

NEGLECTED COPYRIGHT LITIGATION ISSUES

**Mark Miller
Jackson Walker L.L.P.
112 E. Pecan, Suite 2400
San Antonio, Texas 78205
(210) 978-7700
mmiller@jw.com**

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THE AUTHOR

Mark Miller is a shareholder with Jackson Walker L.L.P., a Texas law firm with offices in San Antonio, Dallas, Houston, Austin, Ft. Worth, and San Angelo. He is Chair of the firm's intellectual property section and concentrates on transactions and litigation concerning intellectual property, franchising, and antitrust. Mr. Miller received his B.A. in Chemistry from Austin College in 1974 and his J.D. from St. Mary's University in 1978. He was an Associate Editor for *St. Mary's Law Journal*; admitted to practice before the United States Patent and Trademark Office in 1978; served on the Admissions Committee for the U.S. District Court, Western District of Texas, and been selected as one of the best intellectual property lawyers in San Antonio. He is admitted to practice before the United States Supreme Court, the Federal Circuit Court of Appeals, the United States Court of Appeals for the Fifth and Tenth Circuits, the District Courts for the Western, Southern, and Northern Districts of Texas, and the Texas Supreme Court. He is a member of the American Bar Association's Forum Committee on Franchising, and the ABA Antitrust Section's Committee on Franchising. Mr. Miller is a frequent speaker and writer, including "Unintentional Franchising," 36 *St. Mary's Law Journal* 2, 2005; "Landmine Poker - Malpractice Traps for Intellectual Property Attorneys," Intellectual Property Law Course, State Bar of Texas, 2003; "Copyright Infringement and Remedies," E-Copyright Handbook, Aspen Law, 2002; "Patents, Trade Secrets and The Success of a Small Chemical Business," American Chemical Society, 2001; "Intellectual Property for General Attorneys," 24th Annual Advanced Civil Trial Course, State Bar of Texas, 2001; "Copyright Infringement," University of Houston Law Foundation, 2000, 2001 and 2006; "Franchising for the General Practitioner," San Antonio Bar Association, 1998; "Intellectual Property Malpractice Issues for New IP Attorneys," State Bar of Texas, Intellectual Property Section, 1998; "You Did What? - Potential Pitfalls for the Franchisor," State Bar of Texas, Intellectual Property Section, 1996; "Protecting Corporate Trade Secrets and Other Intangible Assets," San Antonio Bar Association 1993; "Franchise Primer," State Bar of Texas, Intellectual Property Section, 1993; "How to Represent Prospective Franchisees Effectively," Texas State Bar, Franchise and Distribution Committee; "The Importance of Trademarks to Franchising," American Bar Association Forum on Franchising, 1991; "Franchising and The Business Lawyer; How to Recognize It and Deal With It," Advanced Business Law Institute, State Bar of Texas, 1990; "Expanding Through Franchising," Texas State Bar Franchise Institute, 1987; and "Franchising in Texas," 14 *St. Mary's Law Journal* 2, 1983.

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	INSUFFICIENT OWNERSHIP	1
	A. Generally.....	1
	B. Exclusive Right.....	2
	C. Joint Works.....	4
	D. Work for Hire.....	4
	E. Collective Works.....	5
III.	INSUFFICIENT AND UGLY REGISTRATIONS.....	6
	A. Late Registration.....	6
	B. Value of Timely Registration.....	6
	C. Insufficient Registration.....	7
	D. What was Registered?.....	8
	E. Ugly Registration.....	9
IV.	INSUFFICIENT COPYRIGHT NOTICE	10
	A. No Notice.....	10
	B. Bad Notice.....	11
	C. Effect of Bad Notice.....	12
V.	RELATED RIGHTS	13
	A. The Usual Suspects.....	13
	B. Preemption.....	14
VI.	DMCA BREACHES.....	17
	A. Copyright vs. DMCA.....	17
	B. Anti-Circumvention.....	18
	C. Anti-Trafficking.....	20
	D. Copyright Management Information.....	20
	E. Remedies.....	21
VII.	INSURANCE COVERAGE.....	21
	A. Submit Claim	21
	B. Coverage	22
	C. The Coverage Dance.....	24
VIII.	DEFENDANT’S ATTORNEY’S FEES	25
	A. Lay Foundation.....	25
	B. Offer of Judgment.....	26
IX.	MISUSE.....	27
X.	WEBSITE TERMS OF USE	28
	A. No Terms.....	28
	B. Insufficient Assent.....	29
	C. Counterproductive Terms.....	29
XI.	CONCLUSION.....	30

I. INTRODUCTION

There is not enough time to resolve today's new emergencies and yesterday's leftover emergencies and the ones hanging on from last week . . . and also stay ahead of the weeds in each of the IP lawyer's clients' copyright gardens. A hypothetical IP lawyer with the time to run down every last thread to its end has one client and no cost restraints. This paper discusses neglected copyright litigation issues which bedevil all of us.

II. INSUFFICIENT OWNERSHIP

A. Generally.

Winning a copyright infringement case requires proof of: (1) ownership of a valid exclusive copyright right,¹ and (2) defendant's infringement of that right, typically, copying too much of the protectable elements of the registered work.² Although much energy is spent on the second element, meticulously comparing the accused work against plaintiff's work, consideration should also be given to ownership.

This is a seemingly trivial issue because copyright suits jurisdictionally require a registration³, and the registration is *prima facie* evidence of authorship.⁴ Nevertheless, proving that the plaintiff owns the exclusive §§ 106, 106A or 602 right⁵ in question is similar to proving a real property trespass case. The parties each attempt to establish or break plaintiff's chain of title by tracing the asserted copyright right the author/sovereign. Are there witnesses to the author's independent creation of the copyrighted work? Are the chain of title documents from the author or authors to the copyright owner in writing, signed by all of the authors, unambiguous and filed with the Copyright Office? Does plaintiff have all of the different rights needed or desirable for the suit?⁶ Sometimes this requires proving the author's citizenship, and

¹ 17 U.S.C. § 501(b) ("The legal or beneficial owner of an exclusive right under a copyright is entitled . . . , to institute an action for any infringement of that particular right.").

² *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991) ("To establish infringement, two elements must be proven: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original."); *Armour v. Knowles*, 512 F.3d 147, 152 (5th Cir. 2007) (proving copyright infringement requires proof of (A) ownership of a valid copyright, (b) factual copying, and (C) substantial similarity); *Positive Black Talk, Inc. v. Cash Money Records, Inc.*, 394 F.3d 357 (5th Cir. 2004).

³ The pending application/issued registration split in the Circuits and within a couple circuits is acknowledged, but same is not within the scope of this paper.

⁴ A certificate of registration for a pre-1978 original copyright is *prima facie* evidence of authorship, originality and copyrightability. *Gaste v. Kaiserman*, 863 F.2d 1061 (2d Cir. 1988). A certificate of registration for a post-1977 original copyright is *prima facie* evidence if obtained within five years of first publication. 17 U.S.C. § 410(c). Otherwise its evidentiary weight is left to the discretion of the court.

⁵ *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340 (1991).

