



New Matter

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The Newest IP Threat in China: IP Hijacking (Part 2 of 2)

inside



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This is the second of a two-part series of articles relating to IP protection in China. Part one is available online through IPSection.org.

INTRODUCTION

PART ONE OF THIS SERIES discussed the rise in the awareness of Chinese entities regarding the importance of IP rights. As a result, the number of patent and trademark applications filed by Chinese entities has significantly increased in the last few years. The latest statistics from



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the first half of 2008 from the State Intellectual Property Office (SIPO) indicate that this trend is continuing, as Chinese entities continue to apply for more and more patents, particularly for utility models and design patents:

- ▶▶ SIPO has received 345,569 patent applications in the first half of 2008—a 28.5% increase from the same period in 2007;

SEE *IP Hijacking* PAGE 4

- 1 ▶▶ THE NEWEST IP THREAT IN CHINA: IP HIJACKING (PART 2 OF 2)
- 2 ▶▶ CHAIR'S LETTER
- 7 ▶▶ CLEAN TECHNOLOGY I
- 13 ▶▶ UNAUTHORIZED ACTS IN DECLARATORY JUDGMENT
- 17 ▶▶ LONDON AGREEMENT
- 22 ▶▶ ORPHAN WORKS
- 28 ▶▶ ADMINISTRATIVE PATENT JUDGES
- 30 ▶▶ TRADE SECRET MISAPPROPRIATION CLAIM
- 34 ▶▶ PUBLISHERS' RIGHTS
- 37 ▶▶ FREE SOFTWARE LICENSING
- 39 ▶▶ LICENSING FORUM
- 40 ▶▶ THE MOVING PICTURE
- 42 ▶▶ COUNTERFEIT CORNER
- 44 ▶▶ NINTH CIRCUIT REPORT
- 48 ▶▶ CASE COMMENTS
- 65 ▶▶ JURY INSTRUCTIONS
- 66 ▶▶ REPORTS

Deconstructing the Controversial “Orphan Works” Copyright Legislation of 2008



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ON APRIL 24, 2008, THE U.S. House of Representatives and Senate introduced slightly different but equally controversial versions of the Orphan Works Act of 2008, which attempts to curtail the remedies available in “orphaned work” cases when the copyright owner is not identifiable and locatable. While certain special interest groups aver the new bills are improvements over comparable orphan works legislation withdrawn from committee in 2006, some advocacy groups still oppose the bills contending they retroactively constrain rights to “pictorial, graphic and sculptural” works without adequate safeguards. This article attempts to untangle the text of the pending orphan works legislation, identify potential complications with the current versions, and summarize the legislation’s practicable impact on the copyright system.

ORPHAN WORKS DEFINED

According to the orphan works bills, an “orphan work” is any copyrighted work whose owner cannot be identified or located after a “reasonably diligent search.” An owner’s disassociation with its creative work may occur for motley reasons. For instance, if an author publishes a work anonymously, then the author may never have been publicly known. Or, perhaps the author’s identity was once known but the author’s information became missing with time. Or, even if the author is acknowledged, authenticating a chain of ownership or verifying the present owner may be impracticable under the circumstances.

AN OVERVIEW OF THE ORPHAN WORKS CONUNDRUM

The commotion over “orphan works” stems from the omnibus revision to the Copyright Act in 1976 and subsequent Copyright Act enactments.¹ Specifically, the 1976 Act made obtaining and maintaining copyright protection for creative works substantially easier than the 1909 Act. Now, copyright protection subsists the moment an original work of authorship is fixed in a tangible medium of expression, and the work’s registration with the Copyright Office or publication with notice is unnecessary. Moreover, the 1976 Act, the Copyright Renewal Act of 1992² and the Sonny Bono Copyright Term Extension Act³ vitiated the registration renewal system to maintain copyright protection since it could create an excessive penalty on the unsuspecting copyright owner.⁴

These revisions, on the one hand, facilitated the integration of U.S. copyright law with the Berne Convention, which forbids formalities like registration and renewal as a condition on the enjoyment and exercise of copyright.⁵ The elimination of the renewal requirement, on the other hand, dramatically increased the mean copyright term and correspondingly decreased the number of works currently entering the public domain.⁶ Consequently, a creator who sought to incorporate an older work into a new work (*e.g.*, old photos) and was willing to seek authorization could no longer simply consult the Copyright Office’s renewal registration records to confirm whether the older work had fallen into the public domain. Unable to confirm the work’s status or locate the copyright owner to obtain authorization (and thus sufficiently mitigate the potentially high costs of infringement litigation), a creator would choose not to use an orphaned work, even where the copyright owner, if found, would not have objected to the use.

