

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF PENNSYLVANIA

DISNEY ENTERPRISES, INC.; WONDERLAND
MUSIC COMPANY, INC.; CAMERON
MACKINTOSH LTD.; MARVEL CHARACTERS,
INC.; and MUSIC THEATRE INTERNATIONAL,
LLC,

Plaintiffs

v.

ENTERTAINMENT THEATRE GROUP d/b/a
AMERICAN MUSIC THEATRE; JAMES D.
MARTIN; FREDERICK W. STEUDLER, JR.; and
DWIGHT H. BRUBAKER,

Defendants, and

STAN LEE MEDIA, INC.

Defendant/Intervenor.

Civ. No. 5:13-cv-05570(JLS)

-----x
ENTERTAINMENT THEATRE GROUP d/b/a
AMERICAN MUSIC THEATRE,

Counterclaim-Plaintiff, and

STAN LEE MEDIA, INC.

Counterclaim-Plaintiff/Intervenor.

v.

DISNEY ENTERPRISES, INC.; and MARVEL
CHARACTERS, INC.,

Counterclaim-Defendants
-----x

**REPLY MEMORANDUM OF LAW IN FURTHER SUPPORT OF PLAINTIFFS'
MOTION TO DISMISS AMENDED COUNTERCLAIMS AND INTERVENOR
COMPLAINT AND TO STRIKE AMENDED AFFIRMATIVE DEFENSES**

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Plaintiffs and Counterclaim-Defendants Disney Enterprises, Inc. and Marvel Characters, Inc. (collectively, “Plaintiffs”) submit this reply brief in response to Defendant’s Opposition In Response To Plaintiffs’ Motion To Dismiss Amended Counterclaims And Intervenor Complaint And To Strike Amended Affirmative Defenses (“AMT Opp.”) and SLMI’s Opposition To Motion To Dismiss Stan Lee Media, Inc.’s Intervenor Complaint (“SLMI Opp.”).¹

INTRODUCTION

AMT effectively concedes that it knew its production *Broadway: Now and Forever* infringed Plaintiffs’ copyrights. Thus, *after* this suit was filed, “it behooved AMT to obtain a license in the Spider-Man copyrights *from any available source*,” AMT Opp. at 14 (emphasis added), so AMT seized on the opportunity to take “a *nunc pro tunc* retroactive license” from SLMI to try to immunize some of its infringing conduct. But this “license” conveyed no rights in any of Plaintiffs’ intellectual property because SLMI had no such rights to give: four federal courts have already rejected SLMI’s assertions that it did.

SLMI’s ownership claim, which forms the basis of AMT’s attempt to evade infringement liability, is premised solely on its erroneous interpretation of the 1998 Agreement that the Dismissed SLMI Cases have already foreclosed. Moreover, it is clear on its face that the parties to the 1998 Agreement intended it to apply *only* to characters that Stan Lee was to create *after* 1998 and that it did not effect any transfer of ownership of characters created as works made for hire more than a half-century ago – nor could it have, as Lee has consistently maintained that he never owned any rights in any historic Marvel character. Accordingly, other courts have found that characters like Spider-Man that were created during the 1950s and 1960s under the process that has come to be known the “Marvel Method” are, as a matter of law, works made for hire,

¹ Unless otherwise noted, all defined terms shall have the same meaning as set forth in Plaintiffs’ Motion to Dismiss.

and that Marvel therefore owned the copyrights in those works from their inception. *See Marvel Characters, Inc. v. Kirby*, 726 F.3d 119, 136-43 (2d Cir. 2013); *see also In re Marvel Entm't Grp., Inc.*, 254 B.R. 817, 830 (D. Del. 2000).

SLMI and AMT say, though, that the SLMI Dismissed Cases can be ignored here because the putative ownership claim is asserted as an affirmative defense and in an intervenor claim. That makes no difference. The claims and contentions are the same as what has been repeatedly rejected. It is of no moment that the Dismissed SLMI Cases did not decide precisely who owns the copyright in Spider-Man because what *is* clear is that SLMI cannot claim that *it* does based on the 1998 Agreement. As for SLMI's privity argument, it requires the assumption that its chairman is not in privity with himself and thus collapses in on itself.

In any event, any rights claim is independently barred by the Copyright Act's three-year statute of limitations. Any claim of copyright ownership under the 1998 Agreement expired at least a full *nine years* before SLMI asserted its claim in this action, and AMT's derivative counterclaims and affirmative defenses likewise are barred.

Making SLMI's patently frivolous ownership claims AMT's defense to a straightforward copyright infringement suit gets neither of them anywhere. Judge Crotty held some four years ago it was time to "call a halt" to SLMI's vexatious litigation. This Court should now end this SLMI-financed frolic and detour once and for all.

ARGUMENT

I. SLMI'S AND AMT'S MISLEADING CHARACTERIZATION OF THE 1998 AGREEMENT SHOULD BE REJECTED

SLMI and AMT obfuscate the real issues in this case by making misleading and factually incorrect assertions of what rights they contend the 1998 Agreement conveyed. For example, by carefully placing quotation marks and selectively extrapolating, AMT contends that "Lee

assigned to Stan Lee Entertainment Inc. via [the 1998 Agreement] ‘all right, title and interest [Lee] may have or control, now or in the future’ in his prior-created comic book characters, including Spider-Man, as well as other works.” AMT Opp. at 4. SLMI, for its part, does not even purport to quote the language it contends forms the basis of its ownership claim; it simply asserts, without citation, that the 1998 Agreement “assigned to Stan Lee Entertainment, Inc. . . . all of [Lee’s] copyright, trademark, and other intellectual property interests in the characters and works that he had created, including Spider-Man.” See SLMI Opp. at 2.

