(b) would be violated - if  
 13 derivative works without adequate originality were given copyright  
 14 protection.

15 *Entm’t Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211,  
 16 1220 (9th Cir. Cal. 1997). In the context of this case, the mandate of Section  
 17 103(b) is crucial so as not to affect Defendants’ rights in their “underlying works”  
 18 – the pre-termination derivative works that the Copyright Act excludes from  
 19 copyright termination. 17 U.S.C. § 304 (c)(6)(A).

20 In applying the above-explained threshold, courts have held, for example,  
 21 that mere reproduction of a prior work in a different format or medium does not  
 22 transform the work into a derivative work. *Greenberg v. Nat’l Geographic Soc’y*,  
 23 44 F.3d 1267, 1274 (11th Cir.), *cert denied*, 534 U.S. 951 (2001) (mere transfer of  
 24 work from analog to a digital format does not result in a derivative work). *See*  
 25 *also Durham*, 630 F.2d 905, 910 (noting “explicit rejection in *Batlin* of the  
 26 contention that the originality requirement of copyrightability can be satisfied by  
 27 the mere reproduction of a work of art in a different medium”) (citing *L. Batlin &*  
 28 *Son, Inc. v. Snyder*, 536 F.2d 486, 491 (2d Cir. 1976)); *New York Times Co. v.*  
*Tasini*, 533 U.S. 483, 502 (2001) (noting difference between “mere transfer  
 conversion . . . from one medium to another” and creation of new collective work).  
 As explained by Patry,

The mere transfer of a work from an analog format to a digital format

1 results in no derivative authorship. For protection to exist when the  
 2 work is transferred from one format to another, a recasting,  
 3 transformation, or adaptation of the original authorship, must occur,  
 as when additional expression is added or preexisting expression is  
 altered in an aesthetically appreciable manner.

4 1 *Patry* § 3:57 (citing *Greenberg*, 244 F.3d at 1267). Moreover, as compiled by  
 5 Professor Nimmer:

6 The following contributions to pre-existing works have been held to be  
 7 too minimal to warrant the recognition of a new and separate copyright  
 8 as a derivative or collective work: a change in rhythm and a slight  
 9 variation in the base of the accompaniment of a song, plus a new title;  
 10 changing the form of a factual table of facts from a vertical to a  
 11 horizontal presentation; the selection of cities to be included in a  
 12 public domain map; rearranging binary digits in a computer protocol; a  
 13 change in medium (metal to plastic), and scale or size of a work of  
 14 sculpture depicting “Uncle Sam” (including certain minor changes in  
 shape or other features), used as a bank; 40,000 changes consisting  
 “almost entirely of elimination and addition of punctuation, changes  
 of spelling of certain words, elimination and addition of quotation  
 marks and correction of typographical errors”; making an obvious  
 arrangement of pre-existing cutting designs on a crystal baby bottle;  
 changing the language of a form agreement from a sales contract to a  
 service contract; and the translation and transliteration of individual  
 English words into Arabic.

15 1 *Nimmer* § 3.03[A] at 3-10 - 3-11.

16 In this case, as Plaintiffs conceded on summary judgment, the determination  
 17 of whether pre-termination works have been sufficiently altered to qualify as new,  
 18 post-termination derivative works, “will necessarily have to be made on a case by  
 19 case basis.” (Pls. SJ. Opp. at 29.) And as the Court has previously ruled, any  
 20 derivative work prepared under authority of the terminated March 1, 1938 grant of  
 21 rights in the *Action Comics #1 Story* prior to April 16, 1999 can continue to be  
 22 exploited by Defendants without any obligation to account to Plaintiffs. *Siegel II*,  
 23 542 F. Supp. 2d at 1142-43; 17 U.S.C. §304(c)(6)(A). Thus, for example,  
 24 Defendants can continue to exploit and sell copies of the Christopher Reeve  
 25 *Superman* films – all of which were created in the 1970s and 80s – even after  
 26 April 16, 1999, without sharing profits from that exploitation with Plaintiffs. This  
 27 would be the case even in the event that the films were made available on a new  
 28 format, such as the recently-developed Blu-Ray Disc (a high definition DVD), as

1 the mere transfer of a copyrighted work to a new format does not, in itself,  
2 constitute creation of a new work. *See, e.g., Greenberg*, 44 F.3d at 1274.

3 To the extent copyrightable content of any pre-termination Superman work  
4 was modified post-termination, however, the question arises whether such  
5 modifications rise to the level of creating a new derivative work, thus triggering  
6 Defendants' duty to account to Plaintiffs from the exploitation of the new form in  
7 which such pre-termination work is presented. In such a case, the newly added  
8 material must be reviewed to determine whether it, in itself, has sufficient  
9 originality to meet the standard for statutory protection under section 103(b) as it  
10 applies to new derivative works.

11 In some cases, the changes made to a film to re-release it on another format  
12 will be trivial or non-existent. (Levitz Decl. ¶ 6). For example, in the case of the  
13 2006 Blu-Ray video release of the pre-termination 1978 film *Superman: The*  
14 *Movie*, at trial, the evidence will show that the film was simply converted to high  
15 definition format, and a longer version of the film that was completed in 1978  
16 containing material previously broadcast on television (as opposed to the shorter  
17 version shown in theaters) was included on the DVD. (*Id.*) Thus, in this  
18 circumstance, Defendants would have no obligation to account to Plaintiffs for any  
19 profits flowing from the re-released 1978 film – it, in effect, is the same as the pre-  
20 existing derivative work.

21 A different situation pertains with respect to the 1980 film *Superman II*.  
22 (*Id.* ¶ 7). This film was shot at the same time as *Superman: The Movie*, by  
23 director Richard Donner. (*Id.*) However, between the release of the first and  
24 second films, Donner was replaced by Richard Lester, who was credited with  
25 directing the released film. (*Id.*) In 2006 a newly conceived “Donner Cut” of  
26 *Superman II* was released, comporting with Richard Donner's original vision for  
27 the film, which differed markedly from Richard Lester's. (*Id.*)

28 Defendants acknowledge that the recut and rearranged *Superman II: The*

1 *Richard Donner Cut*, which was not completed in 1980 and left hidden in a stock  
 2 room, but was instead re-edited shortly prior to its 2006 video release constitutes,  
 3 in part, a post-termination derivative work of the pre-termination work *Superman*  
 4 *II*. Based on the principles discussed above, Plaintiffs would be entitled to an  
 5 accounting of profits from the exploitation of *Superman II: The Richard Donner*  
 6 *Cut*, or any similarly changed or re-worked pre-termination work based on the  
 7 extent of the re-editing, and then subject of course to the same apportionment  
 8 exercise as with any other post-termination work, to determine the extent to which  
 9 any resulting profits are attributable to the *Action Comics #1 Story*. See Section V,  
 10 *supra*.

11 Accordingly, Defendants request that, with respect to any pre-termination  
 12 derivative work found to have been modified, post-termination, to the point where  
 13 the modified derivative work is itself a new work, (as with the case of *Superman*  
 14 *II: The Richard Donner Cut*), the Court should order an accounting of that work  
 15 subject to an apportionment to determine the extent of the re-editing and how much  
 16 of the “new” material was drawn from the *Action Comics #1 Story*.

17 **B. The Release Of Pre-Termination Works In DVD Format**  
 18 **With So-Called Additional Content Does Not Transform**  
 19 **Such Works Into Post-Termination Derivative Works**  
 20 **Subject To An Accounting.**

21 It is anticipated that Plaintiffs will claim that pre-termination works released  
 22 in DVD format that are unchanged but that are bundled together and, in some  
 23 cases, are packaged with additional content such as “deleted scenes” or mini-  
 24 documentary “featurettes” about the making of the various works, constitute new  
 25 derivative works. Such a position, if asserted by Plaintiffs, would be incorrect as a  
 26 matter of law.

