ISRAEL DECLARATION EXHIBIT 1

3 of 3 DOCUMENTS

ORIGINAL APPALACHIAN ARTWORKS, INC., Plaintiff, - against - GRANADA ELECTRONICS, INC., Defendant

No. 85 Civ. 9064 (WCC)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

1986 U.S. Dist. LEXIS 29114*; *229 U.S.P.Q. (BNA) 54*; *Copy. L. Rep. (CCH) P25,898*; *1986-1 Trade Cas. (CCH) P66,986

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OPINION BY: CONNER

OPINION

CONNER. D. J

OPINION *AND ORDER*

Plaintiff Original Appalachian Artworks, Inc. ("OAA"), the owner of American and foreign copyrights and trademarks in the phenomenally popular Cabbage Patch Kids dolls, brought this action against defendant Granada Electronics, Inc. ("Granada") for alleged copyright and trademark infringement under the Copyright Act of 1976, *17 U.S.C. §§ 101-810 (1982 & Supp. II 1984)*, and the Trademark Act of 1946, or Lanham Act, *15 U.S.C. §§ 1051-1127 (1982 & Supp. II 1984)*. In response, Granada has charged OAA with violations of the federal antitrust laws and the New York State Donnelly [*2] Act, *N.Y. Gen. Bus. Law § 340* (McKinney 1968 & Supp. 1986).

This matter is now before the Court on OAA's motion for a preliminary injunction to enjoin Granada from importing or distributing Cabbage Patch Kids dolls that have not been authorized for sale in United States, and on OAA's motion to dismiss Granada's antitrust counterclaims. For the reasons set forth below, OAA's motion for a preliminary injunction is denied pending a consolidated evidentiary hearing on the motion and an expedited trial on the merits pursuant to *rule 65(a)(2), Fed. R. Civ. P.* OAA's motion to dismiss Granada's counterclaims is granted.

Background

As noted above, OAA is the owner of certain domestic and foreign copyrights and trademarks in Cabbage Patch Kids dolls. It has licensed Coleco Industries, Inc. of West Hartford, Connecticut to manufacture and sell those dolls within the United States. OAA has licensed others outside the United States to manufacture and sell the dolls under foreign copyrights, but none of these foreign licensees has permission to export the dolls to non-licensees in the United States.

One of these foreign licensees is Jesmar, S.A. ("Jesmar"), a Spanish corporation. OAA [*3] has granted Jesmar a license to manufacture and sell Cabbage Patch Kids dolls in Spain, the Canary Islands, Andorra, and Ceuta Melilla. OAA has not authorized Jesmar to sell dolls outside that territory.

OAA alleges that Granada has imported and distributed within the United States wholesale quantities of the Cabbage Patch Kids dolls manufactured by Jesmar under

OAA's foreign copyrights. OAA alleges that since it has never given Granada authority or permission to import or distribute the copyrighted dolls into the United States, Granada has infringed OAA's American copyrights and trademarks.

To appreciate some of the issues before the Court, it is necessary to understand the unique manner in which OAA markets Cabbage Patch Kids dolls. According to OAA, the tremendous appeal of its dolls lies largely in the fact that the dolls are not merely purchased by the consumer, but "adopted" by their recipients. OAA's Vice President for Licensing, Della H. Tolhurst, explains that when a child receives a Cabbage Patch Kids doll, the child is provided with a birth certificate and adoption papers which can be sent to a local address provided with the doll. When the birth certificate and adoption [*4] papers are filled out by the purchaser and sent to this local address, they are returned to the child with the doll's date of "birth" stamped on them. OAA or its agent then sends a birthday card to the child on the one-year anniversary of the doll's adoption. Affidavit of Della H. Tolhurst dated December 19, 1985, PP 12-13.

Tolhurst avers that Cabbage Patch Kids dolls diverted from abroad are not intended for sale in the United States, and that the accompanying documentation, including the birth certificate and adoption papers, is different from that provided with domestic dolls. For example, she explains the dolls manufactured by Jesmar come with birth certificates and adoption papers printed in Spanish, and contain an address outside of the United States for carrying out the dolls' "adoption." *Id.* PP 14-15. OAA contends that the expectations of Americans buying foreign Cabbage Patch Kids dolls are frustrated because they have difficulty getting the dolls adopted, and that they impute responsibility for their frustration and disappointment to OAA and its American licensee, Coleco.

Tolhurst further states that Cabbage Patch Kids dolls are "in effect the 'engine' [that] pulls [*5] the rest of the Cabbage Patch Kids line of products," *Id.* P 17, and contends that if the dolls suffer any loss of reputation with the American public, OAA's success will suffer irreparable harm. Therefore, OAA seeks a preliminary injunction restraining Granada from importing or distributing any foreign Cabbage Patch Kids dolls.