⁶ *Wilson v. Electro Marine Systems, Inc.*, 915 F.2d 1110 (7th Cir. 1990) (assignment of an exclusive copyright right does not carry with it then existing causes of action).

plaintiff's ownership through transfer documents,⁷ proof of work for hire facts or transfer by operation of law.

In a perfect world, everyone who could possibly be an author long ago signed Mother Hubbard assignments conveying all possible rights to your client before the infringement.⁸ Dispersing standard form employee and independent contractor agreements to clients for them to have on hand increases the odds of this being so. Better that clients use standard forms not tailored for each situation than not having a signed agreement because the client did not want to call you for a perfect agreement.

B. Exclusive Right

A copyright infringement claim can only be brought by the owner of (1) the exclusive right (2) to the asserted §§ 106, 106(A) or 602 copyright right. Exclusive ownership of the different copyright rights in the same work may be allocated between authors, assignees, exclusive licensees, etc.⁹

It is easy to be lured into applying common sense to these issues. A non-exclusive license may be oral or implied¹⁰ and is governed by familiar state contract law.¹¹ One who

⁷ 17 U.S.C. §204(a); *Dean v. Burrows*, 732 F.Supp. 816 (E.D. Tenn. 1987) (endorsed check can qualify as a transfer document). This statutory requirement can be an unyielding snare. "Section 204(a)'s requirement, while sometimes called the copyright statute of frauds, is in fact different from a statute of frauds. *Konigsberg Int'l, Inc. v. Rice*, 16 F.3d 355, 357 (9th Cir. 1994). Rather than serving an evidentiary function and making otherwise valid agreements enforceable, under § 204(a) 'a transfer of copyright is simply 'not valid' without a writing.' *Id.*" *Lyrick Studios, Inc. v. Big Idea Productions, Inc.*, 420 F.3d 388 (5th Cir. 2005). Statutory decrees trump the common law and common sense. Although performance of an oral agreement overcomes most "Statute of Frauds" rules, such as those requiring a writing to transfer title to real property, not even full performance of an oral transfer of copyright ownership defeats § 204(a) requirement for a "writing and signed by the owner." *Lyrick Studios, supra*. Unwritten understandings or writings not containing the signatures of both parties are insufficient to rebut the Copyright Acts' statutory presumption of ownership by the author. *Miller v. C.P. Chemicals, Inc.*, 800 F.Supp. 1238 (S.C. 1992).

⁸ An exemplary problem is incorporation of user-generated-content ("UGC") into corporate websites. The uploaded UGC is not authored by the company and may additionally contain content owned by third parties. Companies that allow UGC on their websites should prominently restrict same to participants who agree to Terms of Use which minimally instruct contributors to restrict submissions to material for which they own all rights, provide guidelines for use of trademarks, names and likenesses of other people, permit the company to remove any material that violates the Terms of Use and indemnify company for all posted UGC.

⁹ *Wilson v. Electro Marine Systems, Inc.*, 915 F.2d 1110 (7th Cir. 1990) (assignment of an exclusive copyright right does not carry with it then existing causes of action). The lesson for assignees is to state in the assignment that all existing causes of action are transferred. Otherwise, if an infringement began within the last three years, you have all the cost of an infringement suit to win, but for only a fraction of the recovery. On the other hand, the owner of "all right, title and interest in any to any claims and causes of action" has no right to sue upon those claims unless he also owns the copyright right. *Silvers v. Sony Pictures Entertainment, Inc.*, 402 F.3d 881 (9th Cir. 2005); *Morris v. Business Concepts*, 259 F.3d 65, 69 (2d Cir. 2001) *rehearing denied*, 2002 WL 416533 (2d Cir. March 18, 2002). An exclusive licensee is a copyright "owner" capable of bringing suit in its own name. *See* 17 U.S.C. § 501(b) (permitting the "legal or beneficial owner of an exclusive right" to bring suit).

¹⁰ A non-exclusive copyright license (a mere right to use) does not need to be in writing. *Kennedy v. National Juvenile Detention Ass'n*, 187 F.3d 690 (7th Cir. 1999). *I.A.E. Inc. v. Shaver*, 74 F.3d 768 (7th Cir. 1996) (license can be oral or implied); *Hogan Sys. v. Cybersource Int'l, Inc.*, 158 F.3d (5th Cir. 1998) (consultants of a licensee are agents of a licensee).

orders a work may have an implied license to use the work for its intended purpose.¹² Reliance on common sense and common law principles, however, can be an illusion and a snare.

A first wicked trap is that an exclusive license is a § 204 “transfer of copyright ownership” which must be in “writing and signed by the owner”¹³ to be valid. Unwritten understandings or writings without the author’s signature are insufficient to rebut the Copyright Act’s statutory presumption of ownership by the author.¹⁴ Equitable doctrines such as reliance and partial performance do not make an unwritten such agreement valid.¹⁵ Video recording the author’s unwritten agreement transferring the exclusive right to your client, fully paying for it, and building a business on it in reliance on the transfer, all with the Pope’s express blessing, does not give the purchaser the right to sue for copyright infringement. A second trap is that exclusive licenses are not assignable without the original licensor’s consent.¹⁶ Third, use after a consent is withdrawn is infringing.¹⁷ Fourth, whether a writing signed after the infringement to confirm rights orally granted before the infringement is sufficient to confirm the earlier transfer is unclear.¹⁸ Finally, cases concerning whether the beneficial owner of an exclusive right,¹⁹ or an assignee of a divisible interest has a sufficient exclusive right for copyright infringement standing are all over the map.²⁰

Software ownership rights are often problematic. Children re-use wooden A, B, C . . . blocks to make words. Lawyers reuse no-warranties-no-matter-what and indemnification paragraphs in dozens of similar license agreements. Software programmers reuse the routines

¹¹ *Foad Consulting Group, Inc. v. Musil Govan Azzalino*, 270 F.3d 821 (9th Cir. 2001). (While Section 204(a) requires all transfers of exclusive rights to be in writing signed by the grantor, a nonexclusive license can be granted, either orally or by implication. State contract law determines that contract question.)

¹² *Asset Marketing Systems, Inc. v. Kevin Gagnon, d/b/a Mister Computer*, (9th Cir. 2008). (An unlimited, non-exclusive and implied license to use, modify and retain source code developed by a contractor when “(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work.”); *Compare, Effects Associates, Inc. v. Cohen*, 908 F.2d 555 (9th Cir. 1990), *cert. denied*, 111 S.Ct. 1003 (1991) (one who orders a work may have an implied license to use it for the purpose of the purchase agreement), *with, Maclean Associates Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769 (3d Cir. 1992)(non-exclusive implied license to use only in its business whose employee authored software outside of his scope of employment).

¹³ 17 U.S.C. § 204(a).

¹⁴ *Miller v. C. P. Chemicals, Inc.*, 808 F. Supp. 1238 (D.S.C. 1992).

¹⁵ 17 U.S.C. § 101; *Lyrick Studios, Inc. v. Bid Idea Productions, Inc.*, 420 F.3d 388 (5th Cir. 2005).

¹⁶ *Gardner v. Nike Inc.*, 279 F.3d 774 (9th Cir. 2002).