27 Rather, the modern DVD format, which includes the main work – either a  
 28 motion picture or collection of television series episodes along with additional  
 content such as pre-existing deleted scenes, short features, and the like – is, in fact,  
 a compilation and a collective work under the Copyright Act. A compilation is

1 defined in the Copyright Act as “a work formed by the collection and assembling  
 2 of preexisting materials or of data that are selected, coordinated, or arranged in  
 3 such a way that the resulting work as a whole constitutes an original work of  
 4 authorship.” 17 U.S.C. § 101 (definition of “compilation”). A subset of  
 5 compilations is the “collective work,” which the Copyright Act defines as “a work  
 6 . . . in which a number of contributions, constituting separate and independent  
 7 works in themselves, are assembled into a collective whole.” 17 U.S.C. § 101  
 8 (definition of “collective work”). Importantly for purposes of this case, a  
 9 compilation (and thus a collective work) *is not* a derivative work. Rather, the  
 10 terms “compilation” and “derivative work” “basically represent ‘different  
 11 concepts.’” H. Rep. at 57-58 (1976); *Caffey v. Cook*, 409 F. Supp. 2d 484, 495-  
 12 496 (S.D.N.Y. 2006).

13 In this case, the evidence will show at trial that after April 16, 1999, DC  
 14 Comics has authorized the re-release in DVD format of a number of licensed  
 15 motion pictures and television shows created *prior to* that date. (Levitz Decl. ¶ 5).  
 16 For example, between 1993 and 1997, the television series entitled “Lois & Clark:  
 17 The New Adventures of Superman” was created and broadcast under license from  
 18 DC. (*Id.*). Beginning in June 2005, DC’s licensee began releasing the program on  
 19 DVD. Each DVD set bundled all of the episodes from a given season (unchanged  
 20 from their appearance on television), along with additional content, such as menus,  
 21 interviews, commentary, and the like. (*Id.*). Each newly created “special feature”  
 22 on the “Lois & Clark” DVDs – the episodes and the additional content – represent  
 23 “separate and independent works in themselves.” 17 U.S.C. § 101 (definition of  
 24 “collective work”). Thus, by virtue of their re-release on DVD bundled with  
 25 additional content, DC’s pre-termination works are not transformed into post-  
 26 termination derivative works and are not subject to an accounting.<sup>47</sup>

27  
 28 <sup>47</sup> To the extent Plaintiffs claim that any additional content or featurette included on a  
 post-termination release of an unaltered pre-termination derivative work, such as Lois  
 and Clark, the question of whether such additional content separately constituted a new

1 In short, to the extent a post-termination alteration to a pre-termination  
 2 derivative work recasts, transforms or adapts that pre-termination work so as to  
 3 create a new derivative work under section 103(b) of the Copyright Act, Plaintiffs  
 4 are entitled to an accounting of profits from that new work attributable to *The*  
 5 *Action Comics #1 Story*. However, in determining what in fact constitutes a post-  
 6 termination alteration, particularly with respect to a collective work compilation on  
 7 DVD, each individual work presented thereon must be considered separately in  
 8 order to ensure that works which simply are not derivative at all are not improperly  
 9 included in the accounting.

10 **VI. PLAINTIFFS' ACCOUNTING CLAIMS ARE EQUITABLE IN**  
 11 **NATURE, AND ACCORDINGLY ARE APPROPRIATELY TRIED**  
**TO THE COURT SITTING WITHOUT A JURY**

12 Plaintiffs have demanded "a trial by jury on each claim for relief alleged in  
 13 their Complaint for which trial by jury is allowable," but have not identified those  
 14 claims. As the Court has noted, Plaintiffs' accounting claims in this action lie in  
 15 equity. *Siegel II*, 542 F. Supp. 2d at 1144-45 ("the accounting sought by plaintiffs  
 16 in this action is an equitable remedy"). Plaintiffs have consistently acknowledged  
 17 during the litigation of this matter the equitable nature of the accounting they seek.  
 18 *See, e.g.*, Pls. SJ Reply Mem. at 51 ("[o]nce copyright co-ownership is established  
 19 'the only issue therefore is the contractual, or in the absence of contract the  
 20 equitable, division of profits from the copyrighted work.'"). Nonetheless, given  
 21 Plaintiffs' generalized jury demand, Defendants seek an affirmative ruling on this  
 22 issue so that they can structure their trial preparations and pre-trial submissions  
 23 accordingly.

24  
 25 derivative work would need to be dealt with on a case-by-case basis. Defendants contend  
 26 generally, however, that additional content such as a documentary about the making of a  
 27 television series, even if it contains footage or shows scenes from certain episodes, is not  
 28 a derivative work, but instead is a new work that merely depicts the underlying work. *Cf.*  
*SHL Imaging, Inc. v. Artisan House, Inc.*, 117 F. Supp. 2d 301, 305-06 (S.D.N.Y. 2000)  
 (photograph of pre-existing work does not "recast, transform or adapt" to make it a  
 derivative work of the pre-existing work; photograph "merely depicts" pre-existing  
 work).

As an initial matter, it is important to note that the right to a jury trial may arise in two ways: (1) where it is statutorily created by Congress or (2) where it is compelled by the Seventh Amendment, which “preserved” the right to a jury for all legal – as opposed to equitable – claims as such right existed in 1791. *See generally Feltner v. Columbia Pictures*, 523 U.S. 340, 345 (1998). A Court may avoid the Constitutional question if it is able to determine that a Plaintiff has a statutorily created jury right. *Id.* There can be no dispute in this instance, however, that even though the parties’ relationship as co-owners of copyright has arisen by virtue of the application of copyright law principles rendering them tenants in common, there is no statutory authority providing for a jury trial with respect to an accounting between joint-owners of a copyright. Such an accounting does not arise under the Copyright Act or federal statute, *see Oddo v. Ries, supra*, 743 F.2d at 633, but under state law equitable principles that govern sharing between partners and tenants in common. *See H. Rep.* at 121. As succinctly stated by Plaintiffs, “once it established that Plaintiffs jointly own the original ‘Superman’ copyright(s) under the Copyright Act, the applicability of Federal law ends with that determination, as Plaintiffs’ claim for an accounting is governed *in all respects* by state law.” *See* Pls. SJ Reply Mem. at 51 (emph. in original)). Thus, the Court will have to answer the Constitutional question and determine whether Plaintiffs have a Seventh Amendment right to a jury trial.

**A. Plaintiffs Do Not Have A Seventh Amendment Right To A Jury Trial On Their Accounting Claims.**

The Seventh Amendment’s preservation of the right to a jury trial only applies to legal claims, not those arising in equity. Accordingly, Plaintiffs do not have a right to a jury trial on their accounting claims if they are equitable in nature. Under the two-part test employed by the Supreme Court, a court must consider two factors in determining whether an issue is legal or equitable: (1) the historical nature of the issues involved and (2) the remedy sought. *Chauffers, Teamsters and Helpers Local 391 v. Terry*, 494 U.S. 558, 559 (1990); *Feltner*, 523 U.S. at 348.



1 Furthermore, in applying this test, the Court must look to the “nature of the issue to  
 2 be tried rather than the character of the overall action.” *Ross v. Bernhard*, 396 U.S.  
 3 531, 538 n.10 (1962); *Chauffeurs*, 494 U.S. at 569-70 (quoting *Ross*).

4 Plaintiffs’ Second, Third and Fourth Claims and their Prayer for Relief,  
 5 along with their unambiguous briefing on summary judgment, all consistently  
 6 request an “accounting for profits” and demand the imposition of a constructive  
 7 trust for their benefit to accomplish the goal of the accounting requested.<sup>48</sup> As  
 8 explained in further detail below, under the first prong of the test, accountings and  
 9 actions to impose constructive trusts between co-owners of property and tenants in  
 10 common have historically been heard only in courts of equity. This long  
 11 established rule applies to requests for such relief between co-owners of copyright  
 12 who share profits as tenants in common. In addition, under the second prong of the  
 13 test, the remedy Plaintiffs seek is restitutionary in nature and therefore clearly  
 14 equitable, as it arises out of a duty to account between co-owners and not out of a  
 15 claim for breach of contract or any tortious violation of Plaintiffs’ legal rights.  
 16 Accordingly, Plaintiffs do not have a right to a jury trial in connection with their  
 17 accounting claims, and those claims – along with all of the equitable  
 18 apportionment questions they implicate – are appropriately tried to the Court,  
 19 sitting without a jury.