Granada, on the other hand, alleges that OAA's international territorial licensing scheme violates the federal and state antitrust laws. Granada is rather vague about the respects in which OAA's licensing arrangement is allegedly unlawful. Indeed, its federal antitrust counterclaims are set forth in just two conclusive paragraphs:

> 4. Plaintiff has, through the exclusive licensing agreements described in the complaint and the enforcement thereof against its licensees, and direct and indirect customers of such licensees, divided the markets of the world into exclusive marketing territories.
>
> 5. The acts and conduct of the plaintiff, including the institution and prosecution of this action has impaired, impeded and prevented competition in the sale and distribution of "Cabbage Patch Kids Dolls" throughout the world and in the United States and in and within [*6] the State of New York in violation of the provisions of the Federal Anti-Trust Laws, *15 U.S.C. 1 et. seq.*

Defendant's Answer PP 5, 6. Granada's state law claim is pleaded with even less particularity; it appears in this single sentence: "The acts and conduct of the plaintiff aforesaid constitute a violation of the New York State Donnelly Act, General Business Law, *§340 et. seq.*" Defendant's Answer P 7.

Not surprisingly in view of these barbone allegations, OAA has moved to dismiss these antitrust counterclaims on two separate grounds. First, OAA argues that Granada has failed to provide a "short and plain statement of the claim showing that [it] is entitled to relief" as required by *rule 8(a), Fed. R. Civ. P.*, and second, it argues that Granada lacks standing to assert these claims since it has not suffered any "antitrust injury."

Discussion

A. Plaintiff's Motion for a Preliminary Injunction.

The settled law of this circuit is that a preliminary injunction may be granted only upon a showing of "(a)) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for [*7] litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief.'" *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, No. 85-7302, slip op. at 672 (2d Cir. Dec. 17, 1985, (quoting *Jackson Dairy. Inc. v. H.P. Hood & Sons. Inc., 596 F.2d 70, 72 (2d Cir. 1979)* (per curiam)). The moving party has the burden of proving each of these elements. *Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42, 45 (2d Cir. 1983)*; *Robert W. Stark, Jr., Inc. v. New York Stock Exch., Inc., 466 F.2d 743, 744 (2d Cir. 1972)* (per curiam). OAA contends that it has met this burden with respect to both its copyright and trademark claims.

Our court of appeals has noted that a showing of irreparable injury is "'[p]erhaps the single most important prerequisite for the issuance of a preliminary injunction.'" *Bell & Howell*, 719 F.2d at 45 (quoting 11 C. Wright & A. Miller, *Federal Practice and Procedure* § 2948, at 431 (1973)). I have carefully considered OAA's application, and I cannot say, on the basis of the documentary evidence before me, that OAA has made a sufficient demonstration that it will suffer irreparable harm if a preliminary injunction [*8] does not issue.

I am aware that irreparable harm may ordinarily be presumed in a copyright infringement action. *Hasbro Bradley*, slip op. at 673; *Wainwright Sec., Inc. v. Wall St. Transcript Corp., 558 F.2d 91, 94 (2d Cir. 1977), cert. denied, 434 U.S. 1014 (1978)*; *Robert Stigwood Group Ltd. v. Speber, 457 F.2d 50, 55 (2d Cir. 1972)*. This is not, however, the ordinary case. This case is peculiar in that OAA collects a royalty from Jesmar for every foreign doll that allegedly infringes OAA's American copyrights. Thus, depending on the royalties OAA receives from Coleco and Jesmar for each doll they produce, OAA may not suffer any direct monetary harm from Granada's alleged infringement, let alone an irreparable one. If Jesmar pays OAA a larger royalty per doll than Coleco, OAA may even benefit financially from Granada's alleged infringement, even assuming that every Jesmar doll sold means that one less Coleco doll is sold, which is not at all apparent on the present record.

Moreover, even if Jesmar pays OAA a lower royalty per doll than Coleco, and the sale of every Jesmar doll does result in the loss of a sale of one of the more lucrative Coleco dolls, it is still [*9] not clear that OAA has suffered irreparable harm. There is nothing in the record before me that demonstrates that monetary damages could not compensate OAA for this reduction in royalty receipts, or that Granada could not pay such damages in the event it is eventually found liable.