The question of whether orphan works were being unnecessarily removed from public access and their circulation restrained reached the attention of the Copyright Office. On January 26, 2005, the Copyright Office issued a Notice of Inquiry requesting written comments on the various issues raised by orphan works. As the Copyright Office explained:

Concerns have been raised that the uncertainty surrounding ownership of such works might needlessly dis-

courage subsequent creators and users from incorporating such works in new creative efforts, or from making such works available to the public.

In response, the Copyright Office reportedly received over 700 initial comments in March, 2005 and nearly 150 reply comments in May, 2005, which covered nearly every interest group typically involved in copyright policy debates.⁷

One year later, the Copyright Office released a report on orphan works. The report concluded that: (1) The orphan works problem is real; (2) The orphan works problem is elusive to quantify and describe comprehensively; (3) Some orphan works situations may be addressed by existing copyright law, but many are not; and (4) Legislation is necessary to provide a meaningful solution to the orphan works problem as we know it today.⁸

In May 2006, U.S. House of Representatives introduced H.R.5439, a bill aimed at addressing the issue of orphan works by providing limitations of remedies in cases in which the copyright holder cannot be located.⁹ The bill, however, was withdrawn in September 2006.

On April 24, 2008, the U.S. House of Representatives introduced H.R. 5889 (The Orphan Works Act of 2008) and the Senate introduced S.2913 (The Shawn Bentley Orphan Works Act of 2008). Since the House version is more expansive and incorporates most of the text of the Senate version, it is discussed first. Differences between the two versions are summarized thereafter.

H.R. 5889: ORPHAN WORKS ACT OF 2008

The House bill would amend the Copyright Act in four ways. First, it would limit civil remedies in an infringement action involving "orphan works"

if the infringer proves that: (1) the infringer performed and documented a reasonably diligent, good faith search to identify and locate the copyright owner, but failed to do so before using the work; (2) the infringer filed a Notice of Use with the Copyright Office before using the work; (3) the infringer provided attribution to the copyright owner, if known; and (4) the infringer complied with certain pleadings and discovery requirements should an infringement lawsuit later commence.

Second, the House bill would only permit an award of "reasonable compensation" for the use of the infringed work, except if: (1) the infringement is performed without any commercial advantage and for primarily a charitable, religious, scholarly, or educational purpose; and (2) the infringer ceases the infringement expeditiously after receiving notice of the claim for infringement. Claims for actual damages, statutory damages, attorney's fees and costs would be unavailable.

Third, the House bill directs the Copyright Office to: (1) begin a certification process for the establishment of an electronic database to ease the search for pictorial, graphic, and sculptural works that are subject to copyright protection; and (2) study and report to Congress on remedies for copyright infringement claims by copyright owners seeking small amounts of monetary relief.

Finally, the bill directs the U.S. Comptroller General to study and report to Congress on the function of the deposit requirement in the copyright registration system.

Each of these important proposed changes are discussed in turn.

How Proposed Section 514 Would Limit Civil Remedies

The House bill creates an "orphan works" defense to a copyright infringe-

ment lawsuit. If an infringer is accused of copyright infringement, the infringer may curb or altogether eschew the owner's remedies if the infringer can establish the work was "orphaned" and the infringer adhered to various search, filing, attribution, pleading and discovery requirements. How does an infringer demonstrate that work was "orphaned" before alleged use? How does an infringer comply with other proposed evidentiary and procedural requirements? How will a copyright owner still be reasonably compensated if the work is deemed "orphaned"? The House bill, unfortunately, does not fully answer these questions and leaves many details up to the Copyright Office (and presumably the federal courts) to explicate.

Determination of Orphaned Status

Under the House bill, before using a work, the infringer must (1) perform and document a good faith diligent search for the copyright owner and (2) demonstrate an inability to locate the copyright owner.

