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Idea Protection

To understand intellectual property law, it is necessary to understand the problems it tries to solve. And thus we start with one of the *negative spaces* of intellectual property: the submission of undeveloped ideas. These ideas – for reasons we will study in detail later – fail to qualify for protection under the various bodies of intellectual property law. And yet these ideas still have value, which means there are rewards to be reaped by anyone who can create them and get them into the right hands. The two cases in this chapter, *Apfel* and *Desny*, explore the power and limits of contract law in making these deals possible. The Bizarro World problem then invites you to consider whether and when there is a sufficiently serious market failure such that dedicated intellectual property laws might be able to do better.

Apfel v. Prudential-Bache Securities, Inc.
81 N.Y.2d 470 (1993)

Simons, Judge:

Defendant, an investment bank, seeks to avoid an agreement to purchase plaintiffs' idea for issuing and selling municipal bonds. Its principal contention is that plaintiffs had no property right in the idea because it was not novel and, therefore, consideration for the contract was lacking. For reasons which follow, we conclude that a showing of novelty is not required to validate the contract. The decisive question is whether the idea had value, not whether it was novel.

I

In 1982, plaintiffs, an investment banker and a lawyer, approached defendant's predecessor with a proposal for issuing municipal securities through a system that eliminated paper certificates and allowed bonds to be sold, traded, and held exclusively by means of computerized "book entries". Initially, the parties signed a confidentiality

agreement that allowed defendant to review the techniques as detailed in a 99-page summary. Nearly a month of negotiations followed before the parties entered into a sale agreement under which plaintiffs conveyed their rights to the techniques and certain trade names and defendant agreed to pay a stipulated rate based on its use of the techniques for a term from October 1982 to January 1988. Under the provisions of the contract, defendant's obligation to pay was to remain even if the techniques became public knowledge or standard practice in the industry and applications for patents and trademarks were denied. Plaintiffs asserted that they had not previously disclosed the techniques to anyone and they agreed to maintain them in confidence until they became public.

From 1982 until 1985, defendant implemented the contract, although the parties dispute whether amounts due were fully paid. Defendant actively encouraged bond issuers to use the computerized "book entry" system and, for at least the first year, was the sole underwriter in the industry employing such a system. However, in 1985, following a change in personnel, defendant refused to make any further payments. It maintained that the ideas conveyed by plaintiffs had been in the public domain at the time of the sale agreement and that what plaintiffs sold had never been theirs to sell. Defendant's attempts to patent the techniques proved unsuccessful. By 1985, investment banks were increasingly using computerized systems, and by 1990 such systems were handling 60% of the dollar volume of all new issues of municipal securities.

Plaintiffs commenced this litigation seeking $45 million in compensatory and punitive damages. They asserted 17 causes of action based on theories of breach of contract, breach of a fiduciary duty, fraud, various torts arising from defendant's failure to obtain patents, and unjust enrichment. … On this appeal, defendant's principal contention is that no contract existed between the parties because the sale agreement lacked consideration. Underlying that argument is its assertion that an idea cannot be legally sufficient consideration unless it is novel. Defendant supports that proposition by its reading of such cases as *Downey v General Foods Corp.*, 331 N.Y.2d 56 (1971), *Soule v Bon Ami Co.*, 201 App. Div. 794 (1922), and *Murray v National Broadcasting Co.*, 844 F.2d 988 (2nd Cir. 1988). Plaintiffs insist that their system was indeed novel, but contend that, in any event, novelty is not required to validate the contract at issue here.

II

Defendant's cross motion for summary judgment insofar as it sought to dismiss the first cause of action alleging breach of contract was properly denied. Additionally, plaintiffs' motion to dismiss the lack of consideration defenses and counterclaims should be granted.

Under the traditional principles of contract law, the parties to a contract are free

to make their bargain, even if the consideration exchanged is grossly unequal or of dubious value. Absent fraud or unconscionability, the adequacy of consideration is not a proper subject for judicial scrutiny. It is enough that something of "real value in the eye of the law" was exchanged. The fact that the sellers may not have had a property right in what they sold does not, by itself, render the contract void for lack of consideration.

