June 2002

Cases of Note -- Punitives Get Whacked

Bruce Strauch

The Citadel, strauchb@citadel.edu

Follow this and additional works at: <https://docs.lib.purdue.edu/atg>

Part of the [Library and Information Science Commons](#)

Recommended Citation

Strauch, Bruce (2002) "Cases of Note -- Punitives Get Whacked," *Against the Grain*: Vol. 14: Iss. 3, Article 16.

DOI: <https://doi.org/10.7771/2380-176X.3989>

This document has been made available through Purdue e-Pubs, a service of the Purdue University Libraries. Please contact epubs@purdue.edu for additional information.

LEGAL ISSUES

Section Editors: **Bruce Strauch** (The Citadel) <strauchb@citadel.edu>

Jack Montgomery (Western Kentucky University) <jack.montgomery@wku.edu>

Cases of Note - Punitives Get Whacked

by **Bruce Strauch** (The Citadel) <strauchb@citadel.edu>

Leatherman Tool Group, Inc v. Cooper Industries, Inc., US Court of Appeals for the Ninth Circuit, 2002 U.S. App. Lexis 6338, April 5, 2002

The press is always trumpeting "out-of-control" punitive damages and predicting the end of American business as we know it. If you go by cases like this, however, punitives are only semi-out-of-control. The mess is the appellate process that takes nearly forever.

Leatherman of course makes that multi-purpose "Pocket Survival Tool" (PST) that evah' good ol' boy wants to carry around. Sales were huge, and that led **Cooper Industries** to come up with a near-identical product called the **ToolZall**.

Presumably to rhyme with You-all for that important Southern market.

A trade show was coming up, and **Cooper** was anxious to get going with his enterprise. So he actually ground the Leatherman mark off a PST and added some fasteners. This was **Cooper's** "mock up" displayed at the trade show. It was an annual event and he figured he had to be there to snag distributors. And of course not really having a prototype, **Cooper** touched up some PST photos and line drawings.

As you can imagine, **Leatherman** didn't appreciate this and won a preliminary injunction in 1996 to keep **Cooper** from selling the ToolZall. Despite this, **Cooper** kept advertising deep into 1997. The injunction did keep **Cooper's** sales down to a \$50,000 gross.

Leatherman was found to have no protectable trade dress in what is a purely functional item. However, that little tricky-dickey use of the photos and the PST got **Cooper** stuck with a **\$4.5 million punitive damage** verdict which was affirmed by the Ninth Circuit. **Leatherman Tool Group v. Cooper Industries**, 199 F.3d 1009 (9th Cir. 1999).

The U.S. Supreme Court took certiorari only as to the damages and held that judges should evaluate the size of punitive damages by three criteria: "(1) degree of reprehensibility of defendant's misconduct, (2) disparity between harm (or potential harm) suffered by plaintiff and the punitive damages award, and (3) difference between the punitive dam-

ages awarded by the jury and the civil penalties authorized or imposed in comparable cases." **Cooper Industries v. Leatherman Tool**, 532 U.S. 424, 121 S. Ct. 1678 (2001) ("Leatherman II") (citing **BMW of North America v. Gore**, 517 U.S. 559, 116 S. Ct. 1589 (1996)).

Hence, the case went back down to the Ninth Circuit to review the damage issue using those three points.

What a bunch of labor. But then there is \$4.5 million at stake with the interest meter running.

Curiously, this is a due process question — whether the state via the judicial system is improperly taking too much property from the defendant. Which is why the Supreme Court got involved.

(3) Punitives v. civil penalties

Oregon has unfair trade practices statutes, but nothing like \$4.5 mil would have been levied. **Cooper** was not trying to mislead customers. The mock-up was pretty much a one-time violation — a cheapskate stunt to get into a profitable business. "[T]he picture of the PST did not misrepresent the features of the original ToolZall and could not have deceived potential customers in any significant way." **Leatherman II**, 121 S.Ct. at 1688.

It would seem that on this issue, the punitives will always be out of whack. BMW v. Gore noted that the Alabama Deceptive Practices Act had a maximum fine of \$2,000. Other states ranged from \$5K to \$10K.

(2) Punitives v. harm or potential harm

Well, of course \$50,000 is not much harm when put up against \$4.5 mil. **Leatherman** argued it might have lost huge sales to **Cooper** if the ToolZall had gone into production. But little of that would have been due to a forgery at one trade show. And anyhow, **Leatherman** had no ownership right in the PST trade dress. **Cooper** could freely copy this purely functional item.