AMT’s and SLMI’s avoidance of the actual terms of the 1998 Agreement is unsurprising, for nothing in that agreement even remotely suggests Lee owned any rights in any Marvel character, let alone that he was conveying such rights to SLMI. In fact, the 1998 Agreement reflects that it was entered into for the purpose of developing *new* characters for Stan Lee Entertainment, Inc., and then SLMI to exploit, and not for the purpose of secretly seizing control of characters long-ago created, owned, and openly exploited by Marvel. SLMI actually acknowledged this in its 1998 Form 10-KSB, explaining that the company was “an Internet-based global branded content creation, production and marketing company founded by comic book icon Stan Lee *to conceive, create, co-create and produce marketable characters.*” See Stan Lee Media, Inc., Annual Report (Form 10-KSB), at 4 (Mar. 20, 2000) (“SLMI Form 10-KSB”), available at <http://www.secinfo.com/dsVsb.5Dg.htm#1stPage>. The 1998 Agreement also expressly provided that “Lee’s services shall be exclusive *with the exception of those services provided under a lifetime agreement with Marvel Enterprises, Inc.,*” and that “[a]ll *other* services performed and intellectual property created *for the Company*” – *i.e.*, for SLMI – “or for any other entity, which entity shall be approved in writing by the Company, shall inure to the benefit of [SLMI].” See AMT Counterclaims Ex. A ¶ 2; SLMI Intervenor Compl. Ex. A ¶ 2 (emphasis

added). Accordingly, the agreement provided that Lee’s responsibilities would include, among other things, “developing . . . intellectual property . . . and guiding the creative staff” and “[a]pply[ing] Lee’s good faith, best efforts to enhance the brand and goodwill of [SLMI].” AMT Counterclaims Ex. A ¶ 2(a), (c); SLMI Intervenor Compl. Ex. A ¶ 2(a), (c).

The agreement’s assignment of rights was consistent with this narrow purpose. Lee assigned “all right, title and interest [he] *may have or control*, now or in the future, in” intellectual property “disclosed in writing to, published, merchandised, advertised, and/or licensed by [SLMI].” *Id.* ¶ 4(a) (emphasis added). The agreement did not reference a single Marvel character, and neither SLMI nor AMT has alleged that any related writing did so either. Lee did not represent or warrant that he owned any interest in any Marvel property, nor did he purport to assign rights that he did not own. Indeed, Lee could not have conveyed any rights in any Marvel character because he never owned any. *See Davis v. Blige*, 505 F.3d 90, 99 (2d Cir. 2007) (party “may not convey more than he owns”). As a Marvel employee, Lee’s contributions to Marvel’s characters were made under what has come to be known as the “Marvel Method” and as such have always been owned by Marvel as works made for hire under the Copyright Act of 1909. *See Marvel Characters*, 726 F.3d at 136-43; *In re Marvel Entm’t Grp.*, 254 B.R. at 830.²

² AMT’s unsubstantiated contention that Lee’s contributions to Marvel works “were not ‘works for hire’” because “Lee created and developed such characters, including Spider-Man, as an independent contractor,” AMT Opp. at 3, is factually wrong and legally irrelevant. First, AMT cites only the unverified Amended Complaint that the court dismissed in *Abadin v. Marvel Entm’t, Inc.*, No. 09 Civ. 0715 (PAC), 2010 WL 1257519 (S.D.N.Y. Mar. 31, 2010) (“*Abadin I*”) for this proposition, *see id.*, and Lee has repeatedly sworn under oath that his contributions to the subject works were in the context of his role as a full-time salaried employee. Even if Lee were a freelancer for these purposes, it would be irrelevant, for it is well-settled that “an independent contractor is an ‘employee’ and a hiring party is an ‘employer’ for purposes of the [1909 Act’s work-for-hire doctrine] if the work is made at the hiring party’s ‘instance and expense.’” *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 554 (2d Cir. 1995). Although the agreement at issue is dated 1998, the Spider-Man character was created in 1962, so the 1909 Copyright Act, not the 1976 Copyright Act, governs. *See Marvel Characters*, 726 F.3d at 137.

Finally, consistent with the 1998 Agreement, SLMI never asserted in its contemporaneous public statements or SEC documents that it owned rights to any Marvel character. *See* SLMI Form 10-KSB.³ SLMI's and AMT's mischaracterization of the 1998 Agreement and the context in which that deal was struck – in addition to being irrelevant to this action – should be rejected.

II. SLMI'S INTERVENOR CLAIMS AND AMT'S COUNTERCLAIMS ARE BARRED BY RES JUDICATA AND COLLATERAL ESTOPPEL

SLMI's claim of ownership of the copyright in Spider-Man and AMT's related counterclaims and affirmative defenses are barred by the doctrines of res judicata and collateral estoppel because, as both SLMI and AMT acknowledge, the *Abadin I* court held that SLMI is barred from asserting copyright ownership purportedly based on the 1998 Agreement, and three subsequent courts rejected SLMI's successive ownership claims. *See* SLMI Opp. at 4-6; AMT Opp. at 5; *see also* Mot. at 11-16. As a result, SLMI cannot revive its ownership claims under the 1998 Agreement by asserting them as intervenor claims, and AMT – which, as a licensee, is limited to whatever rights the licensor has to give – similarly cannot revive and relitigate these rights as SLMI's proxy via its own counterclaims or affirmative defenses.

³ Although SLMI contends the assignment was “affirmed by Lee when SLMI publicly filed them with the Securities and Exchange Commission,” SLMI Opp. 2, those filings were conspicuously silent as to any supposed rights conveyed in the Marvel Characters. *See* SLMI Form 10-KSB. The only mention of any of the Marvel Characters therein was a statement that they are among the creations to which Stan Lee contributed for Marvel, and the filing stated only that SLMI's “primary assets consist of all the intellectual property currently owned by our founder Stan Lee,” *id.* at 3—which, as explained, did not include the Marvel Characters. Nor did SLMI record any “assignment” of the Marvel Characters with the Copyright Office. *See* SLMI Opp. at 2. Instead, in 2006, it recorded the 1998 Agreement itself, which assigns no such rights, along with a “document cover sheet” stating conclusorily that the attached agreement conveyed rights in, *inter alia*, Spider-Man, The Incredible Hulk, The Fantastic Four, X-Men, and Iron Man. *See* AMT Counterclaims Ex. C; SLMI Intervenor Compl. Ex. C. In any event, for reasons that are perfectly illustrated by SLMI's abuse of the Copyright Office assignment system, a copyright assignment on file with the Copyright Office does not constitute prima facie evidence of the facts stated therein. *See Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 456 F. Supp. 531, 536 (S.D.N.Y. 1977), *aff'd*, 592 F.2d 651 (2d Cir. 1978).