20 **1. The Accounting Plaintiffs Are Seeking Is, And Has**  
 21 **Historically Been, Equitable In Nature.**

22 Justice Marshall explained the first part of the Supreme Court’s Seventh  
 23 Amendment test as follows: “First, we compare the [] action to the 18th-century  
 24 actions brought in the courts of England prior to the merger of the courts of law

25 \_\_\_\_\_  
 26 <sup>48</sup> The “general nature of the case” – here, an action to establish and enforce copyright  
 27 termination rights – is only to be considered to ensure that the party moving to strike a  
 28 jury demand has not intentionally structured its pleadings or request for relief in such an  
 artful way as to deprive the opposing party of its jury trial right. *Dairy Queen v. Wood*,  
 369 U.S. 469, 477-78 (1962). Here, since it is Plaintiffs’ own pleadings and contentions,  
 as well as the relief they seek, that structure and define the nature of their claims, the  
 protection afforded by *Dairy Queen* is not needed.

1 and equity.” *Chauffeurs*, 494 U.S. at 565; *accord Ross*, 396 U.S. at 538 n.10  
 2 (courts are to consider “the pre-merger custom with reference to such questions”).  
 3 As demonstrated below, Plaintiffs’ accounting claims have historically been  
 4 equitable issues.

5 The Second through Fourth Claims for Relief in Plaintiffs’ Amended  
 6 Complaint comprise their accounting claims, in which they seek a share of the  
 7 profits resulting from Defendants’ exploitation of post-termination Superman  
 8 works:

- 9 • The Second Claim for Relief seeks a declaration of the amount of  
 10 Plaintiffs’ share of the profits from Defendants’ exploitation of the  
 11 recaptured Superman copyrights after April 16, 1999; (FAC, ¶¶ 56-  
 12 59);
- 13 • The Third Claim for Relief seeks a declaration of the amount of  
 14 Plaintiffs’ share of the profits from Defendants’ exploitation of the  
 15 Superman “crest” as published in *Action Comics #1*, including  
 16 from Defendants’ use of a revised version of such crest in a  
 17 Superman shield used as a trademark or in merchandise (*id.* ¶¶ 60-  
 18 64), and
- 19 • The Fourth Claim for Relief seeks an accounting for profits from  
 20 licensing and commercial exploitation of the recaptured Superman  
 21 copyrights (*id.* ¶¶ 65-72).<sup>49</sup>

22 See also FAC, ¶¶ 1, 54(c), 73, 105(d), 106, 108-110.

23 While the interests Plaintiffs have recaptured are based in copyright, the  
 24 nature of the financial relationship they seek to enforce via their accounting claims  
 25 is grounded in state common law principles of tenancy in common and the duties  
 26 of a trustee: Section 201 of the 1976 Copyright Act carried forward the basic  
 27 principles of prior law that “authors of a joint work are co-owners of [the]

28 <sup>49</sup> DC has alleged in its Fifth Counterclaim that any requested accounting to Plaintiffs of profits for exploitation of Superman must be reduced to take into account, *inter alia*, (i) the newly created copyrightable material added in derivative works based upon the *Action Comics #1 Story* and created thereafter that remains owned by DC, (Counterclaim, ¶¶ 113-115); (ii) the value of the graphic appearance of Superman based upon the Siegels’ failure to terminate the Promotional Announcements (*id.* ¶ 132(c)); and (iii) DC’s direct and indirect expenses, taxes and value of DC Comics role as a publisher of Superman works. (*id.* ¶ 132(g)). As noted above, the Court has granted Defendants’ partial summary judgment motion to exclude from any accounting award all Superman profits derived from exploitation outside the U.S., from exercise of trademark rights not subject to termination and from continued use and licensing of derivative works created before the alleged termination’s effective date of April 16, 1999.

1 copyright.” 17 U.S.C. § 201(a) & (b). *See also Siegel I*, 496 F. Supp. 2d at 1144-  
 2 45. Under the 1976 Copyright Act, pre-existing, i.e. 1909 Act, “court made law . .  
 3 . on the rights and duties of co-owners of a work . . . [was] left undisturbed . . .  
 4 [and] co-owners of a copyright . . . [are] treated generally as tenants in common . . .  
 5 subject to a duty to account to other co-owners for any profits.” *See H. Rep. at*  
 6 120-21.

7 Under the 1909 Act, as today, each joint author is a co-owner who possesses  
 8 “an undivided ownership in the entire work, including all of the contributions  
 9 contained therein,” 1 *Nimmer* § 6.03 at 6-7; *see Pye*, 574 F.2d at 480; *Siegel I*, 496  
 10 F. Supp. 2d at 1144, and who can nonexclusively exercise all the rights of the  
 11 copyright owner subject only to a duty to account to other co-owners for their  
 12 share of “profits” earned from such use or licensing. 1 *Nimmer* § 6.10; *Oddo v.*  
 13 *Ries*, 743 F.2d at 632-33. Where such an accounting must be made to share profits  
 14 earned by one co-owner of copyright from exploitation of a derivative work based  
 15 upon the jointly owned work, the co-owner providing such an accounting does so  
 16 as a trustee, not as an infringer. *Shapiro Bernstein & Co.*, 223 F.2d at 254 (“As to  
 17 the scope of the accounting it is clear that each holder of the renewal copyright on  
 18 a joint work should account to the other for his exploitation thereof, -- not as an  
 19 infringer but as a trustee.”).

20 Plaintiffs’ present accounting claims are in accord with accounting claims  
 21 that have traditionally been adjudicated in courts of equity. Historically, an  
 22 accounting claim arising out of a duty to account which results not from a tortious  
 23 act or breach of contract but, instead, *from the parties’ relationship* as partners, co-  
 24 owners of property, or beneficiaries and trustees, has been considered equitable in  
 25 nature. *See Phillips v. Kaplus*, 764 F.2d 807, 813-14 (11th Cir. 1985) (and cases  
 26 cited therein); *see also Towers v. Titus*, 5 B.R. 786, 794 (N.D. Cal. 1979) (where  
 27 duty to account is itself of an equitable origin); *see generally Dairy Queen*, 369  
 28 U.S. at 480 (Harlan, J., concurring). The purpose of such an accounting claim is

1 to determine the proper sharing of partners' profits or to divide up co-owned  
2 proper . *See Id.* As Supreme Court Justice Story<sup>50</sup> explained many years ago:

3 Cases of account between tenants in common, between joint-tenants,  
4 between partners, and between part owners of ships and the masters,  
5 fall under the like considerations. They all involve peculiar agencies,  
6 like those of bailiffs or managers of property, and require the same  
7 operative power of discovery and the same interposition of equity.  
8 Indeed in all cases of such joint interests, where one party receives all  
9 the profits, he is bound to account to the other parties in interest for  
10 their respective shares, deducting the proper charges and expenses,  
11 whether he acts expressly by their authority as the bailiff, or only by  
12 implication as manager without dissent *jure domini* over the  
13 property."

14 Joseph Story, *Commentaries on Equity Jurisprudence as Administered in England*  
15 *and America* § 622 at 37 (14th ed. 1918).

16 The co-ownership relationship between Plaintiffs and DC Comics brought  
17 about by Plaintiffs' copyright termination is what creates the duty to account here.  
18 It is not compelled by contract and is not sought as a remedy for breach; nor does  
19 it result from any tortious act such as an infringement of a copyright or trademark.  
20 As Judge Learned Hand explained, in a case involving the proper sharing among  
21 joint owners of an opera,

22 the plaintiff's rights arise from a constructive trust, created and  
23 cognizable only by a court of equity. . . Her suit, so far as concerns  
24 the statutory copyrights, is clearly on the equity side of the court,  
25 because at law she could get no declaration of those rights, nor,  
26 indeed, could a court of law look at any but legal interests in the  
27 copyrights.