Manifestly, defendant received something of value here; its own conduct establishes that. After signing the confidentiality agreement, defendant thoroughly reviewed plaintiffs' system before buying it. Having done so, it was in the best position to know whether the idea had value. It decided to enter into the sale agreement and aggressively market the system to potential bond issuers. For at least a year, it was the only underwriter to use plaintiffs' "book entry" system for municipal bonds, and it handled millions of such bond transactions during that time. Having obtained full disclosure of the system, used it in advance of competitors, and received the associated benefits of precluding its disclosure to others, defendant can hardly claim now the idea had no value to its municipal securities business. Indeed, defendant acknowledges it made payments to plaintiffs under the sale agreement for more than two years, conduct that would belie any claim it might make that the idea was lacking in value or that it had actually been obtained from some other source before plaintiffs' disclosure.

Thus, defendant has failed to demonstrate on this record that the contract was void or to raise a triable issue of fact on lack of consideration.

III

Defendant's position rests on *Downey* and *Soule* and similar decisions. It contends those cases establish an exception to traditional principles of contract law and require that the idea must be novel before it can constitute valid consideration for a contract. …

In *Downey*, plaintiff submitted an idea for an advertising campaign. A short time later, defendant General Foods mounted a campaign that was similar to the one plaintiff had suggested and plaintiff sought damages in a complaint alleging several theories for recovery. We ordered the dismissal of the complaint on two separate grounds: first, the lack of novelty and, second, defendant's prior possession of the idea — i.e., its lack of novelty as to defendant. To the extent plaintiff's causes of action were grounded on assertions of a property right, we found that they were untenable "if the elements of novelty and originality [were] absent, since the property right in an idea is based upon these two elements." Second, we concluded that the defendant possessed plaintiff's ideas prior to plaintiff's disclosure. Thus, the ideas could have no value to defendant and could not supply consideration for any agreement between the parties.

In *Soule*, plaintiff made an express contract with Bon Ami to disclose a way to increase profits. The idea consisted largely of a proposal to raise prices. The Appellate Division, in a frequently cited opinion, denied plaintiff any recovery, finding that the bargain lacked consideration because the idea was not novel. This Court affirmed but it did so on a different basis: it held that plaintiff had failed to show that profits resulted from the disclosure.

These decisions do not support defendant's contention that novelty is required in all cases involving disclosure of ideas. Indeed, we have explicitly held that it is not. *Downey*, *Soule* and cases in that line of decisions involve a distinct factual pattern: the buyer and seller contract for disclosure of the idea with payment based on use, but no separate postdisclosure contract for use of the idea has been made. Thus, they present the issue of whether the idea the buyer was using was, in fact, the seller's.

Such transactions pose two problems for the courts. On the one hand, how can sellers prove that the buyer obtained the idea from them, and nowhere else, and that the buyer's use of it thus constitutes misappropriation of property? Unlike tangible property, an idea lacks title and boundaries and cannot be rendered exclusive by the acts of the one who first thinks it. On the other hand, there is no equity in enforcing a seemingly valid contract when, in fact, it turns out upon disclosure that the buyer already possessed the idea. In such instances, the disclosure, though freely bargained for, is manifestly without value. A showing of novelty, at least novelty as to the buyer, addresses these two concerns. Novelty can then serve to establish both the attributes of ownership necessary for a property-based claim and the value of the consideration — the disclosure — necessary for contract-based claims.

There are no such concerns in a transaction such as the one before us. Defendant does not claim that it was aware of the idea before plaintiffs disclosed it but, rather, concedes that the idea came from them. When a seller's claim arises from a contract to use an idea entered into after the disclosure of the idea, the question is not whether the buyer misappropriated property from the seller, but whether the idea had value to the buyer and thus constitutes valid consideration. In such a case, the buyer knows what he or she is buying and has agreed that the idea has value, and the Court will not ordinarily go behind that determination. The lack of novelty, in and of itself, does not demonstrate a lack of value. To the contrary, the buyer may reap benefits from such a contract in a number of ways — for instance, by not having to expend resources pursuing the idea through other channels or by having a profit-making idea implemented sooner rather than later. The law of contracts would have to be substantially rewritten were we to allow buyers of fully disclosed ideas to disregard their obligation to pay simply because an idea could have been obtained from some other source or in some other way. …

Desny v. Wilder

46 Cal. 2d 715 (1956)

Schauer, Justice:

[In 1925, Floyd Collins was exploring a cave in Kentucky when a rock fell on his leg, pinning him where he was. He was trapped about 50 feet underground and his friends were for several days able to reach him from the cave's entrance, but neither Collins nor his would-be rescuers could get at the rock. The story of the trapped caver became a media sensation. Unfortunately, by the time a rescue shaft dug from the surface reached him after two weeks of work, Collins had already died.]