While the elements of res judicata and collateral estoppel differ, they overlap substantially. Here, SLMI's ownership claim, from which AMT's counterclaims and defenses derive, is barred by res judicata because *Abadin I* (1) resulted in a final judgment on the merits,⁴ (2) was decided adversely to parties with whom SLMI and AMT are in privity,⁵ and (3) involved the very same ownership claim at issue in this case. See *Sims v. Viacom, Inc.*, No. 13-1567, 2013 WL 6018840, at *2 (3d Cir. Nov. 14, 2013). Similarly, SLMI's intervenor claim and AMT's counterclaims and defenses are collaterally estopped regardless of whether the cause of action is identical to *Abadin I* because the claims here rise or fall on (1) the identical issue to that previously litigated in *Abadin I*, which was (2) actually litigated and (3) necessary to the decision, and (4) both parties' interests were fully represented in the previous action. See *Anspach ex rel. Anspach v. City of Phila.*, 380 F. App'x 180, 183 (3d Cir. 2010).⁶ In short, AMT and SLMI are engaged in exactly the type of seriatim sham litigation that both preclusion doctrines are intended to prevent.

A. SLMI's Intervenor Complaint And AMT's Counterclaims State The Same Cause Of Action, Premised On The Identical Issue, As Abadin I

AMT and SLMI assert that their claims are not identical to the cause of action that SLMI pressed in *Abadin I* and are not premised on the same issue determined there. They are wrong. All of the claims at issue in *Abadin I* in fact involved exactly the same "underlying events giving

⁴ AMT does not appear to challenge that *Abadin I* resulted in a final judgment on the merits, see AMT Opp. at 7-15, nor could it. See *Elkadrawy v. Vanguard Grp., Inc.*, 584 F.3d 169, 173 (3d Cir. 2009) (dismissal based on statute of limitations is judgment on the merits).

⁵ Neither SLMI nor AMT contests that Marvel Characters, Inc. is in privity with Marvel Entertainment, Inc., a named defendant in *Abadin I*.

⁶ Both preclusion doctrines further the interests of the finality of judgments and judicial economy. See *United States v. Five Unlabeled Boxes*, 572 F.3d 169, 175 (3d Cir. 2009) (finding both preclusion doctrines arise "[o]ut of concern for judicial economy and respect for the conclusions reached by other courts considering the same issues"); *United Fed. Leasing, Inc. v. United States*, 126 F. App'x 60, 61 (3d Cir. 2005) ("Issue preclusion is intended to protect litigants from the dual burden of relitigating an issue with the same party and the promotion of judicial economy through prevention of needless litigation.").

rise to the various legal claims” (SLMI Opp. at 15; AMT Opp. at 8) that SLMI and AMT are advancing here because the *Abadin I* court considered a claim of copyright infringement expressly based on the theory that “Lee assigned his interests to SLMI in [the 1998 Agreement].” *Abadin I*, 2010 WL 1257519, at *2; see AMT Counterclaims ¶¶ 4-5, 9, 16-17, 26, 28 (asserting 1998 Agreement conveyed to SLMI valid copyright ownership rights in, among other Marvel properties, Spider-Man); SLMI Intervenor Compl. ¶¶ 4, 11, 17-18, 22-24 (same). The *Abadin I* court held unequivocally that “[t]here can be no attempt to enforce this contract” under governing California law and, in addition, that “[t]he copyright claim is barred by the statute of limitations and the doctrine of laches and estoppel.” *Abadin I*, 2010 WL 1257519, at *6.⁷

Nonetheless, SLMI and AMT contend that the issues are different because the issue that SLMI litigated and lost in *Abadin I* (whether SLMI had valid rights to Marvel characters arising out of the 1998 Agreement for purposes of an infringement claim) is not the same as the issue to be determined in this case (whether Marvel owns the copyright in Spider-Man). See SLMI Opp. at 18-19; AMT Opp. at 17. This attempt at misdirection both misses the point and, if anything, underscores why *Abadin I* precludes SLMI’s claim here. The ownership claim underlying the copyright infringement cause of action in *Abadin I*, and the ownership claim underlying the declaratory judgment claims lodged here, are indistinguishable because the latter claims are premised solely on the identical 1998 Agreement found unenforceable in *Abadin I*. SLMI and

⁷ SLMI’s contention that its current “claim . . . did not exist at the time of” *Abadin I*, see SLMI Opp. at 16, strains credulity. Certainly, the *Abadin I* plaintiffs could have brought an identical declaratory judgment claim for a determination that they owned the rights they claimed derived from the 1998 Agreement; that claim did not spring into existence as the result of AMT’s infringing conduct that forms the basis of Plaintiff’s Complaint in this action. None of SLMI’s cited cases holds otherwise. For example, *Meekins v. United Transp. Union*, 946 F.2d 1054 (4th Cir. 1991), deemed a party’s request for additional payments to be a separate cause of action because it would have been “wholly speculative” if raised in an earlier proceeding. And *William A. Graham Co. v. Haughey*, 568 F.3d 425, 444 (3d Cir. 2009), is entirely off-point, standing for the uncontroversial proposition that each act of copyright infringement gives rise to an independent claim for relief.

AMT cannot avoid the clear preclusive effect of that ruling by repeatedly insisting that *Abadin I* did not adjudicate the ultimate question of who owns the copyright in the Spider-Man character, and that this point was somehow “conceded” in the briefing before the District of Colorado. *See* SLMI Opp. at 3, 4, 19; AMT Opp. at 2, 5, 15-16, 22.