¹⁷ *Scanlon v. Kessler*, 11 F.Supp. 2d 444 (S.D. N.Y. 1998).

¹⁸ *Imperial Residential Design, Inc. v Palms Development Group, Inc.*, 70 F.3d 96 (11th Cir. 1995).

¹⁹ *Moran v. London Records Ltd.*, 827 F.2d 180 (7th Cir. 1987) (assignor with a continuing interest, i.e., royalty payments, can sue if the assignee refuses to). Conversely, a non-exclusive licensee does not have authority to sue *Althim C. D. Medical Inc. v. West Suburban Kidney Center*, 874 F. Supp. 837 (N.D. Ill. 1994).

²⁰ *Sybersound Records, inc. v. UAV Corp.*, 517 F.3d 1137 (9th Cir. 2008) (“We also consider whether the transfer of an interest in a divisible copyright interest from a copyright co-owner to Sybersound, unaccompanied by a like transfer from the other copyright co-owners, can be an assignment or exclusive license that gives the transferee a co-ownership interest in the copyright. We hold that it cannot.” Holding that a transferee of a co-owner’s interest lacks standing to sue for infringement).

they have written and picked up along the way. This fact is not typically surfaced until suit is brought or a warranty of good title and no infringement is requested. The programmer's response to being asked about the code's origin is to cheerfully answer that the company's crown jewel software includes parts carried from each of the programmers prior places of employment and parts subject to a General Programming License (GPL) which contractually attaches the entire program to the GPL. To management's horror, the GPL is enforceable.

C. Joint Works.

A "joint work" is a work prepared by two or more authors "with the intention that their contributions be merged into inseparable or independent parts of the unitary whole"²¹ to which more than one author adds independent copyrightable contributions.²² Co-owners are akin to tenants in common.²³ A license from any of a joint work's owners is a complete defense. Compensation received by a co-owner for use of the work must be shared with the other co-owners.

D. Work for Hire.

Only if authors were (1) full time employees (2) working within their scope of employment, does the company own their authorship as a work for hire.²⁴ Title to a work created by an employee outside of his scope of employment belongs to the employee, not the employer.²⁵ This is a status determination made according to agency rules. An agreement that

²¹ 17 U.S.C. §101.

²² *Medforms, Inc. v. Healthcare Management Solutions*, 290 F.3d 98 (2d Cir. 2002) (programmer directed associate to modify program. Programmer author of the new program). *Banc Training Video Systems v. First American Corp.*, 956 F.2d 268 (6th Cir. 1992).

²³ "The authors of a joint work are co-owners of copyright in the work" § 201(a).

²⁴ "In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for the purposes of this title . . ." 17 U.S.C. § 201. "A 'work made for hire' is – (1) a work prepared by an employee within the scope of his or her employment." 17 U.S.C. § 101. The Copyright Act does not define either "employee" or "scope of employment." The Supreme Court essentially adopted the Restatement (Second) of Agency (1958) to determine if an author is an employee. *Community For Creative Non-Violence v. Reid*, 109 S.Ct. 2166 (1989) ("In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party's right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party's discretion over when and how long to work; the method of payment; the hired party's role in hiring and paying assistants; whether the work is part of the regular business of the hiring party." *Id.*) See Restatement § 220(2) (setting forth a non-exhaustive list of relevant factors)).

²⁵ A work created by an employee outside of his "scope of employment" belongs to the employee, not the employer. 17 U.S.C. §§101, 201(b); **(a) Scope of Employment.** "(1) conduct of a servant is within the scope of employment if, but only if: (a) it is of the kind he is employed to perform; (b) it occurs substantially within the authorized time and space limits; [and] (c) it is actuated, at least in part, by a purpose to serve the master." Restatement (Second) of Agency §228 (1958). However, §228 was written to determine respondent superior liability of the employer for the tortious acts of the servant, and not with copyright issues in mind. Section 228 does not provide a bright line rule. **(1) Within scope of employment:** *Genzmer v. Public Health Trust of Miami-Dad County*, 219 F. Supp. 2d 1275 (S.D. Fla. 2002) (Created software on home computer, no additional compensation, program within job description, tested on employer's computers, tailored to employer's needs.); *Miller v. CP Chemicals, Inc.*, 808 F. Supp. 1238 (D. S.C. 1993) (Supervisor not hired to write software, software authored on

an employee's work is or is not a work for hire work may or may not show the parties' intention to assign the work, but is merely evidentiary concerning the author's scope of employment – which is often a determinative work for hire question. Further, an independent contractor's agreement that his work is a work for hire work is ineffective to establish work for hire status regardless of the parties' express intention that it do so unless the "full time employee" part of the test is met. The agreement may effect an assignment, but the assignment vs. work for hire distinction is important for transfer determination and copyright duration and recapture²⁶ purposes.

Another snare is that an unsigned employee manual may evidence the parties' scope of employment intent for work-for-hire determination, but be an ineffective written § 204 "transfer of ownership" of non-work-for-hire works because it is not signed.²⁷ This issue arises because it is easier to deliver all employees new policy manuals every few years with notice that employment is conditional on same, than to gather and keep original individual sets of manuals that the employees signed and turned in. Unsigned manuals do not, however, comprise §204 signed assignments. Even signed employee manuals may be ineffective concerning non-work-for-hire materials absent a Mother Hubbard copyright assignment.

E. Collective Works.

Section 201(c) gives a collector of works ownership of the collective work ("copyright in the collective work as a whole") with the right to reprint the collective work as a whole, while leaving ownership in each "separate contribution to the work" in each separate author.²⁸ The

home computer, but incidental to his job.) (2) **Not within scope of employment:** *Aytec Systems, Inc. v. Peiffer*, 1994 U.S. Dist. LEXIS 16946 (E.D. Va. 1994), *aff'd*, 1995 U.S. App. LEXIS 25901 (4th Cir. 1995) (Program within job description, co-workers helped debug on company time, mainly created on home computer, no additional compensation except \$5,000 bonus.) *Shaul v. Cherry Valley-Springfield Cent. Sch. Dist.*, 363 F.3d 177 (2d Cir. 2004) (High school math teacher's lessons, tests and homework problems.) *Vanderhurst v. Colorado Mountain College Dist.*, 16 F. Supp. 2d 1297 (D. Colo. 1998), *aff'd*, 208 F.3d 908 (10th Cir. 2000) (Professor's class outline prepared at home, but college policies required such work and outline directly connected to job.) *Quinn v. City of Detroit*, 988 F. Supp. 1044 (E.D. Mich. 1997) (City Attorney created software to manage litigation on home computer, and spent many hours using it at work; however, writing software not within scope of employment and using and maintaining the software was done after program authored at home.) *City of Newark v. Beasley*, 883 F. Supp. 3 (D. N.J. 1995) (Police officer created materials at home used in public anti-theft education program.) *Roeslin v. District of Columbia*, 921 F. Supp. 793 (D.D.C. 1995) (Economist wrote software to automate data received by employer, not hired to write software.) (b) **"Incidental acts"** are within scope of employment. "An act incidental to an authorized act, although considered separately, it is an entirely different kind of act. To be incidental, however, it must be one which is subordinate to or pertinent to an act which the servant is employed to perform. It must be within the ultimate objective of the principal and an act which is not unlikely that such a servant might do." Restatement (Second) of Agency §229 Comment B (1958). (c) **Estoppel.** If the employee permits the employer to become dependent on the employee's work, the employee may be estopped from suing the employer for infringement. *Carson v. Dynegy, Inc.*, 344 F.3d 446 (5th Cir. 2003). (d) **Specially commissioned works.** Works for hire also include a restricted class of specially ordered or commissioned works if the parties expressly agree in a "written instrument signed by them" that the work shall be a work for hire. 17 U.S.C. §101.