... In November, 1949, plaintiff telephoned [the office of Billy Wilder, the famous director of films such as *Double Indemnity* (1949) and *Some Like It Hot* (1959)]. Wilder's secretary, who was also employed by Paramount, answered, and plaintiff stated that he wished to see Wilder. At the secretary's insistence that plaintiff explain his purpose, plaintiff "told her about this fantastic unusual story. ... I described to her the story in a few words. ... I told her that it was the life story of Floyd Collins who was trapped and made sensational news for two weeks ... and I told her the plot.... I described to her the entrapment and the death, in ten minutes, probably. She seemed very much interested and she liked it. ... The main emphasis was the central idea, which was the entrapment, this boy who was trapped in a cave eighty-some feet deep. I also told her the picture had never been made with a cave background before." Plaintiff sought to send Wilder a copy of the story but when the secretary learned of its length of some 65 pages she stated that Wilder would not read it, that he wanted stories in synopsis form, that the story would first be sent to the script department, and "in case they think it is fantastic and wonderful, they will abbreviate it and condense it in about three or four pages, and the producers and directors get to see it." Plaintiff protested that he preferred to do the abbreviating of the story himself, and the secretary suggested that he do so. Two days later plaintiff, after preparing a three or four page outline of the story, telephoned Wilder's office a second time and told the secretary the synopsis was ready. The secretary requested plaintiff to read the synopsis to her over the telephone so that she could take it down in shorthand, and plaintiff did so. During the conversation the secretary told plaintiff that the story seemed interesting and that she liked it. "She said that she would talk it over with Billy Wilder and she would let me know." Plaintiff on his part told the secretary that defendants could use the story only if they paid him "the reasonable value of it ... I made it clear to her that I wrote the story and that I wanted to sell it. ... I naturally mentioned again that this story was my story which has taken me so much effort and research and time, and therefore if anybody used it they will have to pay for it ... She said that if Billy Wilder of Paramount uses the story, 'naturally we will pay you for it.'" ... Plaintiff's only subsequent contact with the secretary was a telephone call to her in July, 1950, to protest the alleged use of his composition

and idea in a photoplay [*Ace in The Hole* (1951), directed and co-written by Wilder]. The photoplay, as hereinafter shown in some detail, closely parallels both plaintiff's synopsis and the historical material concerning the life and death of Floyd Collins. ...

[W]e conclude that conveyance of an idea can constitute valuable consideration and can be bargained for before it is disclosed to the proposed purchaser, but once it is conveyed, i.e., disclosed to him and he has grasped it, it is henceforth his own and he may work with it and use it as he sees fit. In the field of entertainment the producer may properly and validly agree that he will pay for the service of conveying to him ideas which are valuable and which he can put to profitable use. [The court also stated that disclosure might constitute a benefit sufficient to support a future promise to pay. *Cf.* . Restatement (Second) of Contracts § 86.] But, assuming legality of consideration, the idea purveyor cannot prevail in an action to recover compensation for an abstract idea unless (a) before or after disclosure he has obtained an express promise to pay, or (b) the circumstances preceding and attending disclosure, together with the conduct of the offeree acting with knowledge of the circumstances, show a promise of the type usually referred to as "implied" or "implied-in-fact." ...

Such inferred or implied promise, if it is to be found at all, must be based on circumstances which were known to the producer at and preceding the time of disclosure of the idea to him and he must voluntarily accept the disclosure, knowing the conditions on which it is tendered. ... The idea man who blurts out his idea without having first made his bargain has no one but himself to blame for the loss of his bargaining power. ... The law will not imply a promise to pay for an idea from the mere facts that the idea has been conveyed, is valuable, and has been used for profit; this is true even though the conveyance has been made with the hope or expectation that some obligation will ensue. So, if the plaintiff here is claiming only for the conveyance of the idea of making a dramatic production out of the life of Floyd Collins he must fail unless in conformity with the above stated rules he can establish a contract to pay.

From plaintiff's testimony, as epitomized above, it does not appear that a contract to pay for conveyance of the abstract photoplay idea had been made, or that the basis for inferring such a contract from subsequent related acts of the defendants had been established, at the time plaintiff disclosed his basic idea to the secretary. Defendants, consequently, were at that time and from then on free to use the abstract idea if they saw fit to engage in the necessary research and develop it to the point of a usable script. ...

Carter, Justice:

I concur *only* in the result reached in the majority opinion. ...