28 *Maurel v. Smith*, 220 F.195, 201-02 (S.D.N.Y. 1915), *aff'd* 271 F. 211 (2d Cir.  
1921).

As such, it is critical to distinguish the accounting at issue here, which has a  
direct historical basis cognizable only in equity, from an "accounting" to determine  
monetary relief for a tort such as trademark infringement, which is one of several  
mechanisms for calculating the recoverable damages for injury from a violation of  
a plaintiff's property or contractual rights.<sup>51</sup> The substantive claim here would

<sup>50</sup> Justice Story served on the Supreme Court from 1811-1845.

<sup>51</sup> *See generally Dairy Queen*, 369 U.S. at 480 (J. Harlan, concur) (explaining that there

1 historically have been brought in the courts of equity as an equitable accounting.  
 2 *See, e.g.*, Story § 622 at 37.<sup>52</sup> Thus, had Plaintiffs' accounting claims been brought  
 3 prior to the merger of law and equity (or at any other time, for that matter), they  
 4 would have been classified as equitable and tried accordingly. Indeed, Plaintiffs  
 5 have conceded as much. *See* Pls. SJ Reply Mem. at 51 ("[t]he duty to account  
 6 [among co-owners of copyright] does not derive from the copyright law's  
 7 proscription of infringement. Rather, it comes from '*equitable doctrines relating*  
 8 *to unjust enrichment* and general principles of law governing the rights of co-  
 9 owners'" (quoting *Oddo v. Ries*, 743 F.2d at 633 (emph. added; internal citations  
 10 omitted)).<sup>53</sup>

## 11 2. Nature of the Remedy Sought

12 The second prong of the analysis – the nature of the remedy sought – also  
 13 supports a finding that Plaintiffs' accounting claims are equitable. As shown  
 14 below, the analysis of this second factor is largely historical and looks to how the  
 15 specific kind of relief requested is defined by plaintiffs themselves and how such  
 16 relief is traditionally viewed.

17  
 18 are two types of accountings which would render the accounting "truly 'equitable,'" (i)  
 19 where the substantive claim is cognizable only in equity; or (ii) where the accounts  
 20 between the parties are of such a "complicated nature" that they can be satisfactorily  
 21 unraveled only by a court of equity." *Id.* (internal citations omitted); *see also Towers v.*  
 22 *Titus*, 5 B.R. at 793; 9 Charles Alan Wright & Arthur Miller, *Federal Practice &*  
 23 *Procedure*, § 2310 at 44 (3d ed. 2008).

24 <sup>52</sup> This is also arguably a case where the accounts between the parties are so complex as  
 25 to provide an independent basis for equity jurisdiction. Although some courts have  
 26 rejected a complexity exception as a general matter, others, including the Supreme Court,  
 27 nonetheless observe that in the context of an "accounting," complexity can provide a  
 28 basis for equity jurisdiction. *Dairy Queen*, 369 U.S. at 478. The accounting Plaintiffs  
 request is not a simple one to measure a plaintiff's damages from a tort. As noted above,  
 the accounting at issue here is based on equitable principles and will involve numerous  
 intricate apportionments to determine the proper scope of its application.

<sup>53</sup> *See also, id.* at 37: "[A]s between co-owners of a copyright, the duty to account does  
 not derive from the copyright law's proscription of infringement. Rather it comes from  
 equitable doctrines relating to unjust enrichment and general principles of laws  
 governing the rights of co-owners.'" (emph. in original; citations and internal quotations  
 marks omitted); Bergman Decl. Ex. C (Hearing Transcript) at 16, 22 (acknowledging the  
 necessity for certain apportionments to be made in connection with Plaintiffs' equitable  
 accounting claims.)

1 The Supreme Court has held that a remedy which seeks to restore to the  
 2 plaintiff particular funds or property in the defendant's possession, rather than to  
 3 impose personal liability on the defendant for a tort or other violation of a  
 4 plaintiff's legal rights, is considered equitable. *See Great West Life & Annuity Ins.*  
 5 *Co. v. Knudson*, 534 U.S. 204, 214, n. 2 (2002) (accounting for profits is a form of  
 6 equitable restitution); *Chauffeurs*, 494 U.S. at 570-71 (accountings that arise out of  
 7 a tenancy in common are equitable because the relief sought in such an action is  
 8 restitutionary”).

9 As the *Great West Life* Court explained, historically “a plaintiff could seek  
 10 restitution *in equity*, ordinarily in the form of a constructive trust or equitable lien,  
 11 where money or property identified as belonging in good conscience to the  
 12 plaintiff could clearly be traced to particular funds or property in the defendant's  
 13 possession.” *Id.* at 213 (contrasting equitable restitutionary remedy with legal  
 14 restitutionary remedy “*In cases in which the plaintiff could not assert title or right*  
 15 *to possession of particular property*”) (emphasis in original). In this instance,  
 16 Plaintiffs have requested an accounting to “restore” to them a share of profits that  
 17 they are entitled to as tenants-in-common to the jointly owned *Action Comics #1*  
 18 *Story*. Specifically, Plaintiffs' claim is that as their partners under equitable  
 19 principles and “in good conscience” Defendants should pay over to them their  
 20 share of “particular funds or property in defendant[s'] possession.” Thus the fact  
 21 that in the instant case the ultimate goal of the requested accounting is to have  
 22 Defendants make a payment or payments to Plaintiffs as partners cannot alter the  
 23 equitable nature of their claim and the equitable character of the relief sought. *See*  
 24 *Philips*, 764 F.2d at 814; *see Curtis v. Loether*, 415 U.S. 189, 196 (1974); *see also*  
 25 *Towers*, 5 B.R. at 795 (“[w]e need not, and do not go so far as to say any award of  
 26 monetary relief must necessarily be ‘legal relief.’ Where monetary relief is an  
 27 integral part of an equitable remedy, it remains equitable in nature.” (quoting  
 28 *Curtis*, 415 U.S. 197)). Accordingly, the nature of the remedy Plaintiffs are

1 seeking likewise supports a determination classifying Plaintiffs' accounting claims  
2 as equitable.

3 **B. The Question of Whether Any of DC Comics' Licenses to WBEI**  
4 **Constitute "Sweetheart Deals" is Implicated Only as a Result of**  
5 **the Equitable Nature of the Accounting Requested, and**  
6 **Accordingly Should Be Determined by the Court, Not a Jury**

7 The issue of whether any of DC's Superman licenses to WBEI constitute  
8 "sweetheart deals" is likewise an equitable issue that should be tried before the  
9 Court. This determination, which must be made prior to the accounting, will  
10 govern whether and to what extent any of WBEI's profits should be taken into  
11 account in determining Plaintiffs' co-ownership share of the profits from the  
12 *Action Comics #1 Story*.

13 That the "sweetheart deal" determination is equitable and not legal is evident  
14 from the Court's analysis of Defendants' motion for partial summary judgment on  
15 Plaintiffs' "alter ego" claims. In its Order, the Court agreed with Defendants that  
16 Plaintiffs' "alter-ego" theory is not a viable legal claim because it "requires large  
17 legal leaps that are not countenanced by current law." *Siegel II*, 542 F. Supp. 2d at  
18 1143. Nonetheless, the Court exercised its equitable jurisdiction to keep a part of  
19 that claim alive, explaining that "the accounting sought in this action is an  
20 equitable remedy, and the Court must conduct its inquiry accordingly." *Id.* at  
21 1144. Thus, the question the Court left for trial is "[w]hether the license fees paid  
22 represents the fair market value therefore, or whether the license for the works  
23 between the related entities was a 'sweetheart deal.'" *Id.* at 1145. Given that this  
24 issue was only preserved by the Court's exercise of its equitable jurisdiction, there  
25 can be no doubt that it must be resolved by the Court sitting in equity.