²⁶ 17.U.S.C. §§ 203, 304.

²⁷ *Rouse v. Walter & Associates, L.L.C.*, 513 F. Supp. 2d 1041 (S.D. Iowa, 2007).

²⁸ Owner of a magazine collective work who does not own the copyright right in the individual articles cannot sue for infringement of article. But if a party owns the collective work and also the individual article, a collective work

New York Times v. Tasini,²⁹ dealt with the narrow issue of whether old New York Times newspapers, which include freelance articles published via collective work assignments, could be republished in an indexed DVD. The Supreme Court held that, unlike republishing the newspapers on paper or microfilm where the articles are presented only as an intact collection, an indexed DVD additionally presents the work articles individually, i.e., beyond the scope of the collective work assignments. Thus, the New York Times could not put its own papers on indexed DVDs. This emphasizes the technical nature of the chain of title questions.

III. INSUFFICIENT AND UGLY REGISTRATIONS

A. Late Registration.

Whether, and how often to obtain copyright registrations is a guaranteed topic for remorse. A systematic copyright registration program is deceptively easy and inexpensive. Superficially, the client just delegates to one of its employees the task of collecting new works, completing the few boxes on copyright applications forms and filing them. Clients' assurances and your instructions notwithstanding, the wheels fall off unsupervised client copyright registration programs. In practice, an effective registration program requires, corporate buy-in, education, docketing, supervision, delegated decision making and scheduled auditing – all of which cost time and money.

If the requisite time and money are spent on a comprehensive registration program, no one will infringe and the enterprise perceived by the client as wasteful. However, if registrations are not timely obtained for a particular work which is infringed, then the lost chance to obtain attorney's fees and statutory damages will deter copyright enforcement and be viewed unfavorably by the client. The cost of a registration program is immediate, certain and obvious. The benefit is distant, unlikely and hypothetical. Basically, you can't win.

B. Value of Timely Registration.

If and when a work is infringed, the value of a timely registration is apparent.

registration is sufficient. See, *Streetwise Maps, Inc. v. Vandam Inc.*, 159 F.3d 739, 7747 (2d Cir. 1998); *Woods v. Universal City Studios, Inc.*, 920 F. Supp. 62, 64 (S.D.N.Y. 1996).

²⁹ *The New York Times v. Tasini*, 121 U.S. S.Ct. 2381 (2001).

VALUE OF TIMELY COPYRIGHT REGISTRATION		
REMEDY	No Prior Registration	Prior Registration
Owner's actual damages, plus infringer's profits	X	X
Injunction	X	X
Defendant might recover attorney's fees if it wins	X	X
Statutory damages of up to \$150,000 per each "infringement"		X
Plaintiff might recover attorney's fees if it wins		X

If the infringed work has not been timely registered and it will cost the copyright owner \$200,000 in attorney's fees to get an infringer's \$10,000 in profits, the math is unpleasant for the copyright owner. However, if the infringed work was timely registered, the same infringer is looking at paying his lawyer plus the plaintiff's lawyer fees of \$400,000 and up to \$150,000 in statutory damages per each infringement. The possible Final Judgment difference due to when a \$45 filing fee was paid is substantial.

C. Insufficient Registration.

Extending the real property trespass analogy, determination of the metes and bounds of plaintiff's copyright rights requires looking at the subject registration's deposit material. The copyright infringer, a good capitalist, likely copied the most recent edition of plaintiff's work. Plaintiff naturally focuses on the direct similarity between defendant's accused work and the copied plaintiff's work. Often, however, only an earlier version of plaintiff's work was registered.

At trial, the fact that defendant's accused work is a direct knock off of plaintiff's current work is insufficient to prove plaintiff's case. The only jury comparison question submitted asks the jury to compare defendant's accused work with plaintiff's registered work,³⁰ *i.e.* the deposit material attached to the registration.

While one registration can cover multiple works and statutory damages are calculated per work rather than per registration, in practice getting multiple statutory damages awards is more likely if each work is registered separately. Whether the cost vs. benefit balance makes this worthwhile is problematic and fact specific. Additionally, while it is inexpensive to include

³⁰ No infringement if derivative work, which was not registered was copied, but original work was registered but not copied. *See Well-Made Toy Mfg. v. Goffa Intern. Corp.*, 354 F.3d 112 (2d Cir. 2003) (20-inch doll registered, but not 48-inch derivative work, because only derivative work copied, no basis for suit).

several works in one collective work application for one filing fee,³¹ this may not protect the individual works.³²

If litigation is likely, plaintiff should consider obtaining additional copyright registrations. The ancestor of plaintiff's work that defendant copied may be registered, but perhaps the exact modified work that defendant copied should also now be registered. Alternatively, perhaps the most recent edition which defendant copied is registered, but it is a minor revision of prior published editions, which are not registered. In the best of all possible worlds, works which change over time should be protected with serial registrations, so one deposit copy will have been copied entirely by defendant, the work's published predecessors all being registered. This may result in defendant's one accused work infringing several registered works, *i.e.* each of the several different registered editions of the copyrighted work being a separate basis for statutory damages. Registration of the exact work copied also helps with plaintiff's "copied a substantial part" of the registered work burden of proof at trial.

D. What was Registered?

When an infringement issue arises, a certified copy of the copyright registration certificate and the deposit material should be immediately obtained from the Copyright Office. A copyright infringement claim fails unless the copyright plaintiff carries his burden to prove what work was registered.³³ This can sometimes be a non-trivial issue because, while the Copyright Office reliably maintains a copy of the registration certificate, the deposit copy is sometimes lost, making it impossible to tell from the Copyright Office's records what work was registered. When this occurs, the author, the copyright owner, the attorney who prosecuted the application, etc., may testify concerning what work was registered. While there may be no contradicting testimony, it is, nevertheless, plaintiff's burden to prove what was registered.

This burden can be impossible to meet with software. Clients typically only think to call the copyright lawyer for registration of software when the original version is introduced. That impulse does not typically reoccur as upgrades are introduced. Since clients deliberately discard older versions to avoid confusion with the newer version, no copy of what was registered may exist when the nth version is infringed years later. Further, source code is typically registered under unpublished source code trade secret rules, *i.e.* only the first and last twenty-five pages of the program, every other line deleted, is filed as deposit material. The main body of the code is not filed.³⁴ Often only the first and last few redacted pages, was sent to the lawyer's office, or, if the full source code was sent it was discarded. If the cards fall the wrong way, there may be insufficient evidence of what source code was originally registered. In that event, the registration is unenforceable.