OAA sidesteps these questions and argues, as noted above, that it will suffer irreparable harm because purchasers of Jesmar Cabbage Patch Kids dolls are unable to have their dolls "adopted" in the United States and do not receive birth certificates or adoption records printed in English. OAA alleges that this leads to consumer dissatisfaction, and may result in a general decline in the popularity and success of its Cabbage Patch Kids dolls and related products.

I am reluctant to accept this argument solely on the basis of the present record. First of all, it is apparently undisputed that, at least in theory, purchasers of Jesmar dolls can obtain a birth certificate and adoption papers by writing to the address in Spain that is included with the dolls. Second, notwithstanding OAA's conclusive claims to the contrary, it is not clear that American consumers are dissatisfied with that procedure. OAA does not [*10] assert that Jesmar dolls are themselves inferior to Coleco's products. Admittedly, the birth certificate and adoption papers that accompany the Jesmar dolls are printed in Spanish and not English, but it is not unimaginable that there may be some additional mystique in adopting "naturalized" Cabbage Patch Kid dolls from a distant land. In any event, even if American children wish to adopt only home-grown dolls, it is not altogether clear that the purchasers of Jesmar dolls impute to OAA responsibility for any dissatisfaction or disappointment they may have in receiving papers printed in Spanish. It is conceivable that they might feel some ill will toward Coleco, OAA's American licensee, but even that is not adequately established by the record.

In short, I am not persuaded that OAA has made a showing of irreparable harm. There has been no evidentiary hearing on this motion, and all I have before me now are the untested affidavits of the parties. In view of the peculiar facts of this case, I do not believe this sparse paper record is an adequate basis on which to issue an injunction. However, I likewise cannot determine that OAA will not suffer irreparable harm if injunctive relief [*11] is denied. Accordingly, to protect the interests of both parties, as permitted by *rule 65(a)(2), Fed. R. Civ. P.*, I will schedule this case for a consolidated evidentiary hearing on the motion and an expedited trial on the merits to begin Wednesday, February 26, 1986 at 11:00 a.m. in Courtroom 129. [1]

1 Of course, it may be useful to Granada's counsel to obtain copies of OAA's royalty agreements with Jesmar and Coleco so that he can make appropriate inquiries at the consolidated evidentiary hearing and trial as to whether OAA might suffer an overall loss of royalties from the importation of Jesmar dolls. OAA has declined to produce these documents to Granada's counsel unless he agrees to sign a stipulation preserving the confidentiality of the agreements. Granada's counsel has refused to do so. OAA has produced these documents to the Court for an *in camera* inspection, and I have determined that the agreements do contain confidential trade information. Accordingly, if Granada's counsel wishes to acquire copies of these documents, he must enter into an appropriate confidentiality agreement with OAA.

B. Plaintiff's Motion to Dismiss Defendant's Counterclaims.

I now turn [*12] to OAA's motion to dismiss Granada's antitrust counterclaims. OAA's first ground for dismissal, that Granada has failed to set forth its claim in sufficient detail to satisfy *rule 8(a), Fed. R. Civ. P.*, is

well taken. As noted above, Granada's counterclaims are pleaded in a very conclusory fashion, and thus fail to meet the long-standing rule that "'[t]o state a cause of action under the anti-trust laws, specific facts must be stated showing that the statutes have been contravened and that as a consequence injury has resulted to the party complaining.'" *Thurston v. Setab Computer Inst., 48 F.R.D. 134, 135 (S.D.N.Y. 1969)* (quoting *Reliable Mach. Works, Inc. v. Furtex Mach. Corp., 11 F.R.D. 525, 526 (S.D.N.Y. 1951))*. However, since this defect could be easily remedied by an amendment, and since Granada has made its basic argument clear in its motion papers and in discussions at pretrial conferences, I believe it is more expeditious to excuse Granada's conclusory pleadings and turn to OAA's second ground for dismissal.

Granada's basic complaint is that OAA's territorial licensing scheme constitutes a vertical restraint of trade, eliminating intra-brand competition and artificially [*13] raising the price of Cabbage Patch Kids dolls in each territory. *See* Defendant's Memorandum of Law in Opposition to Motion for Preliminary Injunction and to Dismiss Antitrust Issues at 11-15. OAA suggests that even taking these facts as true, Granada has failed to demonstrate that it has suffered any "antitrust injury," and argues that it therefore lacks standing to assert any antitrust claims.