26 **C. The Remaining Claims and Defenses That Are Not Implicated in**  
27 **the Equitable Accountings and are Otherwise Jury Issues Can**  
28 **Independently Be Tried First**

Rule 39 of the Federal Rules of Civil Procedure provides, in relevant part,  
that "the trial on all issues so demanded must be by jury unless . . . the court, on  
motion, or on its own, finds that on some or all of those issues there is no federal

1 right to a jury trial.” Fed. R. Civ. P. 39. As noted by the Advisory Committee,  
 2 “[w]hen certain of the issues are to be tried by jury and others by the court, the  
 3 court may determine the sequence in which such issues shall be tried.” *Id.* (citing  
 4 *Liberty Oil Co. v. Condon Nat’l Bank*, 260 U.S. 235 (1922)).<sup>54</sup>

5 The Court has granted summary judgment on Plaintiffs’ First Claim for  
 6 Relief holding that their Superman termination notices are legally valid and  
 7 effective (FAC, ¶¶ 52-55) and, as established above, Plaintiffs’ Second through  
 8 Fourth Claims are for an equitable accounting. Plaintiffs’ Complaint pleads the  
 9 following remaining additional claims: (1) a declaration that Plaintiffs became “co-  
 10 owners, as tenants in common, with Defendants” of the recaptured Superman  
 11 copyrights and compensatory and punitive damages for Defendants allegedly  
 12 “committing waste thereon.” (Fifth Claim for Relief, *id.* ¶ 74-82); (2) treble  
 13 damages and injunctive relief arising out of Defendants’ alleged violation of  
 14 Plaintiffs’ rights under the Lanham Act, 15 U.S.C. § 1125 (a)(1)(B), by allegedly  
 15 intentionally misrepresenting that Defendants are exclusive owners of rights in any  
 16 recaptured Superman copyrights and the goods and products embodying the same  
 17 (Sixth Claim for Relief, *id.* ¶¶ 83-95); and (3) damages and injunctive relief for  
 18 unfair competition and unfair business practices in violation of California’s Unfair  
 19 Competition Law (“UCL”), Cal. Civ. Code § 17200 *et seq.*, arising out of  
 20 Defendant Warner Bros’ alleged intentional omission from its filings with the SEC  
 21 of any mention of Plaintiffs’ purported Superman copyright termination (Seventh  
 22 Claim for Relief, *id.* ¶¶ 116 - 121.)

23 The Seventh Claim for Relief, under the UCL, is also equitable in nature,  
 24 and Plaintiffs are not entitled to a jury trial on that claim. *Hodge v. Superior*  
 25

26 <sup>54</sup> And as explained in *Ross v. Bernhard*, *supra*, in determining whether or not a jury trial  
 27 is warranted, courts are to consider each issue individually, rather than to look to the  
 28 character of the action as a whole. See 396 U.S. at 538. “Rule 38 provides for jury  
 demands only for ‘any issue triable of right by jury’ and provides for parties to expressly  
 limit jury demands to specific issues, leaving others triable by the court.” 8 James Wm.  
 Moore, *Moore’s Federal Practice* § 39.12[2] at 39-16 (3d ed. 2007).



1 *Court*, 145 Cal. App. 4th 278, 284 (2006) (“the UCL is not simply a legislative  
 2 conversion of a legal right into an equitable one. It is a separate equitable cause of  
 3 action.”) In *Hodge*, the sole issue was whether defendant had a right to a jury trial  
 4 on the plaintiff’s UCL claim. The court stated that the alleged unlawful business  
 5 practice was independently actionable and subject to distinct remedies. Because  
 6 those remedies were solely equitable, defendant was not entitled to a jury trial:  
 7 “[w]here the remedies invoked are purely and exclusively equitable, the right to a  
 8 jury trial does not exist.” *Id.* at 284-85.<sup>55</sup>

9 Defendants do not dispute that Plaintiffs’ remaining two claims – for Waste  
 10 and under the Lanham Act – are legal in nature. In the event these claims require a  
 11 trial, that will not compel a jury trial as to the accounting issue; it only potentially  
 12 affects the order of the trial. In “mixed-issue actions” involving both equitable  
 13 claims tried to the court and legal claims tried to the jury, the trials are generally  
 14 sequenced such that the legal issues are disposed of before consideration of the  
 15 equitable issues. In such cases, as noted by Justice Black, courts can adequately  
 16 safeguard the parties’ right to a jury trial by trying the legal issues before a jury  
 17 first. *See Beacon Theaters, Inc. v. Westover*, 359 U.S. 500, 510-511 (1959); *Dairy*  
 18 *Queen*, 369 U.S. at 479 (“legal claims . . . must be determined prior to any final  
 19 court determination of respondents’ equitable claims”); *Kaplus*, 764 F.2d at 811.

20 In the present case, it is unlikely that there will be any, let alone many,  
 21 common issues of fact in the trials of the legal and equitable issues. But in the  
 22 event that there were, trying the legal issues first will alleviate any Seventh  
 23 Amendment concerns by ensuring that any preclusive effect of the factual issues  
 24 decided in the jury trial will only be able to affect the equitable issues, tried

25  
 26 <sup>55</sup> *See also Okura & Co. v. Careau Group*, 783 F. Supp. 482, 491 (C.D. Cal. 1991)  
 27 (Demand for jury trial on cause of action for unfair competition under Section 17200 was  
 28 properly stricken: where counterclaimant would only be entitled to equitable relief such  
 as an injunction or restitution, no right of jury trial attached to that cause of action.); and  
*Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal. 4th 1134, 1144 (2003) (“While the  
 scope of conduct covered by the UCL is broad, its remedies are limited. A UCL action is  
 equitable in nature; damages cannot be recovered.”).

1 second, and not the other way around. *Id.* Thus, if there are any remaining legal  
 2 claims, they should be tried to a jury before the Court's own, more extensive,  
 3 accounting trial.<sup>56</sup>

4 **VII. PLAINTIFFS HAVE THE BURDEN OF PROOF ON IDENTIFYING**  
 5 **WHICH POST-TERMINATION WORKS CONTAIN ANY**  
 6 **COPYRIGHTABLE ELEMENTS FROM THE *ACTION COMICS #1***  
 7 **STORY, AND THE PROPER APPORTIONMENT OF PROFITS**  
 8 **THEREFROM**

9 This Court has ruled that Plaintiffs successfully recaptured 50% of the new  
 10 copyrightable elements that first appeared in the *Action Comics #1 Story*, and  
 11 Plaintiffs are, pursuant to that ruling, entitled to participate in a portion of the  
 12 profits DC has earned by exploiting that jointly owned copyrighted material in new  
 13 derivative works in the nine years since the effective date of termination. As  
 14 established in the preceding section, calculating Plaintiffs' share of the profits will  
 15 involve, *inter alia*, apportioning out the profits derived from factors other than the  
 16 co-owned work.

17 In a typical lawsuit, the Plaintiff has the burden of proving all of the  
 18 elements of its affirmative case, including damages. Under this standard rule  
 19 Plaintiffs would have the burden of proof on their claim to Defendants' profits  
 20 from the exploitation of the co-owned copyrighted material from the *Action*  
 21 *Comics #1 Story* unless they can present a compelling reason to shift that burden to  
 22 Defendants. Because this case requires the Court to conduct an accounting  
 23 allocating profits related to the exploitation of a copyright, the traditional burden of  
 24 proof must be squared with the statutory burden of proof that copyright  
 25 infringement plaintiffs benefit from, which modifies the traditional rule and places

26 <sup>56</sup> Here, Plaintiffs' jury trial claims, if not previously resolved, should be tried before  
 27 their claims for an equitable accounting of profits and imposition of a constructive trust.  
 28 Moreover, because the claims of Plaintiffs to which a jury trial right applies do not  
 involve any overlapping factual issues with those pertaining to their equitable accounting  
 claims, such a jury trial will not affect the issues to be decided in the ensuing trial to the  
 Court sitting in equity. Finally, ordering the trial in this manner would make it  
 unnecessary to empanel a jury for a likely period of months to adjudicate Plaintiffs'  
 accounting claims.