³¹ *Szabo v. Errisson*, 68 F.3d 940 (5th Cir. 1995).

³² *Morris v. Business Concepts*, 2000 WL 323118, 54 USPQ.2d 1561 (S.C. N.Y. 2000) (The collective work registration does not extend to the individual independent works within the magazine as distinct works.).

³³ *Kodadek v. MTV Networks, Inc.*, 152 F.3d 1209 (9th Cir. 1998). This section of the paper is inapplicable to works protected by Berne Convention.

³⁴ 37 CFR §220.20(C)(2)(vii)(2).

To avoid this fatal evidentiary problem, some copyright lawyers maintain their own full copy of source code so it can be introduced at trial as a business record. Others include in their “congratulations, you have a copyright registration” letter a disclaimer that the attorney is not engaged for and not responsible for maintaining a deposit copy and advising the client to keep one. Since work for hire copyright duration is 95 years, we are talking about a long, long time.

E. Ugly Registration.

While a copyright registration is *prima facie* evidence of validity,³⁵ defendants often assert that plaintiff committed fraud on the Copyright Office in obtaining it. Fraud must be [1] pled with particularity, [2] defendant “must establish that the application for copyright registration is factually inaccurate, and [3] that the inaccuracies were willful or deliberate . . . and [4] that the Copyright Office relied on those misrepresentations,” and [5] defendant’s burden of proof is “a heavy burden”³⁶ Because this is a steep hill to climb, misstatements in copyright applications do not generally invalidate the registration absent proof of intentional fraud on the Copyright Office.³⁷

Nevertheless, when litigation becomes likely, the registration and its deposit material should be examined for possible attack and possible correction or supplementation. Attacks on the registration are common, if only due to the defendant’s need to affect the suit’s moral justice battle. Attacks include at least:

- (1) The registered work is a derivative work and the prior works were not disclosed.³⁸
- (2) The new material is unprotectable.³⁹

³⁵ 17 U.S.C. § 401(c); *Norma Ribbon & Trimming, Inc. v. Little*, 51 F.3d 45 (5th Cir. 1995); *Transgo, Inc. v. Ajac Transmissions Paris Corp.*, 768 F.2d 1001 (9th Cir. 1985).

³⁶ *Lennon v. Seaman*, 84 F. Supp.2d 522, 525 (S.D. N.Y. 2000); 17 U.S.C. § 411.

³⁷ *Ganz Brothers Toys v. Midwest Importers of Cannonfalls, Inc.*, 834 F. Supp. 896 (E.D. VA. 1993) (errors and failures to disclose in an application do not invalidate registration where applicant was in good faith); *Schiffer Publishing Ltd. v. Chronicle Books L.L.C.* (E. Pa. 2005).

³⁸ A work may be entitled to copyright protection even if the work “is based on . . . something already in the public domain if the author, through his skill and effort, has contributed a distinguishable variation from the older works.”³⁸ However, some courts hold that if a preexisting work “pervades” the entire unauthorized derivative work, then the derivative work is not entitled to copyright protection.

³⁹ *Mathew Bender & Co, Inc. v. West Publishing Co.*, 158 F.2d 674 (2d Cir. 1998) (No infringement because copied published opinions not copyrightable.). *West Publishing Co. v. Mathew Bender & Co., Inc.*, 158 F.2d 693 (2d Cir. 1998) (No infringement because copied Westlaw’s “star pagination” system not sufficiently original to qualify for copyright.) (*Coach, Inc. v. Peters*, 386 F. Supp. 2d 495, 496 (S.D. N.Y. 2005). *Coach’s* “Two linked Cs facing each other, alternating with two unlinked Cs facing in the same direction . . . were simply not sufficient to establish the necessary amount of creativity required for copyright protection.”); *Darden v. Peters*, 488 F.3d 277 (4th Cir. 2007) (The examiner held, “copyright does not protect familiar shapes, symbols, and designs . . . or mere variations of typographic ornamentation, lettering, fonts, or coloring.”) *Id.* The Court affirmed with regard to the map and found the application “for text, maps, and formatting of an Internet web page . . . simply *too broad* to warrant protection.” *Id.* at 282 (Emphasis added, internal quotation marks omitted); *Fisher-Price Inc. v. Well-Made Toy Manufacturing Corp.*, 25 F.3d 119 (2d Cir. 1994)(“parroting does not always mean piracy.”).

- (3) All of the true authors are not identified.
- (4) An unlawful derivative work is not copyrightable.⁴⁰
- (5) The registration was obtained by knowing fraud.⁴¹

Amended § 411 decrees that attacks on a registration's validity require the court to send the allegedly invalidating facts to the Copyright Office and the Copyright Office to send a responsive reply opining whether same invalidate the registration.⁴² How this will work in practice is not yet known, but diagramming § 411's inherent steps surfaces a rat's nest of procedural and evidentiary issues.

When the registered work shown in the deposit material does not align 100% with plaintiff's most recent version of the work that defendant copied, consideration should be given to seeking a copyright registration on the derivative work defendant copied. While statutory damages and attorney's fees are not available for infringing the derivative work if it was not timely registered,⁴³ § 504(a) damages and injunctive relief are. Plaintiff's assertion that defendant's accused work infringes plaintiff's derivative work does not abandon plaintiff's claim that defendant's copying infringes plaintiff's registered original work. Defendant's accused work can infringe both.

IV. INSUFFICIENT COPYRIGHT NOTICE

A. No Notice.

The copyright owner should freely scatter copyright notices throughout its works, limited only by practicality. It's free. A work does not need to be registered for the owner to put a copyright notice on it. Putting a thousand copyright notices on a work gives a legal advantage for no cost. First, an excess of copyright notices defeats the infringer's technical argument that he is an innocent infringer.⁴⁴ Second, and more important, is the moral justice battle concerning

⁴⁰ A work may be entitled to copyright protection even if the work "is based on . . . something already in the public domain if the author, through his skill and effort, has contributed a distinguishable variation from the older works."⁴⁰ However, some courts hold that if a preexisting work "pervades" the entire unauthorized derivative work, then the derivative work is not entitled to copyright protection. 17 U.S.C. § 1035; *Pickett v. Prince*, 207 F.3d 402 (7th Cir. 2000)(author of unauthorized derivative work does not obtain copyright rights in the derivative work); *contra*, *Liu v. Price Waterhouse L.L.P.*, 1999 WL 47025 (N.D. Ill., 1999).

⁴¹ *Raquel v. Education Management Corp.*, 196 F.3d 171, (3rd Cir. 1999) (designating work as "audio visual work" rather than "musical work" on copyright application was a material mischaracterization invalidating the registration), *cert. granted*, 531 U.S. 952 (2000); *Quad Inc. v. ALN Association, Inc.*, 770 F. Supp. 1261 (N.D. Ill. 1991) (copyright unenforceable due to failure to disclose parent software), *aff'd*, 974 F.2d 834 (7th Cir. 1992); *Lasercome America Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); *Whimsicality Inc. v. Rubies Costumes Co.*, 891 F.2d 452 (2d Cir. 1989) (deliberate misclassification in application invalidated copyright); *GB Marketing USA Inc. v. Gerolsteiner Brunnen GmbH & Co.*, 782 F. Supp. 763 (W.D. N.Y. 1991) (knowing failure to disclose material information in copyright application with intent to deceive the Copyright Office invalidated the copyright).