Regardless of whether *Abadin I* ultimately determined who owned the rights, it clearly determined that SLMI cannot claim to own them by virtue of the 1998 Agreement. *See* 2010 WL 1257519, at *6 & n.5. SLMI’s and AMT’s nonsensical argument – that they can escape the effect of multiple prior court decisions holding that SLMI has no enforceable contractual right to assert ostensibly because those courts did not reach the merits of SLMI’s unenforceable ownership claim – would turn the preclusion doctrines on their head. Accordingly, whether thinly-disguised as an affirmative defense or interposed as an intervenor claim, SLMI (and by extension, its licensee AMT) is precluded from asserting any ownership claim based on the 1998 Agreement.⁸

SLMI and AMT also argue that preclusion should not apply to them when they bring the identical claim involving the identical issues, so long as they assert the claim as a defense rather than as an affirmative cause of action. *See* SLMI Opp. at 7-8; AMT Opp. at 11. But their argument ignores that *res judicata* and collateral estoppel apply equally to defenses as they do to affirmative causes of action. *See, e.g., Nat’l R.R. Passenger Corp. v. Pa. Pub. Util. Comm’n*, 288 F.3d 519, 524-25 (3d Cir. 2002) (barring defendant from asserting defense that had been previously litigated and adjudicated against it); *Joell v. Nw. Human Servs.*, No. CIV.A. 13-3549,

⁸ For this reason, too, it is irrelevant that *Abadin I* did not expressly bring a claim of copyright infringement concerning the Spider-Man character. Because the underlying issue and cause of action are the same as that which formed the basis of the claims in *Abadin I*, the current declaratory judgment claim concerning SLMI’s claim of ownership rights to Spider-Man arising out of the 1998 Agreement are precluded.

2013 WL 5823738, at *4 (E.D. Pa. Oct. 29, 2013) (“Res judicata bars claims *or defenses* that were or could have been raised in a prior proceeding.”) (emphasis added).

Finally, AMT’s professed concern that a finding of preclusion will leave it unable to challenge Marvel’s ownership in the Spider-Man works in this infringement action is a red herring. Finding that SLMI and AMT are precluded from litigating an ownership claim based on the 1998 Agreement for the fifth time is not a determination that, *a fortiori*, Marvel owns those same rights. Actually, it is quite clear that Marvel does own those rights, as is obvious from its open and notorious use of the Spider-Man character over the last half-century, as well as the copyright and trademark registration information attached to Plaintiffs’ initial complaint in this action which date back to the early 1960s. *See* Compl. Exs. A, B, ECF No. 1. But AMT is certainly entitled to “raise every argument in its arsenal to defend against Disney’s claims of infringement” (AMT Opp. at 14), and it may still defend this action by contending that Marvel does not own the rights to Spider-Man, just not on the basis that SLMI, and not Marvel, owned the rights to Spider-Man based on the 1998 Agreement.⁹

B. SLMI And AMT Are In Privity With The *Abadin I* Plaintiffs

SLMI and AMT both assert that *Abadin I* is stripped of its preclusive effect because they were not in privity with the plaintiffs in the earlier case. *See* SLMI Opp. at 10-15; AMT Opp. at 12-15. This contention is meritless for several reasons.

⁹ Marvel has already sustained its burden of showing that it owns the copyrights in the Spider-Man character through the copyrights listed in the Complaint, all of which have been produced. *See* Compl. ¶ 61 & Ex. A. The record will reflect that Marvel has owned the copyright in Spider-Man from the moment of its creation, for it was created as a work made for hire under the Copyright Act of 1909. *See Marvel Characters*, 726 F.3d at 136-43; *In re Marvel*, 254 B.R. at 830.

1. ***As Judge Wilson Found, SLMI Is in Privity With the Abadin I Plaintiffs, Who Are Senior Decision-Makers For SLMI***

The notion that SLMI is not in privity with *Abadin I*'s named plaintiff José Abadin, who is SLMI's President and Chairman of the Board of Directors, and who signed the very "license" that forms the basis of AMT's principal defense in this action, is frivolous. *See* Appendix to Motion to Dismiss ("App. to Mot."), ECF No. 63 (filed under seal). That Mr. Abadin is somehow not in privity with himself should be rejected out of hand. In any event, this contention is itself collaterally estopped because SLMI has already litigated and lost it: the Central District of California in *Stan Lee Media, Inc. v. Lee* held that SLMI is in privity with the *Abadin I* plaintiffs. *See* No. 2:07-cv-00225-SVW-SSx, 2012 WL 4048871, at *4-5 (C.D. Cal. Aug. 23, 2012). Consequently, neither SLMI nor AMT can relitigate that issue here, even if they believe the California court's ruling is "unpersuasive," *see* SLMI Opp. at 15.

Nor could SLMI prevail even if the Court were to consider the issue yet again. Privity depends on whether SLMI and the *Abadin I* plaintiffs have a "sufficient commonality of interest." *Stan Lee Media*, 2012 WL 4048871, at *4. As the court in *Stan Lee Media* observed, SLMI and the plaintiffs in *Abadin I* are in the quintessential privity relationship:

SLMI and the *Abadin I* plaintiffs embody the traditional concept of corporation-officer privity Moreover, . . . the lead plaintiffs in *Abadin I* direct the affairs of SLMI. Two of the lead plaintiffs in *Abadin I* constituted the majority of SLMI's three-member board of directors during the pendency of this action. Abadin, who was lead plaintiff in *Abadin I*, now serves as SLMI's President, Chairman, and Chairman of the Special Litigation Committee. With this control, these former plaintiffs now seek to pursue in this lawsuit precisely the same rights that they sought to vindicate on behalf of SLMI in *Abadin I*: the valuable intellectual property rights [in the Marvel characters].

Id. Apart from being collaterally estopped, SLMI's argument "runs afoul of the . . . chutzpah doctrine." *Caribbean Shippers Ass'n, Inc. v. Surface Transp. Bd.*, 145 F.3d 1362, 1365 n.3 (D.C. Cir. 1998). It is also simply wrong: the "overlapping economic interests" between SLMI and

the *Abadin I* plaintiffs are easily sufficient to establish privity and adequacy of representation for purposes of preclusion. See *Stan Lee Media*, 2012 WL 4048871, at *4.