When we consider the difference in economic and social backgrounds of those

offering such merchandise for sale and those purchasing the same, we are met with the inescapable conclusion that it is the seller who stands in the inferior bargaining position. It should be borne in mind that producers are not easy to contact; that those with authority to purchase for radio and television are surrounded by a coterie of secretaries and assistants; that magazine editors and publishers are not readily available to the average person. It should also be borne in mind that writers have no way of advertising their wares – that, as is most graphically illustrated by the present opinion, no producer, publisher, or purchaser for radio or television, is going to buy a pig in a poke. And, when the writer, in an earnest endeavor to sell what he has written, conveys his idea or his different interpretation of an old idea, to such prospective purchaser, he has lost the result of his labor, definitely and irrevocably. And, in addition, there is no way in which he can protect himself. If he says to whomever he is permitted to see, or, as in this case, talk with over the telephone, "I won't tell you what my idea is until you promise to pay me for it," it takes no Sherlock Holmes to figure out what the answer will be! This case is a beautiful example of the practical difficulties besetting a writer with something to sell ... .

I disagree with the statement in the majority opinion that: "The idea man who blurts out his idea without having first made his bargain has no one but himself to blame for the loss of his bargaining power." It seems to me that in the ordinary situation, when the so-called "idea man" has an opportunity to see, or talk with, the prospective purchaser, or someone in his employ, it is at that time, without anything being said, known to both parties that the one is there to sell, and the other to buy. This is surely true of a department store when merchandise is displayed on the counter – it is understood by anyone entering the store that the merchandise so displayed is for sale – it is completely unnecessary for the storekeeper, or anyone in his employ, to state to anyone entering the store that all articles there are for sale. I am at a loss to see why any different rules should apply when it is ideas for sale rather than normal run of merchandise.

Bizarro World Problem

Apfel gives us a glimpse of a world without intellectual property laws. Note that the defendant tried and failed to obtain a patent on the computerized-book-entry idea, and that the plaintiff's suit proceeds under general principles of contract law. Suppose that you lived in such a world. A client comes to you with one of the following. How would you advise her to proceed?

- A 75,000-word novel about a boy who discovers that he is a wizard
- A new drug for treating heart disease, which will cost $100 million to test in humans
- An easier-to-hold design for a pipe wrench

- A process for producing pure aluminum from aluminum ore that reduces the cost by 85%.
- A catchy song about taking revenge on a cheating boyfriend, recorded in her kitchen with lots of background noise
- A recut version of a popular movie, which takes five minutes off the running time and makes it much more suspenseful and exciting
- A sketch for an elegant off-the-shoulder dress
- A joke about traffic in Los Angeles
- The perfect name for a laundromat

Debt Collection Problem

Debt collection is a shady, high-pressure business. Collection agencies buy unpaid debts in bulk from lenders and from each other, usually for a fraction of the face value of the debts. The buyer typically receives a spreadsheet listing the debtors, their addresses, the amounts they owe, and perhaps some information about previous failed attempts at collection, along with an assignment of the seller's right to collect the debt. Then the buyer goes to work, calling the debtor, sending letters, negotiating payment schedules or write-downs of the debt in exchange for partial payment, and threatening legal action and perhaps following through, Unsurprisingly, debt collectors are known to use sharp tactics, including issuing unfounded legal threats, making repeated calls, trying to collect on debts that have been discharged in bankruptcy or where the statute of limitations has expired, and sometimes even intimating the possibility of violence. The federal Fair Debt Collection Practices Act and numerous state laws try to prevent these abusive tactics. Here is another:

> Around the same time that Theresa was getting phone calls from a mysterious law firm, Siegel received an email from the owner of an agency that he had hired to do his collecting. The collectors at this agency were getting the same message from many debtors: We just paid off these accounts – to someone else. Siegel was both flummoxed and concerned. Was this the work of a renegade collector at one of his agencies who was collecting on his own and pocketing the cash? Or had the paper simply been stolen from his offices?
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> The notion that a portfolio of debt could be stolen may seem improbable, but plenty of debt brokers are all too willing to sell "bad paper." Such brokers sometimes "double sell" or "triple sell" the same file to multiple unsuspecting buyers. Other times, a broker may sell paper that he does not own and obtained by nefarious means. I spoke at length with one debt broker from Buffalo, who told me that he had hired a hacker

> from China to break into a former client's email account and obtain his password. Once he had the client's password, the broker had access to his paper. He then simply took a portfolio and, subsequently, sold it to another buyer — who didn't know and didn't ask where it came from.

Jake Halpern, *Paper Boys*, N.Y. Times, Aug. 15, 2014.

This isn't typically thought of as an "intellectual property" problem, but does it have anything in common with the problems discussed in *Apfel* and *Desny*?

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