⁴² 17 U.S.C. § 411.

⁴³ Subject to § 412's unpublished and registration within three months of publication.

⁴⁴ 17 U.S.C. § 401(d).

who is at fault in the dispute – defendant for ignoring the many © notices, or the copyright owner for failing to clearly warn defendant by posting “keep off/no trespassing” signs on his property.

Publishing a work prior to January 1, 1978 without a proper copyright notice effected an incurable forfeiture of copyright rights. Publishing a work without a proper copyright notice prior to March 1, 1991 forfeited copyright protection, subject to curative provisions such as making an effort to put the notice on the distributed copies, getting a registration within five years of the publication, etc.⁴⁵ These are both subject to general vs. limited publication rules created to prevent forfeitures.⁴⁶

If half of the material in client’s 2008 registered work is from client’s January 1991 version, which was published without notice, and defendant copied the 2009 version, only half of which comes from the 2008 version, then defendant will minimally argue that only half of the copied work is protectable and only one quarter is registered as a damages reduction argument. Defendant will additionally assert plaintiff’s falsely claiming in the registration invalidates it.

B. Bad Notice.

A proper notice has three elements, (1) notice of copyright, *i.e.*, “©” or “Copyright,” (2) year of first publication, and (3) name of the owner.⁴⁷ For example, “© 2000-2009 Miller.” A copyright notice which states a date more than a year after the date the work was published falsely states that the owner’s copyright rights extend further temporally than they do in fact. For example, if a work for hire work is first published in 2008, then its copyright right expires in 2103 (2008 + 95 = 2103). If the notice incorrectly states “© 2009 Miller,” then it falsely asserts a legal monopoly from January 1, 2103 to December 31, 2104. To punish this offense, § 406(b) decrees that the work is deemed published without any copyright notice.⁴⁸

As this logic is pushed further, its effect is apparent. Copyright notices on works which are updated should show each publication date, *i.e.* “© 2001, 2002, 2003, 2004, 2005, 2008, 2009 Miller,” or “© 2001-05, 2008, 2009 Miller,” etc. As a practical matter, however, the client’s employee tasked with the job of deciding what year date or dates to put in the copyright notice, or more likely, whichever typist happens to type the document, is unlikely to know, remember or apply these abstract rules. Whatever the year date is when the document is revised is the year date the typist absentmindedly, or the word processing program automatically, types into the copyright notice. For works with content published in prior years, this breaches § 406.

However, mere omission of the year published part of the copyright notice does not defeat the notice’s effect unless the infringer “proves that he or she was misled by the omission

⁴⁵ 17 U.S.C. § 405.

⁴⁶ This topic is beyond the scope of this paper.

⁴⁷ 17 U.S.C. § 402.

⁴⁸ 17 U.S.C. § 406(b) “Where the year date is more than one year later than the year in which publication first occurred, the work is considered to have been published without any notice and is governed by the provisions of section 405.”

of notice.”⁴⁹ While not including a year date in a copyright notice has the detriment of forfeiting the conclusive evidentiary effect of the copyright notice,⁵⁰ given the likelihood of careless errors over time, the author’s practice concerning works likely to be regularly updated is to sometimes take half a loaf by omitting any publication date, *i.e.* “© Miller.” For example, when you start your computer, only the Microsoft logo and “© Microsoft” appear on the screen.

C. **Effect of Notice.**

If the copyright owner habitually liberally sprinkles copyright notices throughout its works as a matter of course, at least some persons may be deterred from infringing, whether due to wanting to do the right thing or fear of retribution. If unauthorized copying does occur, the more prominent and numerous the notices, the more likely the infringer will be perceived by the jury and court to be a willful infringer. This is a big deal, because the fact finder’s moral justice determination and looking into the defendant’s heart affects the statutory damage range and award. There is zero cost for including copyright notices and a benefit for doing so.

a. **Innocent.** Omission or garbling the copyright notice lets the infringer argue his infringement was innocent or at least not willful.⁵¹ A proper copyright notice defeats that defense.⁵² While “I didn’t know” is not a defense to infringement liability, an infringer’s meeting its “innocence” burden of proof can reduce the amount of the award of statutory damages “to a sum not less than \$200.”⁵³ If the work was publicly distributed before March 1, 1988, without a copyright notice or with a copyright notice that misled the infringer, then, even if the copyright right is valid, the infringer’s proof of his good faith due to the omitted or garbled notice is a complete defense.⁵⁴

b. **Normal.** In the absence of defendant’s meeting his burden to show his infringement was innocent to take advantage of § 504(c)’s reduced remedy and plaintiff meeting his burden to show that defendant’s infringement was willful to take advantage of § 504(c)’s enhanced remedy, § 504(c)’s normal mill statutory remedy range is \$750 to \$3,000 for infringement of “one work.”

c. **Willful.** If plaintiff proves the infringement was committed willfully, statutory damages may be “a sum of not more than \$150,000.”⁵⁵ Infringement is willful if the infringer knew or should have been aware that its act comprised copyright infringement.⁵⁶

⁴⁹ 17 U.S.C. § 405 “. . . no liability . . . for any infringing act committed before receiving actual notice that registration for the work has been made under Section 408, if such person proves that he or she was misled by the omission of notice.”

⁵⁰ 17 U.S.C. § 403(d).

⁵¹ 17 U.S.C. § 504.

⁵² 17 U.S.C. § 403.(d).

⁵³ 17 U.S.C. § 504(c). *Innovated Networks Inc. v. Satellite Airlines Ticketing Centers, Inc.*, 871 F. Supp. 709 (S.D. N.Y. 1995).

⁵⁴ 17 U.S.C. §§ 405 and 406. These sections have several levels of complexity.

⁵⁵ 17 U.S.C. § 504(c)(2). *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101, 112 (2nd Cir. 2001) (Willfulness because defendant was reckless in not making inquiry.)

V. RELATED RIGHTS

A. The Usual Suspects.

Depending on the facts and counsel's imagination, copyright Complaints assert related claims rounded up from the usual suspects⁵⁷: *i.e.* misappropriation,⁵⁸ unjust enrichment, defamation, federal dilution, state dilution, state trademark infringement, federal trademark infringement, misrepresenting source, origin, or lawfulness,⁵⁹ design patent infringement,⁶⁰ trade dress infringement, RICO, DMCA, conversion, trespass to chattel⁶¹ or breach of express or implied contract. Use of a person's image, name or likeness or publication of private facts may breach of a right of privacy or, publicity.⁶² Related claims may be pre-empted, not factually applicable, etc., but life is uncertain and should the case develop differently than expected, related claims may provide additional discovery, punitive damages, attorneys' fees, different

⁵⁶ *Idearc-Media Corp. Northwest Directors, Inc.*, 2008 WL 2184334 (D. Ore. Mar. 23, 2008) (Although defendant "certainly showed poor judgment" in copying, not willful infringement in absence of copyright notice. Inference that notice would have made it willful.); *Fallacia v. New Gazette Literary Corp.*, 568 F. Supp. 1172 (S.D. N.Y. 1983); *Universal City Studios v. Ahmed*, 1994 Copyright L. Dec. (CCH) Part 27, 260 (E.D. Pa. 1994).