That the *Abadin I* plaintiffs were found to lack statutory standing under Rule 23.1, SLMI Opp. at 11-12, 18, is irrelevant to whether SLMI and the *Abadin I* plaintiffs (effectively the same person) are in privity, or whether they adequately represented SLMI's or AMT's interests.¹⁰ Nor does a lack of Rule 23.1 statutory standing on a particular claim somehow deprive a court of subject matter jurisdiction. See *Graden v. Conexant Sys. Inc.*, 496 F.3d 291, 295 (3d Cir. 2007) (“Constitutional and prudential standing are about, respectively, the constitutional power of a federal court to resolve a dispute and the wisdom of so doing. Statutory standing is simply statutory interpretation: the question it asks is whether Congress has accorded this injured plaintiff the right to sue the defendant to redress his injury.”) (internal citations omitted); *Carolina Cas. Ins. Co. v. Pinnacol Assurance*, 425 F.3d 921, 926 (10th Cir. 2005) (explaining that statutory standing, as distinct from constitutional standing, is not necessary to court's jurisdiction and “statutory standing need not be addressed if the court determines that the plaintiff loses on the merits anyway”).

Thus, although the *Abadin I* court found the named plaintiffs lacked Rule 23.1 standing, it was entirely proper for the court to find, in the alternative, that *Abadin*'s attempt to enforce the 1998 Agreement as the basis of any purported intellectual property rights was barred by, *inter alia*, the statute of limitations and doctrines of laches and estoppel. See 2010 WL 1257519, at

¹⁰ SLMI's reliance on *Smith v. Bayer Corp.*, 131 S. Ct. 2368 (2011), is entirely misplaced. That action evaluated whether a federal court's rejection of a proposed class action could bind a state court litigation by a non-party to the federal litigation. *Id.* at 2376. The Supreme Court held that the federal court had exceeded its authority under the “relitigation exception” to the Anti-Injunction Act because (1) the issue presented in the state court was not identical to the one decided in the federal case, and (2) the state court plaintiff did not have the requisite connection to the federal case to be bound by the federal court's judgment. *Id.* at 2373. Thus, *Smith v. Bayer* has no bearing whatsoever on this case, where the issue to be decided is identical, and the parties are clearly in privity with the plaintiffs in the prior case.

*6. The *Abadin I* plaintiffs dropped their appeal of that ruling, *see* Mot. at 7 & n.7, and cannot now escape its consequences. Indeed, SLMI has already litigated and lost this exact argument as well: “[A] determination that a plaintiff lacks statutory standing (in [*Abadin I*], standing under Rule 23.1) is not constitutional in dimension and does not divest a court of subject matter jurisdiction.” *Stan Lee Media*, 2012 WL 4048871, at *3.¹¹

Finally, SLMI’s contention that it could not be in privity with the *Abadin I* plaintiffs because that action was an “unauthorized” shareholder derivative suit (SLMI Opp. at 12, 17) does not deserve consideration, particularly given that the supposedly unauthorized shareholder is the President and Chairman of the corporation. It could be said that all shareholder derivative suits are “unauthorized,” since they are brought on the corporation’s behalf, employing “a device to be used only when it is clear that the corporation will not act to redress the alleged injury to itself.” *Kanter v. Barella*, 388 F. Supp. 2d 474, 478 (D.N.J. 2003) (quoting 7 Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure* § 1831 (2d ed.)). Using SLMI’s logic, no holding in a shareholder derivative suit could ever have preclusive effect on a later action that the corporation brings directly, but that is clearly not so. *See, e.g., Lee v. Marvel Enters., Inc.*, 765 F. Supp. 2d 440, 456 (S.D.N.Y. 2011) (“A determination on the merits in a shareholder derivative action will be res judicata in subsequent actions brought by the corporation or other shareholders, including those who were not parties to the prior litigation, so

¹¹ *Righthaven LLC v. Hoehn*, 716 F.3d 1166 (9th Cir. 2013), is not to the contrary. There, the Ninth Circuit held that the district court lacked *Article III* jurisdiction, and therefore should not have considered alternative grounds to dismiss a complaint on the merits. *Id.* at 1172. But the Rule 23.1 standing defect in *Abadin I* was *statutory*, not *constitutional*, and therefore had no effect on the court’s jurisdiction. *See In re Digimarc Corp. Derivative Litig.*, 549 F.3d 1223, 1237 (9th Cir. 2008) (“Federal Rule of Civil Procedure 23.1’s pleading requirement does not directly implicate subject matter jurisdiction”); *LeBoyer v. Greenspan*, No. 03-5603-GHK (JTLx), 2007 WL 4287645, at *3 (C.D. Cal. May 24, 2007) (noting that the “shareholder derivative standing requirements of Federal Rule of Civil Procedure 23.1 involve prudential limitations, not constitutional limitations) (quoting *First Hartford Corp. Pension Plan & Trust v. United States*, 194 F.3d 1279, 1290 (Fed. Cir. 1999)).

long as the parties' interests were adequately represented in the prior action.”) (collecting shareholder derivative res judicata cases).¹²

2. **AMT Also Is In Privity With The Abadin I Plaintiffs By Virtue Of Its Preexisting Legal Relationship With SLMI And Having Chosen To Pursue SLMI's Precluded Ownership Claim As Its Proxy**

AMT argues that privity is lacking because it has no pre-existing substantive legal relationship with the *Abadin I* plaintiffs. This contention is frivolous because the “license” from SLMI to AMT, which is at the heart of both AMT’s counterclaims and SLMI’s intervenor complaint, *was signed by José Abadin himself*. See App. to Mot., ECF No. 63. AMT’s argument that its legal relationship with SLMI was not “pre-existing” because it “entered into the [alleged] license agreement with SLMI *only after* it was sued” in this action, AMT Opp. at 13 (emphasis in original) – aside from being a transparent attempt to capitalize on its own unauthorized use of the intellectual property in issue – is completely inconsistent with its argument that the alleged license is retroactive, which by definition creates a legal relationship that predates the license itself. See AMT Opp. at 2, 13; cf. *Grant Heilman Photo., Inc. v. John Wiley & Sons, Inc.*, 864 F. Supp. 2d 316, 330 (E.D. Pa. 2012). No matter how AMT attempts to characterize their relationship, AMT took a license from SLMI, which created a “mutual or successive right or interest in the same property” and thus a “pre-existing substantive relationship” with SLMI. See *Taylor v. Sturgell*, 553 U.S. 880, 894-95 (2008); *Nationwide Mut. Fire Ins. Co. v. George V.*