Cooper figured it was critical to launch its product at the 1996 trade show, but could have laid out the money to create a mock-up. And it's pretty wild speculation to say what would have happened to **Cooper's** sales had it missed the show.

\$50,000 was the actual damages stemming from the passing off — a ratio of **\$90 punitive to \$1 actual**.

The Supreme Court has made no ratio cap, but it did invalidate a ratio only slightly higher in the famous BMW case. See **Gore**, 116 S.Ct. at 1603.

At least that's what the opinion says. My memory of BMW was a \$2 mil. award with a ratio of 500 to 1. Remember, the actuals were a couple of dings in a car during shipping that the dealership had painted over, allegedly impugning the integrity of the famous multi-layer-deep-gloss finish. The Supremes knocked that way down to 10 to 1, but then muddied the waters as they are wont to do by referencing a 4 to 1 ratio which they called pushing the limit in a prior decision.

However those zany folks on the Eleventh Circuit never let the Supreme Court overly influence them and have upheld a ratio of 100 to 1. cf. Johansen v. Combustion Engineering, Inc., 170 F.3d 1320 (11th Cir. 1999) subsequent to BMW (1996). Appointed for life and immune from reversal embarrassment, they seem to have a strategy of making law around the Supreme Court and betting that its composition will shift to their views.

The Ninth also has this reputation and is seemingly so out of control that even the great Harvard Law liberal Lawrence Tribe is distressed. Here though the Ninth seems to be more restrained.

The Eleventh Cir. is Alabama, Georgia and Florida for those who like me can never picture the Fed Cir. And are likewise mystified as to why 11th is Deep South while 9th is Cal and Pac NW. + HI-Alaska.

(1) Degree of reprehensibility

The Ninth Circuit was reviewing the District Court's damages de novo but was obliged to defer to its finding of fact by the jury "unless they are clearly erroneous." **Leatherman II**, 121 S. Ct. at 1688. Which doesn't leave the Appellate Court much to do. See **Rhone-**

continued on page 56

Cases of Note from page 54

Poulenc Agro, S.A. v. DeKalb Genetics Corp., 272 F.3d 1335 (Fed. Cir. 2001) ("to the extent that the judgment-call on reprehensibility can be traced to a jury's assessment of witnesses, independent appellate review is essentially meaningless.").

The Court concluded that **Cooper** was dumb rather than mean. But it said it was not asking whether the jury was inflamed by passion against **Cooper**, but whether the

punitives went beyond constitutional limits. Which they did.

The Gore criteria don't mention the deterrent role of punitives and the potential need to gouge Cooper's corporate wealth until it squeals. But courts are still thrashing around with that problem.

Damages were reduced to \$500,000 or 10 to 1.

Which is actually the unofficial formula I've always been told is applied by trial court judges since way back before BMW. Except in Jackpot Verdict states like Ala-

bama and Mississippi where the ante just keeps going up.

Curiously, the S. Ct. in **BMW** looked up early English statutes (I know, the clerks looked them up) between 1275 and 1753 and found, double, treble and quadruple damages, but no higher. But the Court couldn't seem to take that as a message and cap punitives at 4 to 1.

Meanwhile, Congress has no problem passing treble damage statutes but can't bring itself to cap punitives. Those trial lawyer campaign contributions just keep blinding them with tears of joy.

Copyright - Wizards Rule Our Ideas and Expressions

Harry Palmer, Star's Edge, Inc. v. Eldon Braun, US Court of Appeals for the Eleventh Circuit, 2002 U.S. App. LEXIS 6507, April 9, 2002.

This case comes on appeal from Florida, home of that big Scientology H.Q. in the Tampa-Clearwater area. Which is important as you will soon see.

Harry Palmer is a psychologist and former staffer at the Church of Scientology. He left the Church in 1982 to spend four years exploring his consciousness. Armed with the resultant insights, and convinced that beliefs create their own reality, he formed a self-help course named **Avatar** which means an incarnated deity. The course was owned by **Star's Edge, Inc.** He probably wanted to bring in a movie crowd like Scientology.

You can see where this is heading. I recall in the late '60s a real drug burn-out in the old Tempo Room saloon in Chapel Hill, N.C. debating with the dust motes around him whether he was an avatar or a centaur. He liked to take his shirt off and tie his hair in a pony tail when he was in centaur mode.

The three-part **Avatar** course is conducted by "Masters" who teach a student to become "source" which is to say the center of consciousness and thus of the universe.

Students sign confidentiality agreements as to the course materials. And the price goes from \$500 to \$1,500 as you advance through the parts. If you're really good, you go on to Section IV (the price is confidential) and become a **Master**. Section V is the **Wizards Course**. That one allows you to transform all of civilization.