What qualifies as a diligent search? In determining whether a search is diligent, a federal court would have to consider three things: (1) whether the search was "reasonable and appropriate under the facts relevant to that search", including whether the infringer took actions based on facts uncovered by the search itself; (2) whether the infringer performed the search before using the work and at a time that was "reasonably proximate" to the commencement of the infringement; and (3) whether the infringer utilized the Copyright Office's "best practices." The House bill does elaborate on what constitutes "best practices" but, rather, directs the Copyright Office to promulgate and make publicly available a guide for conducting and documenting diligent searches. The bill, however, provides no timetable as to

when the Copyright Office must disseminate these "best practices." Further, phrases like "reasonable approximately searches" and "reasonable actions" are inherently nebulous and, unless clarified by Congress, are likely to require court interpretation.

Compliance with the Proposed Notice of Use Requirements

After completing the diligent search, the infringer will be required to file a Notice of Use with the Copyright Office. These Notices are to be archived and maintained by the Copyright Office. Each Notice must incorporate at least the following information: (1) the type of creative work to be used, (2) a text description of the work, (3) a summary of the good faith diligent search undertaken to identify and locate the copyright owner, (4) all identifying information found during the search, (5) a certification the infringer undertook a good faith diligent effort, (6) the name of the copyright owner, if known, and (7) a description of the infringer's intended uses for the work. If the infringer fails to file this Notice, the infringer cannot later raise an orphan works defense if the copyright owner claims infringement.

Copyright Owner Attribution and Symbol

If through conducting the diligent search, the infringer identifies the copyright owner "with a reasonable degree of certainty," the infringer must then provide the copyright owner "attribution" in a manner that is "reasonable under the circumstances." Presumably, this attribution is necessary if the infringer has identified but not located the copyright owner. Had the infringer unearthed both the identity *and* location of the copyright owner, then work would likely be ineligible for "orphaned" status. In addition, the infringer is required to include with the use of the "orphaned"

work, some symbol or other notice of the use of the work, in a manner to be prescribed by the Copyright Office. Again, what "reasonable" means remains equivocal.

Responding to Copyright Owner's "Claim Notice"

The House bill reflects the prospect that the copyright owner whose work is at risk of "orphan" status may discover the infringer's actual or potential use. If so, the copyright owner can deliver to the infringer a "notice of the claim for infringement." The bill does not indicate when the "notice of the claim" should be delivered, if ever. Nonetheless, the bill states that this "notice" must be in writing and contain the copyright owner's name and contact information, the title of the work (or, if the work is without title, a sufficiently detailed description of it), and the information from which a "reasonable person could conclude" the copyright owner's claims of ownership and infringement are valid.

If a copyright owner dispatches this "notice" to the infringer and the infringer has an opportunity to conduct "an expeditious good faith investigation of the claim", the infringer must (1) negotiate a "reasonable compensation" in good faith with the copyright owner; or (ii) render payment of "reasonable compensation" in a "reasonably timely manner." The phrase "reasonably timely manner" is not explained. Moreover, if "reasonable compensation" is not negotiated or paid, the limitations on remedies would not apply later if a copyright infringement lawsuit ensues.

What constitutes "reasonable compensation?" The "definition" for "reasonable compensation" under the pending legislation is practically ineffectual and seemingly left to conjecture: "the amount on which a willing buyer and willing seller in the positions of the

infringer and owner would have agreed with respect to the infringing use of the work immediately before infringement began."

Compliance with Post-Filing Requirements

Assuming an infringement lawsuit still ensues, an infringer must also satisfy two additional conditions to maintain an orphan works defense. First, the infringer must assert the defense in the initial pleading. Second, as part of its Federal Rule 26 initial discovery disclosures, the infringer must state with particularity the basis for the right to claim the defense, including a detailed description and documentation of the good faith diligent search to identify and locate the copyright owner before using the work.

What Civil Remedies are Limited

If an infringer has demonstrated a diligent search before use, submitted the requisite Notice of Use, properly handled a copyright owner's "notice of claim" (if any), and complied with the pleading and discovery requirements after a lawsuit is commenced, the infringer may limit the remedies available in the dispute.