¹² SLMI’s claim that it did not have an opportunity to defend its interests in *Abadin I* because it was supposedly denied leave to intervene in the direct appeal of *Abadin I* (SLMI Opp. at 14, 17) is yet another red herring: despite SLMI’s characterization of that motion, it in fact never moved for leave to intervene in that appeal; rather it moved only for a stay of the briefing schedule so that it might approach the district court for an indicative ruling that would, in SLMI’s view, moot the appeal. See Motion of Aggrieved Non-Party Stan Lee Media, Inc. for Permission to Intervene to File Application to Stay Briefing Schedule to Obtain Indicative Ruling and File Appeal, *Abadin v. Marvel Entm’t, Inc.*, No. 10-1717 (2d Cir. Sept. 10, 2010). The Second Circuit denied the stay, see Motion Order, *Abadin v. Marvel Entm’t, Inc.*, No. 10-1717 (2d Cir. Sept. 16, 2010), and SLMI never moved in the district court for the ruling it represented it would seek.

Hamilton, Inc., 571 F.3d 299, 310-11 (3d Cir. 2009); *see also Price v. Worldvision Enters.*, 455 F. Supp. 252, 266 (S.D.N.Y. 1978) (finding privity where assignees “were relying solely upon rights which they believed they had obtained” from another party).

Similarly unconvincing is the bizarre suggestion that privity fails because the *Abadin I* plaintiffs did not adequately represent AMT’s current interests. In essence, AMT asserts that Mr. Abadin did not pursue his case on his own behalf as zealously as he might have done if he had known that some day in the future he would also represent AMT based on a “license” he would grant seven years later. *See* AMT Opp. at 14. Put aside the inherent incredibility of that proposition; it is axiomatic that a licensor has the same interests as his future licensee. *ICEE Distribs., Inc. v. J&J Snack Foods Corp.*, 445 F.3d 841, 846 (5th Cir. 2006) (“the rights of a licensee are derivative of the rights of the [rights-]owner”). AMT’s “rights” derive from the 1998 Agreement and they stand or fall on SLMI’s ability to enforce it.

Finally, AMT’s argument that it is not acting as SLMI’s proxy rings hollow. AMT’s contention relies on its having “rais[ed] separate counterclaims against Disney’s and Marvel’s alleged rights” ostensibly “for its own benefit and to avoid potential liability from Marvel and Disney.” AMT Opp. at 14. This distinction elevates form over substance, especially in light of the payment arrangement under the “license.” *See* App. to Mot., ECF No. 63. In reality, AMT and SLMI have identical interests: *i.e.*, obtaining a judgment that SLMI had garnered rights in Spider-Man through the alleged conveyance in the 1998 Agreement and had licensed them to AMT. Regardless of whether it technically asserted a separate claim, AMT is in fact seeking to carry the torch that four federal courts previously have extinguished for SLMI. This Court should not countenance SLMI and AMT colluding to permit SLMI to achieve indirectly through AMT that which it is barred from achieving directly. *See* 18 Charles Alan Wright & Arthur R.

Miller, *Federal Practice and Procedure* § 4462 (2d ed.) (to hold otherwise “would be to deny the victor any assurance of repose and expose every judgment to defeat by simple conveyance”).

C. **Abadin I Was A Final Judgment On The Merits, And Its Adjudication Of SLMI’s Ability To Attempt To Enforce The 1998 Agreement Was Actually Litigated And Necessary To The Judgment**

SLMI and AMT also cannot argue that *Abadin I* was not a final judgment on the merits or that the issue determined there was not actually litigated and necessary to the judgment. *See* SLMI Opp. at 9-10, 17-19; AMT Opp. at 16-19. In fact, each of *Abadin I*’s alternative grounds was an independent adjudication on the merits and necessary to the judgment, with preclusive effect, as even SLMI’s cited cases hold. *See Gelb v. Royal Globe Ins. Co.*, 798 F.2d 38, 45 (2d Cir. 1986) (noting “general rule . . . that ‘if a court decides a case on two grounds, each is a good estoppel’”) (quoting *Irving Nat’l Bank v. Law*, 10 F.2d 721, 724 (2d Cir. 1926) (L. Hand, J.)) (cited in SLMI Opp. at 15); *see also Woods v. Interstate Realty Co.*, 337 U.S. 535, 537 (1949) (“[W]here a decision rests on two or more grounds, none can be relegated to the category of obiter dictum.”). As the Third Circuit has held:

Applying issue preclusion to independently sufficient alternative findings furthers the basic objectives of the doctrine. . . . Denying preclusive effect to a finding that would support a court’s judgment merely because the case was disposed of on other grounds as well would result in the inefficient use of private and public litigation resources. Courts routinely decide cases on multiple grounds, each of which has been fully litigated and given careful consideration due to their potentially dispositive role in the case. Because the interests that the necessity principle protects are not compromised under these circumstances, it would be curious to conclude that none of these findings were necessary to the judgment for purposes of collateral estoppel.

Jean Alexander Cosmetics, Inc. v. L’Oreal USA, Inc., 458 F.3d 244, 253 (3d Cir. 2006). As discussed above, any finding concerning a lack of standing under Rule 23.1 of the Federal Rules of Civil Procedure has no bearing on the court’s jurisdiction or its ability to make alternative

determinations on the merits.¹³ That is precisely what the *Abadin I* court did: although it found the named plaintiffs lacked Rule 23.1 standing, the court went on to determine that their attempt to enforce the 1998 Agreement as the basis of their purported intellectual property rights was barred in any event by, *inter alia*, the statute of limitations and doctrines of laches and estoppel. *See* 2010 WL 1257519, at *6.