⁵⁷ Facts will emerge to support some related claims if same are sought. If the defendant copied your client's logo into his competitive ad by using a blue Magic Marker to defeat the anti-copy protection on your client's DVD that defendant walked off with, then DMCA, trademark and trade dress infringement, unfair competition, misappropriation, and conversion are factually appropriate. The limitation is how far down the rabbit hole it is practical to go.

⁵⁸ The elements of the tort of misappropriation are "(i) the creation of plaintiff's product through extensive time, labor, skill and money, (ii) the defendant's use of that product in competition with the plaintiff, thereby gaining a special advantage in that competition (*i.e.*, a 'free ride') because defendant is burdened with little or none of the expense incurred by the plaintiff, and (iii) damage to the plaintiff." *Int'l News Serv. v. Associated Press*, 39 S.Ct. 68 (1918); *United States Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214 (Tex. App.—Waco 1993, writ denied), (Plaintiff awarded damages due to defendant's copying from plaintiff's game call tape to create a competitive game call tape. Perhaps the action was not preempted by copyright law because the bird calls were not copyrightable subject matter.), *See, AMX Corp. v. Pilote Films*, WL 2254943, at *5 (N.D. Tex. Aug. 7, 2007) (mem. op.); *Thomas v. Collins & Aikman Floorcoverings, Inc.*, 2004 WL 624926, at *4 n. 5 (Tex. App.—San Antonio, March 31, 2004, pet. denied) (mem. op.); *Keane v. Fox Television Stations, Inc.*, 297 F. Supp. 2d 921, 938 (S.D. Tex. 2004); *National Basketball Association v. Motorola*, 105 F.3d 841 (2d Cir. 1997) (No "authorship" by anyone in the basketball game itself only its broadcast. Thus, defendant's real-time broadcast of NBA game scores was not actionable), *contra, United States Golf Assn. v. Arroyo Software Corp.*, 40 U.S.P.Q.2d 1840 (Calif. Sup. 1996), *aff'd*, 81 Cal.Rptr.2d, 708 49 U.S.P.Q.2d 1979 (Cal.Ct.App. 1999) (use of USGA handicapping system a misappropriation).

⁵⁹ 15 U.S.C. §1125(a).

⁶⁰ 35 U.S.C. § 171.

⁶¹ *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058 (N.D. Cal. 2000) (An internet auction aggregation site which used a web crawler to access E-Bay 100,000 times a day violated a "fundamental property right to exclude others from its computer system," *i.e.* a "trespass to chattels" claim not "equivalent to the rights protected by copyright."); *Register.com, Inc. v. Verio, Inc.*, 126 F. Supp. 2d 238 (S.D.N.Y. 1000); *Oyster Software, Inc. v. Forms Processing, Inc.*, 2001 U.S. Dist. LEXIS 22520 (N.D. Cal. 2001) ("defendant's conduct was sufficient to establish a cause of action for trespass not because the interference [with plaintiff's computer system] was 'substantial' but simply because defendant's conduct amounted to 'use' of Plaintiff's computer."); *American Airlines, Inc. v. Farechase, Inc.*, Cause No. 067-194022-02 (Texas, 67th Dist., March 8, 2003).

⁶² *Cain v. Hearst Corp.*, 878 S.W.2d 577 (Tex. 1994).

measures of damages, unjust enrichment recovery, or a way to get evidence of defendant's willfulness and bad acts to the jury.

B. Preemption.

As night follows day, defendant will assert plaintiff's related claims should be dismissed due to § 301 preemption.⁶³ For most of us, "preemption" is a word deliberately discarded after our Constitutional Law exam. We know that when federal and state laws conflict, federal controls, but the details The results of defendant's preemption attack depend on the words plaintiff chose for the Complaint, the underlying facts and the relief sought. Knowing this battle is coming informs drafting the Complaint. A well funded plaintiff who can afford problematic motion practice may plead all applicable claims to be best situated for discovery and trial. A less well funded plaintiff may pare less significant and more adventurous claims to lessen the cost and distraction of a well funded defendant's attacks. A Complaint with some but not all possible related claims may evidence judicious economy rather than failure of imagination.

Copyright preemption uses a two-step analysis:

(1) "Scope" - § 301(a).⁶⁴ Is the claimed right "within the subject matter as described in 17 U.S.C. §§ 102 and 103?"⁶⁵

(2) "Equivalent to" - § 301(b).⁶⁶ Is the claim equivalent to a § 106 right, *i.e.* does defendant's wrongful act itself infringe plaintiff's § 106's exclusive rights of reproduction, performance, distribution, or display?⁶⁷ This typically reduces to whether the state law claim requires an extra element which changes the character of plaintiff's claim from a § 106 claim to one in which "the state cause of action is qualitatively different from, and not subsumed within, a

⁶³ Professor Nimmer takes an expansive view of copyright preemption and defendant will quote extensively from his authoritative *Nimmer on Copyright* treatise. Professor Nimmer is the foremost authority on U.S. copyright law and his opinions are entitled to great weight. Concerning preemption, however, his opinion concerning what the law should be must be considered in light of the great weight of the case law.

⁶⁴ 17 U.S.C. § 301(a) . . . all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 . . . and come within the subject matter of copyright as specified by sections 102 and 103, . . . are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

⁶⁵ *Downing v. Abercombie & Fitch*, 265 F.3d 994 (9th Cir. 2001); The scope of § 301(a) for triggering preemption is broader than the scope of § 106's exclusive rights. *Dunlap v. G&L Holding Group, Inc.*, 381 F.3d 12854, 1296 (11th Cir. 2004) ("ideas are substantively and categorically excluded from the subject matter of copyrights."); *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 850 (2d Cir. 1997).

⁶⁶ 17 U.S.C. §301(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to – (1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, . . . or . . . (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106; . . .

⁶⁷ *Beneficial National Bank v. Anderson*, 530 U.S. 1 (2003) ("complete preemption" rule converts common law claims into a federal claim for purposes of the well-pleaded complaint); *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 455 (6th Cir. 2001).

copyright infringement claim.”⁶⁸ However, “not every extra element is sufficient to establish a qualitative variance between rights protected by federal copyright law and that by state law.”⁶⁹

Applying this incomprehensible abstract test to different Complaints’ facts and requests for relief yields mixed case law. Trade secret⁷⁰ counts are typically not preempted. Unfair competition,⁷¹ misappropriation,⁷² tortious interference,⁷³ conversion,⁷⁴ and contract⁷⁵ claims met

⁶⁸ *Dunn & Bradstreet*, 307 F.3d 197, 217-218 (3d Cir. 2002) (citations omitted). “[A] State law claim is not preempted if the extra element changes the nature of the action so that it is qualitatively different from a copyright infringement claim,” *Computer Assoc. International, Inc. v. Altai, Inc.*, 983 F.2d 693, 716 (2d Cir. 1992); *Briarpatch Limited, L.P. v. Phoenix Pictures*, 373 F.3d 296, 304 (2d Cir. 2004) (unjust enrichment claims might be preempted, while a breach of fiduciary duty not preempted.).