Naturally we haven't noticed the transformation of civilization because we poor dumb clucks don't believe it's been transformed. If we'd just shell out \$3,500 we could see the truth.

Eldon Braun was another Scientologist who felt old **Ron Hubbard's** cosmic wisdom just couldn't take him to the next level. He plunked down his money for **Avatar** and achieved Mastership in 1989.

I know. You're asking if that high profile

Scientologist John Travolta is a secret Wizard. And if Battlefield Earth was really an excellent movie but you just couldn't accept reality because you're not an Avatar. Hey, and maybe Tom Cruise and Nicole Kidman are really still married but we ...

Eldon worked as a Master, but fell out with **Harry** over his cut of the take in 1991. **Harry** suspended **Eldon's** license and demanded the return of all those top-secret **Avatar** materials.

Obviously Eldon never got to Wizard level or none of this would have happened. Assuming we would know whether it did or not.

Eldon set up shop on his own calling his operation **The Source Course**. Yes, he shamelessly lifted **Harry's** "source" concept. Moreover, he billed it as "an analog", "a refresher" and a "take-home manual" for **Avatar** grads. Unlike old secretive **Harry**, **Eldon** offered his materials to the general public. And he'd work with you on the price. Those short of funds but in need of an analog could get it for free. Or so he said.

Well, **Harry** wasn't going to stand for that, and he sued for copyright and trademark infringement, breach of confidentiality etc. & etc. and asked for a preliminary injunction. The District Court denied it, feeling he had no likelihood of success on the merits.

Prima Facie Copyright Infringement

Harry could show he held copyright to his material. But was **The Source Course** substantially similar? Would "an average lay observer recognize the alleged copy as having been appropriated from the copyrighted work?" *Leigh v. Warner Bros.*, 212 F.3d 1210, 1214 (11th Cir. 2000) (quoting *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 829 (11th Cir. 1996).

Literal similarity is what you think it is — verbatim copying. Fragmented literal similarity is the copying of a small part but word-for-word. Depending on the quantity it may be substantially similar. See generally 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.03[A][2] (2001).

And as you feared it would be, nonliteral

similarity is tougher to understand. Comprehensive nonliteral similarity is found when "the fundamental essence or structure of one work is duplicated in another." *Id.* § 13.03[A][1], at 13-29.

And if you were really serious about understanding this, you'd just throw up your hands in utter frustration at this point.

Eldon argued he copied **Harry's** ideas, not their **expression**. On the few trifling occasions when expression was copied, the merger doctrine protects him. Under said doctrine, there are so few ways of expressing a particular idea that idea and expression merge. Which is to say they get no protection because it would mean someone could own the idea itself by owning the expression. See *Warren Publ'g, Inc. v. Microdos Data Corp.*, 115 F.3d 1509, 1518 n.27 (11th Cir. 1997).

Comparing the Materials

The idea that beliefs can alter reality is neither new nor can it be protected by copyright because of course it's an idea. So **Eldon** could make the same pitch for disciples as **Harry** on that one.

The way the courses work is students are taught to "assume control" of their beliefs through a series of exercises. Thirty phrases are used such as "I am not a victim." Of course the student immediately thinks, whoa, I am a victim of bill collectors, my boss, the IRS, my ex-wife and even my dog that demands table-scraps. The student then exaggerates and eliminates the objection.

And curiously I was once a victim of a boss who made me take the Xerox sales training course. And the technique of exaggerating and thus ridiculing and overcoming objections to a product was a vital part of the sales pitch. Perhaps Harry got his start at Xerox.

Problem was, of the thirty phrases used, fifteen are identical or nearly so. As in "I am the source," versus "I'm the source of it all."

I won't give you all fifteen. But if you send in \$500 ...

continued on page 58

Cases of Note from page 56

Section III — that's the Master level — teaches how to dissolve unwanted thought forms. Although that seems like what Secs. I and II were doing. But here you do it by "merging with the thought and feeling how it feels."

Ooo-kay. And so it goes through all the rubbish. You don't really have to send me \$500. You can just read the case. Or write to Eldon, tell him you're broke, and get it free. Anyhow, there were a whole passel of similarities both literal and nonliteral and they were sure enough substantial.

Copyright Infringement

But is it an infringement? In the nonliteral area, both courses were in three parts. Section I was intro to consciousness. Section II was the exercises, and Section III a meditation technique. The exercises, being virtually identical, would permit that famous layman to avow that Eldon had copied Harry.

But are the exercises idea or expression?