AMT's further contention that "the issues raised in [its] Counterclaims and affirmative defenses were never 'actually litigated,'" AMT Opp. at 15-16, again misses the point. As discussed above, AMT's contention that "[n]o court has ever determined the issue of whether SLMI owns the copyrights in Spider-Man as a result of the 1998 Agreement," AMT Opp. at 16, is irrelevant. Whether SLMI could attempt to enforce the 1998 Agreement as the basis for any conveyance of rights *was* litigated and decided adversely to SLMI, and three other federal courts agreed. All of the *Abadin I* plaintiffs' privies – including SLMI and AMT – are precluded from relitigating that issue on any cause of action, in any court.

* * *

The rest of AMT's and SLMI's novel arguments deserve only passing mention. For example, the argument that a time-barred copyright claim does not extinguish an underlying ownership right (SLMI Opp. at 8) is based on a case that has been expressly limited to its own "highly idiosyncratic" facts, *Merchant v. Levy*, 92 F.3d 51, 56 (2d Cir. 1996), and legislative history that "does not speak to the issue in this case." *Seven Arts Filmed Entm't Ltd. v. Content Media Corp. PLC*, 733 F.3d 1251, 1256 (9th Cir. 2013). AMT's contention that the applicability

¹³ SLMI's cited cases, *see* SLMI Opp. at 9-10, are not to the contrary. In both cases, the courts affirmed the dismissal of a complaint for the failure to plead a precondition to suit under Rule 23.1, but in neither case was that failure determined to be jurisdictional, nor did either court proceed to determine any alternative grounds for dismissal that, as discussed, would have been on the merits. *See In re Sonus Networks, Inc.*, 499 F.3d 47, 62 (1st Cir. 2007) (dismissal for failure to plead satisfaction of precondition to suit that "generally can be cured"); *Saylor v. Lindsley*, 391 F.2d 965, 967 (2d Cir. 1968) (dismissal for failure to post bond was not adjudication on merits).

of collateral estoppel depends on which party has the burden of proving copyright ownership, *see* AMT Opp. at 18, has no basis in fact or law. That contention is irrelevant anyway, as SLMI and AMT will each bear the burden of proving the elements of their respective intervenor claims and counterclaims, and conversely Marvel has already met its own burden of establishing copyright ownership.

III. SLMI'S INTERVENOR CLAIMS AND AMT'S COUNTERCLAIMS ARE TIME-BARRED

SLMI's ownership claim, and AMT's resulting counterclaim and affirmative defenses, also are independently barred as a matter of law by the Copyright Act's three-year statute of limitations. *See* Mot. at 16-19. SLMI principally argues in opposition that a statute-of-limitations defense is not appropriate for resolution on a motion to dismiss. *See* SLMI Opp. at 19-20. This argument is hardly worthy of address, for there is no doubt the statute of limitations can form the basis of dismissal at the pleading stage. *E.g., Rahman v. Kid Brands, Inc.*, 736 F.3d 237, 247 (3d Cir. 2013) (affirming dismissal of complaint with prejudice for failure to comply with applicable statute of limitations).

SLMI's argument that it was not put on notice of Marvel's adverse claim of copyright ownership in the Spider-Man character as early as 1998, *see* SLMI Opp. at 20, similarly should be rejected out of hand. As Plaintiffs set forth in their moving papers, Marvel and its affiliates and licensees have continuously and notoriously used Marvel characters, including Spider-Man, in a variety of media, including comic books, television programs, and blockbuster motion pictures, for more than fifty years. *See Abadin I*, 2010 WL 1257519, at *6 n.5 (plaintiffs had knowledge of claim where Marvel's conduct "was neither secret nor clandestine; but rather open and notorious"); *DeCarlo v. Archie Comic Publ'ns, Inc.*, 127 F. Supp. 2d 497, 507-08 (S.D.N.Y.), *aff'd*, 11 F. App'x 26 (2d Cir. 2001). Indeed, between the date of the 1998

Agreement and three years preceding SLMI's intervenor complaint in this action, three major motion pictures were released based on the Spider-Man character, the production and theatrical release of each of which was widely publicized.¹⁴ SLMI itself cites these facts in its own prior complaints. *See* Declaration of Melanie Miller, Exhibit 1 at ¶ 26. In any event, SLMI certainly was aware that Lee put SLMI on notice of its claim in 2001, when he terminated the 1998 Agreement and expressly reclaimed any rights purportedly conveyed therein. *See* Declaration of Randi W. Singer, dated February 14, 2014, Ex. 1, ECF No. 62.2.¹⁵

In these circumstances, SLMI cannot assert that it was not on actual or constructive notice of these uses of the characters to which it claims rights, and its claim expired a full nine years before it filed its intervenor complaint in this action. Nor is the doctrine of equitable tolling available to revive SLMI's stale claims, particularly in light of the decades of open and notorious use. As even SLMI's cited case held, equitable tolling should be applied "sparingly," and only where (1) "the defendant has actively misled the plaintiff respecting plaintiff's cause of action," (2) "the plaintiff in some extraordinary way has been prevented from asserting his rights" or (3) "where the plaintiff has timely asserted his or her rights mistakenly in the wrong

¹⁴ During all of this time, SLMI never received a single royalty payment, which also led to the accrual of SLMI's claim. *See Brownstein v. Lindsay*, 742 F.3d 55, 71 (3d Cir. 2014) ("Express repudiation could also occur if [defendant] was exploiting [the work] without remuneration to [plaintiff]."); *Cooper v. NCS Pearson, Inc.*, 733 F.3d 1013, 1017 (10th Cir. 2013) ("Awareness that one is not receiving royalties also puts one on notice" of copyright claim); *Brand v. RMM*, No. 10 Civ. 0287(AJP), 2011 WL 1496344, at *4 (S.D.N.Y. Apr. 18, 2011) (holding that "express assertion of adverse ownership or a plain and express repudiation" of ownership, such as "exploiting the work for years without paying royalties" will trigger the accrual of the statute of limitations).