1 much of the burden of proving profits on an infringing defendant once  
 2 infringement has been established. *See* 4 *Nimmer* § 14.03 at 4-14 (discussing  
 3 “reason for displacing the plaintiff’s normal burden of proof onto the shoulders of  
 4 the defendant”). Specifically, section 504(b) of the Copyright Act provides that in  
 5 an infringement case:

6       The copyright owner is entitled to recover . . . any profits of the  
 7       infringer that are attributable to the infringement and are not taken  
 8       into account in computing the actual damages. In establishing the  
 9       infringer’s profits, the copyright owner is required to present proof  
      only of the infringer’s gross revenue, and the infringer is required to  
      prove his or her deductible expenses and the elements of profit  
      attributable to factors other than the copyrighted work.

10 17 U.S.C. § 504(b). Thus, to establish the profits it is entitled to from any work  
 11 that is determined to be infringing, a copyright holder has the initial burden of  
 12 proving the gross revenues the infringer has received from the infringing activity.  
 13 The infringing defendant then must prove the expenses deductible from those  
 14 revenues and establish the extent to which any elements of profit are attributable to  
 15 non-infringing elements of a work or other contributions to the success of a work.

16       There is a sizeable body of case law applying and refining the apportionment  
 17 analysis in the infringement context. While it is reasonable to use such an  
 18 apportionment framework for an accounting of profits between co-owners,  
 19 especially given the lack of case law concerning the allocation of profits in the co-  
 20 ownership context,<sup>57</sup> it does not follow, as a matter of fairness or logic that the  
 21 Court should use the same burdens of proof when applying such an apportionment  
 22 process here. While Congress and the courts have determined that compelling  
 23 policy considerations exist to override the standard burden of proof in the  
 24 copyright *infringement* context, the reasons for shifting the burden of proof are not  
 25

26 <sup>57</sup> There is little instructive precedent on the issue of the allocation of the burden of proof  
 27 in an accounting between copyright co-owners. *See, e.g., Strauss v. The Hearst Corp.*,  
 28 1998 U.S. Dist. LEXIS 1427 at \*20 (S.D.N.Y. Feb. 16, 1988) (“[A]s a joint copyright  
 holder, plaintiff is entitled to a pro rata share of the profits generated by defendant’s use  
 of the joint work or any portion thereof. While intimating no final view, I have serious  
 doubt as to plaintiff’s ability to prove, with sufficient certainty, the amount due him under  
 an accounting.”).

1 present with regard to copyright co-owners where the relationship between the  
2 parties is entirely different: A co-owner, unlike an infringer, has an equal right to  
3 use the co-owned copyright as it sees fit.

4 Under the apportionment framework used in the infringement context, a  
5 standard profit determination involves three distinct components, each of which  
6 should be evaluated separately. The first component of the profit determination is  
7 a foundational one – Plaintiffs must identify which of Defendants’ works are  
8 subject to the accounting by identifying the works incorporating the co-owned  
9 copyrighted material from the *Action Comics #1 Story*. While Defendants have  
10 expanded the Superman universe by creating hundreds of new works since April  
11 16, 1999, Plaintiffs are only entitled to share in the profits from those works  
12 incorporating the recaptured copyrighted material from the *Action Comics #1*  
13 *Story*.

14 The second component of the profit apportionment, requires a qualitative  
15 analysis. As detailed in Section II above, even after the works incorporating the  
16 co-owned copyrighted material from the *Action Comics #1 Story* are identified,  
17 apportionment is necessary to avoid the inequitable result of awarding Plaintiffs a  
18 windfall that includes the portion of the profits from those works that was not  
19 generated by the exploitation of the recaptured copyright. Accordingly, after  
20 determining which of Defendants’ post-termination derivative works incorporate  
21 the co-owned copyrighted material from the *Action Comics #1 Story*, those works  
22 must then be evaluated to separate the portion of the profits attributable to the  
23 copyrighted material in the *Action Comics #1 Story* from the portion of profits  
24 attributable to all of the other elements and contributions to the success of those  
25 works, including copyrighted material from the countless Superman works  
26 Defendants created after *Action Comics #1*, material that is not protected by  
27 copyright, and/or contributed by actors, directors, writers, artists, and other  
28 individuals who factored into the success of those works.

1 The third component of such an apportioned profit determination is financial  
 2 in nature – a mathematical calculation of revenues minus expenses. To arrive at  
 3 Plaintiffs’ final share of the profits, the resulting number for each of the works  
 4 incorporating copyrighted material from the *Action Comics #1 Story* should be  
 5 multiplied by the relevant apportionment percentage and then divided by two to  
 6 account for Plaintiffs’ 50% share.

7 As discussed below, as to each of the first two components of the profit  
 8 calculus the burden is appropriately on Plaintiffs to establish their claim; as to the  
 9 third component – the determination of deductible expenses – Defendants  
 10 acknowledge that the burden might more appropriately be on them.

11 A. **Plaintiffs Must First Establish That The Works At Issue Include**  
 12 **the Co-owned Copyrighted Material From the *Action Comics #1***  
**Story**

13 It is axiomatic that Plaintiffs’ co-ownership rights to the copyrighted  
 14 material in the *Action Comics #1 Story* only entitle them to share in Defendants’  
 15 profits from the co-owned copyright. While this baseline issue is assumed in most  
 16 direct infringement cases involving a one-by-one comparison of infringed and  
 17 infringing works, there is no doubt that an infringer is only entitled to recover  
 18 profits attributable to the infringement, and it cannot claim profits from works that  
 19 do not include the plaintiff’s copyright. This basic tenet is critical in this case  
 20 because there is not just one, but thousands of works, that are at issue.

21 Furthermore, not every work falling under the “Superman” umbrella  
 22 includes copyrighted material from the *Action Comics #1 Story*. Far from it – DC  
 23 has obtained countless copyrights and trademarks covering the development and  
 24 expansion of the Superman universe in the decades since 1938. Accordingly, it  
 25 would be improper to allow Plaintiffs to assert an undifferentiated claim to share in  
 26 the profits from any work or product bearing the “Superman” name without  
 27 requiring them to first establish that the work or product actually incorporates  
 28

1 material from their one co-owned copyright in the *Action Comics #1 Story*.<sup>58</sup>

2 This issue rarely arises in a direct infringement case for the common sense  
3 reason that the allegations in most such cases concern one particular infringing  
4 work and there is no dispute concerning the profits claimed by the plaintiff.  
5 However, the courts that have touched on the subject all recognize that a party  
6 cannot indiscriminately claim a share of a defendant's profits without tying those  
7 profits to a work incorporating the infringed copyright. For instance, in *Taylor v.*  
8 *Meirick*, 712 F.2d 1112 (7th Cir. 1983), the plaintiff, who owned several  
9 copyrighted maps, sued a defendant for selling infringing maps. The plaintiff  
10 calculated defendant's profits as follows: "During the damage period [defendant]  
11 sold 150 different maps; the three infringing maps represent 2 percent of this  
12 figure; 2 percent of [defendant's gross profits during the relevant time period] is  
13 \$3,300." *Id.* at 1119. Judge Posner rejected this methodology because it did not  
14 focus on the profits the defendant earned from the infringing maps, as opposed to  
15 defendants' other maps and products:

16 First, there is no evidence that the infringing maps represented 2  
17 percent of [defendant's] total map sales as distinct from 2 percent of  
18 the titles in his inventory of maps. Second, half of [defendant's]  
19 business consists of sales of something called a 'pH meter,' and  
20 [plaintiff] lumped the profits on those sales in with the profits of  
21 [defendant's] map business to get the figure that he multiplied by 2  
percent in order to estimate [defendant's] profits on the infringing  
maps. . . . [Plaintiff] could have made out a prima facie case for an  
award of infringer's profits by showing [defendant's] gross revenues  
from the sale of the infringing maps. It was not enough to show  
[defendant's] gross revenues from the sale of everything he sold.