The House bill would limit both monetary and injunctive relief. With respect to monetary relief, a copyright owner would only be entitled to receive "reasonable compensation" from the infringer. A copyright owner's claims for actual damages, statutory damages, costs, and attorney's fees "may not be made" under the proposed legislation. As previously mentioned, the phrase "reasonable compensation" is imprecise.

While the bill reaffirms the court's ability to impose injunctive relief to prevent or restrain any infringement alleged in the lawsuit, there are proposed exceptions and limitations. One exception occurs if the infringer has prepared

or commenced preparation of a work "that recasts, transforms, adapts, or integrates the infringed work with a significant amount of the infringer's original expression." In those circumstances, the court (1) may not restrain the infringer's continued preparation or use of that new work; (2) shall require that the infringer to simply pay "reasonable compensation;" and (3) shall require that the infringer provide "reasonable" attribution to the copyright owner, if requested by such owner. Further, the proposed limitations on injunctive relief would not apply if the infringer asserts that the infringer is not "subject to suit" in the federal courts, unless the court finds that the infringer (1) has complied with the prior use and post-lawsuit requirements, and (2) made an "enforceable promise" to pay "reasonable compensation" to the copyright owner.

Exemption for Non-Profit Infringers

The House bill expressly exempts claims for "reasonable compensation" against nonprofit educational institutions, libraries, archives and public broadcasters where: (1) the use is made without purpose of commercial advantage, (2) the use is made "primarily" for educational, religious or charitable purposes, and (3) the infringer "promptly" ceases the use after the copyright owner comes forward. In any event, the copyright owner is entitled to any "proceeds" received by the infringer directly attributable to the infringement. Finally, the States' abilities to avoid payment under the doctrine of sovereign immunity are "limited."

Derivative Works Provision

Finally, notwithstanding Section 103(a) of Copyright Act (which currently prohibits an infringer from copying a derivative work that has been infringed), if an infringer qualifies for

the "orphan work" defense, the infringer can still assert copyright protection in a compilation or derivative work even if such compilation or derivative work employs preexisting material that has been "used unlawfully."

Effective Date and Retroactive Application

Under the House bill, the limitation and/or elimination of civil remedies for pictorial, graphic and sculptural works would take effect the earlier of: (1) the date on which the Copyright Office certifies at least two "separate and independent searchable, comprehensive databases" for these works; or (2) January 1, 2013, regardless of whether the databases exist or are certified. In contrast, for all other works, the effective date would January 1, 2009, less than six months away.

Moreover, the House bill appears to have a retroactive application that extends to any works, not just those created after the effective date. This signifies that works created during the 1976 Act term will fall within the ambit of the legislation as potential "orphans."

The Study on Small Copyright Claims Court

The House bill directs the Copyright Office to study the feasibility of creating alternate means of resolving copyright disputes "seeking small amounts of monetary relief." Whether an alternative dispute resolution regime is feasible remains to be seen. The proposed bill fails to define "small amounts" or set forth any instruction on how facts in a disputatious infringement lawsuit will be established absent fact and expert discovery and the like. The Copyright Office would have to report to Congress within two years after enactment.

The Proposed Database of "Pictorial, Graphic and Sculptural Works"

The Copyright Office must certify electronic and publically available databases that facilitate the search for pictorial, graphic and sculptural works. Although the Copyright Office is tasked with establishing the "process and standards" for such databases, the databases must collect and store the following: (1) the contact name and information for author (if readily available), (2) the name of the copyright owner, if different from the author, (3) the title of work (if the work has a title), (4) a copy of the work (for visual images) or a description "sufficient to identify the work," (5) mechanisms that allow search and identification of the work by both text and image, and (6) security measures to protect against unauthorized access to or copying of the databases' information and content. The Copyright Office must make a list of certified databases available to the public over the Internet.

The Proposed Study on Copyright Deposits

Under the House bill, the U.S. Comptroller General would be directed to study the functions of the deposit requirement in copyright registration, including the historical purpose of the deposit requirement, the degree to which deposits are available to the public, the feasibility of making deposits (particularly visual arts deposits) electronically searchable by the public for purposes of locating copyright owners, and the impact any change in the deposit requirement would have on the Library of Congress' collection. Again, the Copyright Office would have to report to Congress within two years after enactment.