The Supreme Court has held that in order to assert a federal antitrust claim, "[p]laintiffs must prove *antitrust* injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful. The injury should reflect the anticompetitive effect either of the violation or of anticompetitive acts made possible by the violation." *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477, 489 (1977)* (emphasis in original). In other words, the plaintiff must show more than a mere violation of the antitrust laws; it must also show an injury that is a direct result of the anticompetitive behavior of the defendant. New York courts require a plaintiff to make a similar showing in order to bring an action for a violation [*14] of the Donnelly Act. *See Van Dussen-Storto Motor Inn, Inc. v. Rochester Tel. Corp., 63 A.D.2d 244, 251-52, 407 N.Y.S.2d 287, 293* (4th Dep't 1978); *Lerner Stores Corp. v. Parklane Hosiery Co., 86 Misc. 2d 215, 217-19, 381 N.Y.S.2d 968, 969-70 (Sup. Ct. Monroe County 1976)*.

On the question of antitrust injury, this case is analogous to *W. Goebel Porzellanfabrik v. Action Indus., Inc., 589 F. Supp. 763 (S.D.N.Y. 1984)*. In that case, the plaintiff, W. Goebel Porzellanfabrik ("Goebel"), held American copyrights on ceramic figurines known as "Hummel figures." Goebel authorized only three American wholesalers to import the figures into the United States and to distribute them to retailers. The defendant, Action Industries, Inc. ("AII"), had acquired Hummel figures from authorized vendors in Europe and imported them into this country, by-passing Goebel's authorized distributors. Goebel alleged that AII's unauthorized importation of the figures infringed Goebel's American copyrights.

As in this case, the defendant counterclaimed against the plaintiff for alleged violations of the federal antitrust laws. The thrust of the counterclaim was "that Goebel was using its copyrights to [*15] limit the quantity of Hummel figures being imported into this country, thereby keeping prices artificially high." *Id. at 765*. AII alleged that this amounted to misuse of the copyright, and argued that it stripped Goebel of the antitrust immunity normally extended by the copyright laws. *Id*.

Like OAA, Goebel moved to dismiss AII's counterclaim on the ground that AII had not suffered an antitrust injury. Judge Goettel granted the motion, noting that AII may have actually benefitted from Goebel's allegedly restrictive trade practices. *Id. at 766*. He reasoned that it was the very fact that Goebel had allegedly inflated the prices of Hummel figures in the United States that made it possible for AII to purchase the figures in Europe and undersell the authorized Goebel distributors. "Thus, in the absence of the complained of practices, AII would never even have had the financial attraction to import the Hummel figures." *Id*.

The same is true in this case. If, as Granada alleges, OAA's territorial licensing restrictions have artificially inflated the price of Cabbage Patch Kids dolls, Granada has been a beneficiary, and not a victim, of that practice. The allegedly inflated [*16] price of domestic Cabbage Patch Kids dolls is what makes it economically feasible, and profitable, for Granada to purchase Jesmar dolls in Europe and import them into the United States. Accordingly, I conclude that Granada has failed to allege any injury resulting from OAA's allegedly anticompetitive practices. Granada therefore lacks standing to assert a federal or state antitrust claim, and its counterclaims must be dismissed.

Granada also contends that the institution and prosecution of this infringement action is part of OAA's pattern of anticompetitive conduct. *See* Defendant's Answer P 5. However, as Judge Goettel stated in *W. Goebel Porzellanfabrik*, "[w]here the holder of a valid copyright brings suit in good faith and based on reasonable grounds, '[w]hatever other anticompetitive activity the [copyright holder] may be guilty of, the [copyright laws] would seem to authorize him to bring such a nonfrivolous suit.'" *589 F. Supp. at 767* (quoting *Ansul Co. v. Uniroyal, Inc., 488 F.2d 872 (2d Cir. 1971), cert. denied, 404 U.S. 1018 (1972))*. He explained that "the seeking of governmental action, whether legislative, judicial,

or administrative, is immune [*17] from antitrust strictures under the *Noerr-Pennington* Doctrine, absent a showing that the action is sought without probable cause, or is instituted in bad faith." *Id*. (citing *Clipper Exxpress v. Rocky Mountain Motor Bureau, Inc., 674 F.2d 1252, 1262-63* (9th Cir.), *modified, 690 F.2d 1240 (9th Cir. 1982), cert. denied, 459 U.S. 1227 (1983))*. Granada has not made any allegation or showing that OAA instituted this action in bad faith or with any intent to harass. Accordingly, this aspect of Granada's counterclaims must also be dismissed.

Conclusion

For the reasons set forth above, OAA's motion for a preliminary injunction is denied pending a consolidated evidentiary hearing on the motion and an expedited trial on the merits on Wednesday, February 26, 1986, at 11:00 a.m. in Courtroom 129. OAA's motion to dismiss Granada's federal and state antitrust counterclaims is granted.