22 *Id.* at 1122. *Cf. Basquiat v. Kemper Snowboards*, 1998 U.S. Dist. LEXIS 5733 at  
23 \*2 (Apr. 20, 1998) ("A copyright plaintiff must, at the outset, establish the number  
24 of infringing items sold and their initial selling price . . ."); *Eiben v. A. Epstein &*

25  
26 <sup>58</sup> See, e.g., *Zella v. E.W. Scripps et al.*, 529 F. Supp. 2d 1124, 1132 (C.D. Cal. 2007)  
27 (plaintiffs required to identify each of the episodes of a television series they contend  
28 infringe their copyright: "that [plaintiffs] now suggest that the Court review every  
episode to save their claims would waste substantial judicial resources undertaking a task  
Plaintiffs should have undertaken themselves. The Court will *not* perform Plaintiffs'  
work for them and review all 150 episodes to select those which infringe on Plaintiffs'  
copyrights." (underlining added.)

1 *Sons Int'l, Inc.*, 57 F. Supp. 2d 607, 614 (N.D. Ill. 1999) (granting motion in limine  
 2 to preclude plaintiff, who held the copyright in certain architectural plans, from  
 3 presenting evidence of defendant's gross revenue from any portion of its  
 4 construction project other than the part that defendant constructed using the  
 5 infringing plans); *see also* 6 *Patry* § 22:117 ("While some plaintiffs have  
 6 attempted to meet their burdens by merely placing into the record an  
 7 undifferentiated figure representing a corporation's gross revenue from all sources,  
 8 infringing and noninfringing, such a ploy is clearly inadequate.")

9 The issue is more frequently raised in the related "indirect" profits context,  
 10 but the principle remains the same: "only those profits that are attributable to the  
 11 infringement may be awarded." 6 *Patry* § 22:131. *See also* *Thoroughbred*  
 12 *Software Int'l, Inc. v. Dice Corp.*, 488 F.3d 352, 360-61 (6<sup>th</sup> Cir. 2007) (holding  
 13 that even where defendant infringer did not "delineate which part of its monthly  
 14 customer fee relate[d] to [the infringing] software," plaintiff was not "relieve[d] . .  
 15 . of its obligation that would allow the trier of fact to determine what portion of  
 16 [the defendant's] monthly customer fee was attributable to the infringing  
 17 software."); *Straus v. DVC Worldwide, Inc.*, 484 F. Supp. 2d 620, 645 (S.D. Tex.  
 18 2007) ("The plaintiff has the burden of proving that the defendant's gross revenues  
 19 are specifically attributable to the sale of the infringing works."); *Fox Controls,*  
 20 *Inc. v. Honeywell, Inc.*, 2005 U.S. Dist. LEXIS 14410 at \*25 (N.D. Ill. Jul. 14,  
 21 2005) ("To obtain an award of a defendant's profits, a plaintiff bears the burden of  
 22 connecting profits directly to the purported infringement."); 6 *Patry* § 22:145 (The  
 23 burden on defendant to establish apportionment arises only if plaintiff first  
 24 establishes a causal nexus between the infringement and defendant's gross  
 25 revenue.").

26 In other words, labeling a work as part of the "Superman universe" is a  
 27 starting point, not an end point. This problem is evident when viewed in context of  
 28 the damages report Plaintiffs' expert Steven Sills submitted in this matter. Mr.

1 Sills' damages numbers are organized only by broad categories<sup>59</sup> and include  
 2 numerous works within each category that indisputably fail to incorporate any  
 3 jointly owned copyrightable material from the *Action Comics #1 Story*.<sup>60</sup> And  
 4 even some of the broad categories listed in Mr. Sills' report, like *Krypto the*  
 5 *Superdog*, include works that contain no copyrightable material from the *Action*  
 6 *Comics #1 Story*.<sup>61</sup>

7 In sum, like an infringement plaintiff, Plaintiffs are required and bear the  
 8 burden to establish that the profits they are claiming have a causal connection to  
 9 the co-owned copyright by showing that each work at issue incorporates that  
 10 copyright.

11 **B. Plaintiffs Should Also Bear The Burden of Establishing**  
 12 **Apportionment As to Each Work**

13 After establishing which derivative works incorporate the co-owned  
 14 copyright and will therefore be subject to the accounting, the next step is  
 15 apportionment – determining what portion of the profits from those works is  
 16 attributable to the jointly owned copyright of the *Action Comics #1 Story* and what  
 17 portion is attributable to factors other than those co-owned copyrightable elements.  
 18 In a co-ownership situation, unlike an infringement case, the burden of  
 19 apportionment should be on the plaintiff.

20 As an initial matter, even in the infringement context, the profit  
 21 determination is not punitive in nature, and this is especially true here. Thus, an  
 22 optimal result, even in an infringement action, would allow the plaintiff to recover

23 <sup>59</sup> Defendants' accounting expert, Franklin Johnson, since he was a rebuttal Plaintiffs'  
 24 expert, used the same broad categories of works as were contained in Mr. Sills' report  
 25 vis-à-vis revenues and expense. However, neither report addresses whether and to what  
 extent any of these categories actually include revenues that can be attributed to the  
 exploitation of the recaptured elements from the *Action Comics #1 Story*.

26 <sup>60</sup> Bergman Decl. Ex. F.

27 <sup>61</sup> Given the parties' obviously differing interpretations of the scope of the co-owned  
 28 material from the *Action Comics #1 Story* and the extent to which it permeates the post-  
 April 16, 1999 works in the Superman universe, it makes sense to require Plaintiffs, as  
 masters of their Complaint, to identify the particular works that they contend include the  
 co-owned material.



1 only the share of the profits from a work that are attributable to the defendant's  
 2 exploitation of the copyright at issue and nothing more. *See Sheldon, supra*, 309  
 3 U.S. at 399 (purpose of awarding infringer's profits is "to provide just  
 4 compensation for the wrong, not to impose a penalty by giving to the copyright  
 5 proprietor profits which are not attributable to the infringement."); 6 *Patry*  
 6 § 22:145 at 22-344 ("Apportionment [] plays a critical role in ensuring that only  
 7 those profits attributable to the infringement are disgorged."). However, because  
 8 the task of apportionment is often imprecise, the allocation of the burden of proof  
 9 effectively determines which party receives a windfall of profits resulting from the  
 10 difficulties of calculating apportionment.

11 In an infringement case the copyright infringer is a tortfeasor who has  
 12 appropriated a copyrighted work without permission, often intertwining the  
 13 copyrighted work with the infringer's own work and contributions in a way that  
 14 makes it difficult to separate the two out. On a policy level, it makes sense for  
 15 Congress and the courts to allocate the burden of apportionment to the infringing  
 16 defendant as it is only fair to place the burden of untangling those contributions on  
 17 the party that made the unilateral decision to tangle them in the first instance. *See,*  
 18 *e.g., Sheldon*, 309 U.S. at 401 ("in view of [the difficulty of separating profits  
 19 attributable to the copyrighted matter from profits attributable to other factors], the  
 20 defendant, being responsible for the blending of the lawful with the unlawful, had  
 21 to abide the consequences . . .").<sup>62</sup>

22 However, the fact that the courts and Congress have made a policy decision  
 23 to allocate the burden of proving apportionment to a defendant in a copyright  
 24

---

25 <sup>62</sup> Even where claimed percentages are not supplied by the parties, if any rational  
 26 apportionment can be made, the Court should undertake that apportionment *sua sponte*,  
 27 even if the defendant has not satisfied its burden of establishing apportionment. *Cream*  
 28 *Records*, 754 F.2d at 828 ("[W]here an infringer's profits are not entirely due to the  
 infringement, and the evidence suggests some division which may rationally be used as a  
 springboard, it is the duty of the court to make some apportionment.") (citation and  
 internal quotations omitted); *see also* 6 *Patry* § 22:145 ("An important goal of the 1976  
 Act was to make mandatory apportionment of damages between the infringing and  
 noninfringing elements of defendant's goods.").