¹⁵ SLMI argues that the 2001 letter should be disregarded because "[t]here is no reference to this letter or the purported termination in SLMI's Complaint." *See* SLMI Opp. at 20. Of course SLMI chose not to point to that document in its intervenor complaint, because the letter is fatal to SLMI's claim. But the Court may consider it, because it is integral to the complaint and to SLMI's claim of ownership. *See Buck v. Hampton Twp. Sch. Dist.*, 452 F.3d 256, 260 (3d Cir. 2006) (on motion to dismiss, courts may "consider documents that are attached to or submitted with the complaint, and any matters incorporated by reference or integral to the claim"). There is no reason to doubt the authenticity of the document, and in fact the *Abadin I* court relied on it in finding the copyright claim there to be time-barred. *See* 2010 WL 1257519, at *6.

forum.” *Podobnik v. U.S. Postal Serv.*, 409 F.3d 584, 591 (3d Cir. 2005). SLMI’s contention that “until 2011, SLMI and its shareholders were adversely dominated by a dominant shareholder group that included Lee and Marvel,” SLMI Opp. at 22, is unsubstantiated (*nothing* is cited to support it), and in any event does not even come close to meeting SLMI’s burden for the application of equitable tolling. SLMI has, moreover, already litigated and lost this very argument: the *Abadin I* court expressly held that the plaintiffs’ copyright claims there were not saved by the doctrine of equitable tolling. *See Abadin I*, 2010 WL 1257519, at *6 n.5.

Because SLMI’s underlying ownership claim is time-barred, so too are AMT’s counterclaims and affirmative defenses, since they are entirely derivative of whatever rights SLMI might have. *See ICEE Distribs., Inc.*, 445 F.3d at 846 (“Because the rights of a licensee are derivative of the rights of the [rights-]owner, a claim of infringement by a licensee seems impossible to maintain where the [rights-]owner could not bring such a claim.”); *cf. Hurst v. U.S. Dep’t of Educ.*, 901 F.2d 836, 837 (10th Cir. 1990)) (“It is fairly well established . . . that a counterclaim for affirmative relief . . . is subject to the operation of pertinent statute of limitation.”); *City of St. Paul, Alaska v. Evans*, 344 F.3d 1029, 1035 (9th Cir. 2003) (“whether affirmative defenses are exempt from statutes of limitations largely hinges on a realistic assessment of the parties’ litigation posture,” and affirmative defense will be barred if sought alongside affirmative claim on identical claim). Accordingly, AMT’s argument that it “had no knowledge . . . of SLMI’s [claimed] ownership rights in the Spider-Man works until the Fall of 2013,” AMT Opp. at 19, and all of its remaining arguments which essentially reduce to the assertion that AMT’s claims and defenses should not be barred even where its own licensor slept on its rights for a decade, are utterly irrelevant.

IV. AMT’S COUNTERCLAIMS FAIL BECAUSE SLMI IS AN ADMINISTRATIVELY DISSOLVED CORPORATION THAT LACKS THE CAPACITY TO LICENSE AMT

Finally, AMT’s counterclaims and affirmative defenses premised on a purported license from SLMI also fail because SLMI lacked the capacity to issue any such license. Neither AMT nor SLMI contests that SLMI was an administratively dissolved corporation at the time SLMI issued its supposed license. *See* SLMI Opp. at 23-25; AMT Opp. at 21-22. As such, SLMI could not “carry on any business except as is appropriate to wind up and liquidate its business and affairs.” Colo. Rev. Stat. § 7-114-105 (2013).

AMT and SLMI lodge two principal responses to SLMI’s clear incapacity to issue the AMT license; to wit, they contend that: (1) the issuance of the license constituted a “sale of its corporate assets” such that it fell within the permitted activity of a dissolved corporation, *see* SLMI Opp. at 24-25; AMT Opp. at 21, and (2) a post-hoc filing of Articles of Reinstatement with the Colorado Secretary of State somehow revives the previously-void license, SLMI Opp. at 24, AMT Opp. at 21 n.5. The former contention is incorrect as a matter of law. A license purportedly conveying a subset of copyright rights cannot constitute the disposal of company assets for the purpose of winding down business; instead, it is clearly a business transaction of a corporation purporting to operate as a going concern. *See Hoppe v. Percheron Assocs., LLC*, No. 11-cv-03233-CBS, 2012 WL 3135378, at *6 (D. Colo. Aug. 1, 2012) (“In Colorado, a dissolved corporation cannot conduct business unless it is to wind up or liquidate.”); 19 Am. Jur. 2d Corporations § 2424 (“A corporation which has been dissolved cannot continue business as a going concern, even though a statute continues its existence for a definite or indefinite time to wind up the business. Such a [liquidation] statute does not authorize the corporation to engage in any new business transactions.”). And the latter, based on the Article of Reinstatement – filed more than two weeks *after* Plaintiffs filed their Motion in this action – should have no bearing on

the Court's determination where SLMI has come forward with no evidence that the purported reinstatement was approved by a majority of the outstanding votes of the corporation. *See* Colo. Rev. Stat. § 7-90-1002(1)(a)(II) (2013). The SLMI license, if it could convey any rights (and, for all the reasons discussed above, it cannot), is void as a matter of Colorado law.

CONCLUSION

For all of the foregoing reasons, as well as the reasons set forth in Plaintiffs' Motion, the Court should (1) dismiss AMT's counterclaims against Disney and Marvel in their entirety with prejudice; (2) strike Defendants' affirmative defenses to the extent they rely on SLMI's claim of ownership; and (3) dismiss SLMI's Intervenor Complaint in its entirety with prejudice.

Dated: March 21, 2014

By: /s/ Wilson M. Brown, III

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CERTIFICATE OF SERVICE

I, Wilson M. Brown, III, hereby certify that on the date set forth below I caused a true and correct copy of the foregoing *Reply Memorandum Of Law In Further Support Of Plaintiffs' Motion To Dismiss Amended Counterclaims And Intervenor Complaint And To Strike Amended Affirmative Defenses* to be filed electronically and be available for viewing and downloading from the Court's electronic filing system (CM/ECF) by the following:

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