As to literal, Eldon copied fifteen sentences from Harry. While that doesn't seem like a lot, they are used as part of an exercise identical to Harry's. Without these sentences, no one gets to meditation which is penultimate to enlightenment. And everyone is just clamoring to get there.

Remember, Eldon said they were so simple that the merger doctrine covers them. And they were simple. Yes, I'll give you another one. "My past doesn't exist" versus "The past doesn't exist."

And of course you've got objections. I mean, where did all those ghastly summer vacation photos come from? But they were such dumb, hideous, unflattering, pointless-waste-of-money photos that they really couldn't possibly exist. Because only a complete idiot would have taken them. Or thought he was having fun at the time. And no one that stupid could exist. Gad. I've gotten through Section II. I could be, like, a Wizard.

A not bad note further elucidates this

merger thing. "Two fish" would be merged. Likewise "red fish." But old Dr. Seuss' "one fish, two fish, red fish, blue fish" would not.

And then just as you think the 11th Circuit is going to slam the District judge with a reversal, it trails off into muttering that the line between idea and expression is not easily drawn. And all this must be resolved based on the totality of the facts and blah blah.

But the District Court didn't abuse its discretion by denying a preliminary injunction.

Which has got to be one of the most masterful exercises in wandering around to get nowhere in particular that I've seen in recent memory. And if you meditate real hard, this appellate decision doesn't even need to exist.

However this has given me a wizard idea for a self-help course. I'm calling it "Master Wizards Are the Source." It's protected by the idea-expression merger because there's really no other way to express it. Anyone can see that. Except the really, really stupid who don't deserve to exist in my serene, all-powerful reality. 🧙

Questions & Answers — Copyright Column

Column Editor: **Laura N. Gasaway** (Director of the Law Library & Professor of Law, University of North Carolina, CB #3385, Chapel Hill, NC 27599; Phone: 919-962-1321; Fax: 919-962-1193)
<laura_gasaway@unc.edu> www.unc.edu/~unclng/gasaway.htm

QUESTION: *Are there any guides, fact sheets or other resources to help librarians determine whether to sign (or not sign) an electronic copyright agreement that is an add-on to a company's photocopy license from the Copyright Clearance Center? Since the library subscribes to so few electronic journals compared to the number of print journals, the electronic license price seems out of line. Are there any rules of thumb that dictate what a library should reasonably be charged?*

ANSWER: I am not aware of any guides or fact sheets to help make the decision about the digital repertory amendment to the CCC license agreement that your company has. Many corporate libraries have decided that the ability to make digital copies rather than photocopies is extremely important to them and have signed the amendment to the license.

The amendment does not relate to subscriptions to e-journals that would be covered by a license agreement from the publisher. Instead, this amendment permits making electronic copies of articles from printed journals received by a library. You might ask a CCC representative to explain the pricing and to put you in touch with other similar libraries that have signed the amendment. The online description of the amendment is found on the CCC's webpage at <http://www.copyright.com/PDFs/DRA.pdf>.

QUESTION: *Faculty members often*

receive free preview textbooks from publishers and then donate them to the college library. May the library catalog the textbooks and include them in the collection? What about selling these donated textbooks in the library's annual book sale?

ANSWER: Absolutely! The first sale doctrine of the Copyright Act, section 109(a) permits libraries that acquire books by purchase or gift to lend them to users; obviously a library may also catalog these textbooks so that they are represented in the bibliographic record of the collection. Moreover, under copyright law, a library may sell the copies of these works if it so chooses.

QUESTION: *The library recently acquired some additional volumes of a journal to which it no longer subscribes. These volumes cover years missing from the library's holdings of this title. These volumes were obtained from a library which has merged with another library, meaning that at the time that they were acquired, a valid subscription was maintained. May the acquiring library use the donated volumes for interlibrary loan?*

ANSWER: Yes. The first sale doctrine

permits libraries to use gift volumes that were originally acquired by a library at the institutional subscription rate (if that rate is different than the subscription rate for an individual) and to add those volumes to its collection and use them as if they were purchased volumes. This would include using them to fill interlibrary loan requests.

QUESTION: *A medical library plans to post on its Intranet site an article from a journal to which it subscribes. The library has obtained written permission from the publisher to do this. What is the proper verbiage to post with the article to indicate that permission has been received. Is "reprinted with permission from the publisher" sufficient?*

ANSWER: The suggested language is just fine. If the publisher does not specify that any special wording must be used, you are free to indicate that permission was received in any way you choose. Often the wording is just "reprinted by permission." It probably is a good idea to make sure that the publisher's name appears somewhere either with the permission statement or on the article itself.

continued on page 59