1 infringement case should not be determinative in this case involving co-owners.  
2 The critical difference between the present situation and an infringement case is  
3 that in this instance, Defendants have always had the right to use the copyrightable  
4 content from the *Action Comics #1 Story* as they pleased. Accordingly, different  
5 policy considerations are implicated here, and Defendants respectfully submit that  
6 those considerations dictate a different allocation of the burden of proof.

7 First of all, as discussed above, the policy basis for requiring an infringer to  
8 bear the burden of proving apportionment is straightforward: because the infringer  
9 has combined the copyright holder's copyright with its own work without  
10 permission, the infringer should bear the burden of untangling the two. This rule is  
11 "an equitable response to an infringer who has frustrated the task of apportionment  
12 by co-mingling profits." *Data General Corp. v. Grumman Sys. Support Corp.*, 36  
13 F. 3d 1147, 1176 (1st Cir. 1994) (citing *Sheldon*, 309 U.S. at 401). This rationale  
14 holds no weight in an accounting between tenants-in-common, however, because  
15 each joint owner has the absolute right to use the copyright as it sees fit. *Oddo v.*  
16 *Ries, supra*, 743 F.2d at 633. Accordingly, given the nature of the co-ownership  
17 relationship, there is no policy basis for placing the burden of apportionment on a  
18 co-owner who has exploited a copyright rather than on the passive co-owner  
19 claiming an accounting.

20 Second, this case is even a step further removed from the infringement  
21 context than a typical co-ownership case because the parties have become co-  
22 owners of the copyrightable material in the *Action Comics #1 Story* only recently,  
23 by virtue of Plaintiffs' exercise of their statutory termination right. Prior to the  
24 effective date of Plaintiffs' termination, Defendant DC Comics was the *sole* owner  
25 of the copyright for 61 years. During the vast majority of that 61-year time period,  
26 DC had no reason to consider the financial or accounting implications of  
27 combining the copyrighted material from the *Action Comics #1 Story* with the  
28 subsequent creative developments that allowed Superman to become what he is

1 today, or to consider and track whether any of the copyrighted material in the  
2 *Action Comics #1 Story* was included in any of the hundreds of works that built  
3 upon and expanded the Superman universe throughout the years.

4 As this Court recognized in its Opinion, the post-*Action Comics #1* works,  
5 the majority of which were created during those 61 years, “added decades of new  
6 material to further define, update, and develop the [Superman] character (such as  
7 his origins, his relationships, and his powers and weaknesses) in an ongoing flow  
8 of new exploits and supporting characters, resulting in the creation of an entire  
9 fictional Superman ‘universe.’” *Siegel II*, 542 F. Supp. 2d at 1110. To the extent  
10 the post-*Action Comics #1* works incorporate any of the copyrightable elements  
11 that first appeared in the *Action Comics #1 Story* (not all of them do), that  
12 copyrightable material has been buried under the countless derivative works that  
13 have expanded the Superman universe during that time period.

14 Under these circumstances, allocating the burden of proving apportionment  
15 to DC would place a harsher burden on DC than that on an infringement defendant.  
16 Given DC’s undisputable role in expanding the Superman franchise over those 61  
17 years to its present level of prominence, an equitable allocation of the burden of  
18 proof would give DC the benefit of the doubt with respect to those contributions.<sup>63</sup>

19 Finally, a rule forcing a co-owner who has exploited a copyright to bear the  
20 burden of apportioning the profits from the newly created work is inappropriate  
21 because it would contravene the Congressional policy that the copyright law is  
22 intended to promote the arts and sciences. In an infringement context, it is rational  
23 from a policy perspective to punish an infringer by awarding the copyright holding  
24 plaintiff any windfall that results from difficulties in apportionment. In a co-  
25 ownership situation, however, where both parties have an equal right to exploit the  
26 copyright, policy decisions should align with rules that encourage, rather than

27  
28 <sup>63</sup> Plaintiffs have the same access to the pertinent evidence that Defendants do – the works themselves – and given the equities involved, there is likewise no reason to allocate the burden of apportionment to Defendants.

discourage, co-owners to exercise their rights in the co-owned copyright. *Cf. Data General*, 36 F.3d at 1176 (citing “policies underlying the Copyright Act” as supporting the rule that “apportionment is almost always available in the context of infringing derivative works, perhaps in part because original expression added by the infringer is itself entitled to copyright protection.”)

Under an economic analysis, at the margins, a co-owner would refrain from creating a work incorporating a co-owned copyright if it were required to undertake the burden of apportioning out profits derived from the copyrighted work from elements of profits attributable to other factors and if the co-owner would also forfeit any revenues that were not attributable to the jointly owned copyright but that could not adequately be apportioned out. In the interest of encouraging further creation of new derivative works in these instances, the burden of proof should favor a co-owner who actively exploits a co-owned copyright over a passive co-owner who sits back and waits to collect an accounting.

In this situation, DC – not Plaintiffs – has cultivated the Superman property over the years and grown it to its current prominence. An equitable result would recognize these efforts and encourage further exploitation of the jointly held copyright by giving DC the benefit of the doubt with respect to any apportionment calculations.

**C. Defendants Have The Burden Of Rebutting Plaintiffs’ Profits Evidence By Demonstrating Deductible Expenses**

The final component to the profit calculation is deducting expenses from the revenues earned from exploiting the copyright at issue. In the infringement context, the burden of proving gross revenues is allocated to the plaintiff copyright holder, and the infringer is then required to prove any deductible expenses. Thus far in this litigation, the parties have proceeded under this paradigm, with Plaintiffs’ expert Steven Sills submitting an expert report calculating Defendants’ revenues (and deducting only limited expenses) with respect to certain categories of exploitation and Defendants’ rebuttal expert Franklin Johnson submitting a

1 rebuttal report identifying all of the deductible expenses relating to the creation and  
 2 exploitation of those works. While the equities in this co-ownership situation  
 3 could potentially dictate a different result,<sup>64</sup> Defendants have no objection to  
 4 continuing to assume the burden of establishing the expenses related to the  
 5 revenues they have received, subject only to the caveat discussed in Section VII(A)  
 6 above that Plaintiffs should bear the burden of identifying each work that they  
 7 contend includes portions of the co-owned copyrightable material from the *Action*  
 8 *Comics #1 Story*, as well as the proportionate amount of such use in each such  
 9 work – something Plaintiffs have failed to do to date.

### 10 CONCLUSION

11 For the foregoing reasons, Defendants respectfully request that the Court  
 12 issue an order comporting with the relief sought herein.

13 Respectfully submitted,

14 DATED: July 21, 2008

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17 -and-

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22 <sup>64</sup> A recent California state court decision provides a blueprint of an appropriate  
 23 allocation of the burden of establishing profits relating to a particular property when that  
 24 issue arises in a non-infringement context. In *Sander/Moses Prods., Inc. v. NBC Studios,*  
 25 *Inc.*, 142 Cal. App. 4<sup>th</sup> 1086 (2006), a plaintiff loan-out company filed suit against NBC  
 26 for failing to pay contingent compensation relating to the television series *Profiler*. The  
 27 Plaintiff appealed the jury's decision for the defendant, arguing that it should not have  
 28 borne the burden of proving the contingent compensation amount because all of the  
 relevant accounting information was in the possession of the defendant studio. The court  
 rejected plaintiff's argument stating, among other things that "there is no evidence that  
 the information necessary to calculate the amount of contingent compensation to which  
 [plaintiff] was entitled under the agreement was unavailable. To the contrary, the record  
 shows that [plaintiff] was provided information t rough the audit process. . . . Moreover,  
 [plaintiff's] expert was able to calculate its damages based on the available information."  
*Id.* at 1096.