S. 2913:

THE SHAWN BENTLEY ORPHAN WORKS ACT OF 2008

The Senate version of the Orphan Work Act was also introduced on April 24, 2008. This version essentially mirrors the House version except for three differences. First, the Senate version does not exempt the use of “orphaned” art on useful articles, like textiles, mugs, t-shirts, etc. Second, the Senate version could potentially take effect earlier than the House Bill, but with the same retroactive application. Specifically, the limitation and/or elimination of civil remedies for pictorial, graphic and sculptural works would take effect the earlier of: (1) the date on which the Copyright Office certifies at least 2 visual art registry databases that are available to the public, or January 1, 2011, regardless of whether the databases exist or are certified. Finally, the Senate version does not require the infringer to file a notice of use in a new infringement database to be maintained by Copyright Office.

ANALYSIS & PRACTICAL CONSIDERATIONS

Given that the House and Senate bills have received public support from influential Congressional members, academic institutions, museums and publishers and various associations, the enactment of some version of the Orphan Works law is likely this year. Indeed, the Copyright Office calls the proposed legislation “necessary to provide a meaningful solution to the orphan works problem.”¹⁰ However, as introduced, the pending legislation raises more questions than it answers. Here are a few of the open issues:

1. The legislation repeatedly references some sort of “reasonableness” standard—a “reasonably diligent search” conduct within a “reason-

ably proximate” time before use followed by “reasonable compensation” to be paid in a “reasonably timely manner”). These terms are inherently vague and invite judicial intervention.

2. The legislation does not require an infringer to divulge any search documentation unless the copyright owner undertakes a civil action. Thus, the copyright owner may be unaware that use of the work is being considered until after the infringement has already occurred.
3. The legislation permits the infringer to claim copyright protection of the derivative work. Under current copyright law, the right to create a derivative work generally belongs to the owner’s exclusive rights. Thus, theoretically under the legislation, an infringer can side-step an injunction on its derivative work by altering the work enough to satisfy the minimum definition of a derivative work. Further, the infringer would only have to pay a copyright owner “reasonable compensation,” while the infringer may continue to use elements of the infringing work.
4. The legislation does not discuss the res judicata or collateral estoppel effect, if any, of any work deemed “orphaned.” Would that resulting limitation of rights apply only to the work at the time of use or would such determination affect a permanent loss of rights in future cases and other courts?
5. The legislation does not contemplate a “registration fee vacation” permitting copyright owners to register their works with the Copyright Office for free or at reduced rates before the limitation on remedies takes effect. Since the legislation applies retroactively to practically all works, copyright owners of unregistered works created within the last 30 years may be forced to register their works with the Copyright Office to mitigate the orphan works defense. This could be cost prohibitive absent some form of fee vacation.
6. It remains unclear whether the legislation comports with international treaties involving the United States. Article 5(2) of the Berne Convention for the Protection of Literary and Artistic Works states that “The enjoyment and the exercise of these rights shall not be subject to any formality.” The question persists whether this legislation compels copyright registration in order for a copyright owner to enjoy and exercise its copyright. A similar point could be made regarding the Agreement on Trade-Related Aspects of Intellectual Property (The TRIPs Agreement), of which the United States is a signator.
7. The legislation remains unclear whether the “orphan works” status should only apply to published works versus unpublished works. In *Harper & Row, Publishers, Inc. v. Nation Enters.*, U.S. Supreme Court recognized the important right of first publication.¹¹ If “orphan work” status applied to unpublished works, what impact would that have (if any) on *Harper & Row* and vice-versa?
8. It remains unclear what effect, if any, the orphan works legislation will have on other countries, especially those countries with substantial piracy problems or insufficient copyright protection regimes.

Could orphan works be used in these countries as an excuse for permitting insubstantial enforcement and remedies against copyright infringers in their countries?

9. It remains to be seen whether the legislation will have a disproportionate impact on visual artists (like photographers, illustrators, painters, graphic artists and the like) since, according to visual artists associations and organizations, visual artists (i) commonly published work without credit lines or because credit lines can be easily removed, and (ii) are generally self-employed. According to these groups, the costs and volume of work makes registration prohibitive.¹² These groups further contend that publishers and other art licensees will be less likely to commission new work from artists if they can use "orphaned" images.

10. The Copyright Office's "Statements of Best Practices" for conducting and documenting the reasonably diligent search remains to be seen. What will constitute a diligent search for the copyright owner will obviously be critical in determining a work's "orphaned" status.

The debate among interest groups on both sides of the issue over the pending orphan works legislation is expected to intensify. ■

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Endnotes

1. Notice of Inquiry, U.S. Copyright Office, January 26, 2005 (available at <http://www.copyright.gov/fedreg/2005/70fr3739.html>).
2. Pub.L. No. 102-307, 106 Stat. 264 (1992).
3. Pub.L. No. 105-298, 112 Stat. 2827 (1998).
4. Notice of Inquiry, U.S. Copyright Office, January 26, 2005 (available at <http://www.copyright.gov/fedreg/2005/70fr3739.html>).
5. The Berne Convention article 5(2) "no formalities" requirement has been incorporated by reference into both the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), and the WIPO Copyright Treaty ("WCT"). See Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, art. 9.1, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round vol. 31, 33 I.L.M. 81, 87 (1994); WIPO Copyright Treaty, Apr. 12, 1997, art. 3, S. Treaty Doc. No. 105-17 (1997), 36 I.L.M. 65, 69 (1997). The WIPO Performances and Phonograms Treaty ("WPPT") contains an express "no formalities" provision without reference to the Berne Convention. See WIPO Performances and Phonograms Treaty, Apr. 12, 1997, art. 20, S. Treaty Doc. No. 105-17 (1997), 36 I.L.M. 76, 80 (1997).
6. *Kable v. Gonzales*, 487 F.3d 697, 699 (9th Cir. 2007).
7. U.S. Copyright Office, Report On Orphan Works, January 2008, p.17 (available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>).
8. U.S. Copyright Office, Report On Orphan Works, January 2008, p.7 (available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>).
9. Copyright: Orphan Works. American Library Association (2006-08). Retrieved on 2006-11-28.
10. U.S. Copyright Office, Report On Orphan Works, January 2008, p.93 (available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>).
11. See generally 471 U.S. 539, 550-555 (1985).
12. <http://www.artistsfoundation.org/talkingpoints.html>.

Unauthorized Acts

CONTINUED FROM PAGE 16

"OrthoArm assigned the [patent-in-suit] to American, and American agreed to pay OrthoArm a four percent royalty." American Orthodontics and Adenta later "entered into a Royalty Sharing Agreement wherein each party agreed to pay OrthoArm half of the four percent royalty obligation." OrthoArm alleged "that American and Adenta conspired to contest the validity of the [patent-in-suit]." It was OrthoArm, and not American Orthodontics, that asserted lack of subject matter jurisdiction for Adenta's declaratory judgment action.

29. *Id.* at 1366.
30. *Id.*
31. *Id.* at 1370.
32. *Boler Co. v. Raydan Mfg., Inc.*, 415 F. Supp. 2d 896, 902 (N.D. Ill. 2006); see also *Sherman Treaters, Ltd. v. Ahlbrandt*, 607 F. Supp. 939, 943 (D.D.C. 1985) ("patentee should not be subjected to a declaratory judgment action for charges of infringement which he did not level himself or allow another to level"); *Bausch & Lomb Inc. v. CIBA Corp.*, 39 F. Supp. 2d 271, 274 (W.D.N.Y. 1999) (no actual controversy where there was no evidence that co-inventor of patent had actual or apparent authority to assert infringement charge on patentee's behalf).
33. *Boler*, 415 F. Supp. 2d at 903 (quoting *Dr. Beck & Co. G.M.B.H. v. Gen. Elec. Co.*, 210 F. Supp. 86, 90 (S.D.N.Y. 1962), *aff'd*, 317 F.2d 538, 539 (2d Cir. 1963)). For example, one would not expect someone in sales to have the authority to assert patent infringement claims. *Boler*, 415 F. Supp. 2d at 903.
34. See *Dr. Beck and Co. G.M.B.H. v. Gen. Elec. Co.*, 317 F.2d 538, 539 (2d Cir. 1963) ("A charge of infringement made by agents who have no authority to make it does not create an actual controversy" for declaratory judgment.)

SEE *Unauthorized Acts* PAGE 29