⁶⁹ *Id.* at 218 (citations omitted).

⁷⁰ *Alcatel USA, Inc. v. DGI Technologies, Inc.*, 166 F.3d 722, 784 (5th Cir. 1999) (trade secret claim not preempted but misappropriation claim that did not require secrecy preempted); *C.A. Inc. v. Rocket Software, Inc.*, No. 07CV1476(ADS)(MLO) (E.D.N.Y. Sept. 17, 2008) (2008 U.S. Dist. LEXIS 82971, 2008 WL 4416666) (claims for conversion of proprietary information, trespass to chattels (source code) and unjust enrichment preempted, but unjust enrichment claim based on trade secret misappropriation not preempted). The House Report for the 1976 Copyright Act expressly addresses trade secret misappropriation: “The evolving common law rights of ... trade secrets [among several others] ... would remain unaffected as long as the causes of action contain elements, such as an invasion of personal rights or a breach of trust or confidentiality, that are different in kind from copyright infringement.” H.R. Rep. No. 94-1476, at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748 (emphasis added).

⁷¹ *Orange County Choppers v. Olaes Enters.*, 497 F.Supp.2d 541, 556 (S.D.N.Y. 2007) (“a state of mind, intent, or awareness element that alters an action’s scope, but not its nature, will not save an unfair competition claim from preemption”).

⁷² A misappropriation claim will not survive pre-emption unless it includes an “extra element” not found in a copyright claim against the complained of act. *Compare, Butler v. Continental Airlines*, 31 S.W.3d 642 (Tex. App.—Houston 2000)(misappropriation of programs preempted); *Alcatel USA, Inc. v. DGI Technologies*, 166 F.3d 772 (5th Cir. 1999) (preempted); *with, Grosso v. Miramax Film Corp.*, 383 F.3d 965 (9th Cir. 2004) (state claim for use of copyrighted script not preempted); *International Union of Operating Engineers, Local 150 v. Team 150 Party Inc.*, N.D. Ill., 9/5/08 (unjust enrichment claim based on copying plaintiff’s prototype Web site not preempted, even though same conduct as a copyright claim, because defendants obtained benefit of plaintiff’s Web site without paying for it, and so is qualitatively different from copyright claim); *Ritchie v. Williams*, 395 F.3d 283 (6th Cir. 2005) (claims for misappropriation and unjust enrichment preempted.).

⁷³ *Compare, Daley*, 2006 U.S. Dist. LEXI 4061, at *16-17; *MCS Services, Inc.*, 2002 U.S. Dist. LEXIX 16910, at *26-27 (tortious interference claim based on distribution of copyrighted software preempted); *Titan Sports, Inc. v. Turner Broadcasting Systems, Inc.*, 918 F. Supp. 65, 74 (D. Conn. 1997) (tortious interference claim based on unauthorized reproduction, distribution, performance, etc. of copyrighted material preempted); *Long*, 860 F. Supp. at 196-197 (tortious interference claim preempted), *with, Cassway v. Chelsey Historic Props. I, L.P.*, Civ. A. No. 92-4124, 1993 WL 64633 (E.D. Pa. Mar. 4, 1993) (tortious interference claim not preempted).

⁷⁴ Conversion of tangible property claims is not preempted; conversion of intangible property claims is preempted. *Apparel Bus. Sys., LLC v. Tom James Co.*, 2008 U.S. Dist. LEXIS 26313, at *54 (E.D. Pa. Mar. 28, 2008) (conversion claim based on copying and misuse preempted); *Compare, Gemel Precision Tool Co., Inc. v. Pharma Tool Corp.*, Civ. A. No. 94-5305, 1995 WL 71243 (E.D. Pa. Feb. 13, 1995), (conversion claim based on blueprints and computer databases preempted). Software has been generally found to be intangible property not physically embodied in a document and, therefore not subject to a conversion claim. *Apparel*, 2008 U.S. Dist. LEXIS 26313 at *54 (citing *Clarity Software, LLC v. Allianz Life Ins. Cov. of N. Am.*, Civ. A. No. 04-1441 2006 LW 2346292 at *12 (W.D. Pa. Aug. 11, 2006)); (Conversion of software and databases preempted); *U.S. ex rel Berge v. Bd. of Trustees of the Univ. of Ala*, 104 F.3d 1453, 1463 (4th Cir. 1997) (claim for conversion of scientific data preempted); *Daboub v. Gibbons*, 42 F.3d 285, 289 (5th Cir. 1995) (claim for conversion of song lyrics preempted); *Patrick v. Francis*, 877 F. Supp. 481, 482, 484 (W.D.N.Y. 1995) (conversion based on copying of the work, concepts, and ideas of

different fates in different cases. Some civil conspiracy counts are preempted as being subsumed within contributory copyright infringement.⁷⁶

Drafting the Complaint with preemption in mind may determine the Court's ruling on preemption attacks. While Defendant's copying the copyrighted work may be preempted, perhaps Defendant's access to the copyrighted work was obtained via a promise that was broken, defeating a DMCA technological measure, or wrongfully obtaining a physical copy. Perhaps Defendant used the copyrighted work to imply Plaintiff's endorsement⁷⁷ or to compete with

research paper preempted). *with, Peirson v. Clemens, Inc.*, Civ. A. No. 03-1145 JJF, 2005 WL 681309 (D. Del. March 23, 2005) (conversion of the *physical embodiment* of a copyright work was not preempted by the Copyright Act (emphasis added)); *Stenograph, LLC v. Sims*, Civ. A. No. 99-5354, 2000 WL 964748 (E.D. Pa. July 12, 2000) (conversion claim involving unlawful possession of a software key that must be physically inserted into a stenography machine to use the software not preempted). *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 795 F.Supp. 501 (D. Mass. 1992) (conversion claim that defendant took physical possession of copies of software not preempted).

⁷⁵ The Fifth Circuit holds that an agreement is an "extra element" for preemption purposes. *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990). (Taquino copied advertising drawings that were not copyrighted but which he was contractually prohibited from copying. *Id.* at 1501. "The right to claim this breach of contract is not preempted by the copyright laws. ...[An] action for breach of contract involves an element in addition to mere reproduction, distribution or display: the contract promise ... therefore, it is not preempted. *Id.*) Most courts agree. *E.g.*, *National Car Rental System, Inc. v. Computer Associates International Inc.*, 26 U.S.P.Q.2d 1370 (8th Cir. 1993) ("The contractual restriction on use of the [work] constitutes an extra element that makes this cause of action qualitatively different from one for copyright"); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, (7th Cir. 1996) ("Courts usually read preemption clauses to leave private contracts unaffected," so "a simple two-party contract is not equivalent to any of the exclusive rights within the general scope of copyright"); *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1320-1321 (Fed. Cir. 2003), *cert. denied*, 539 U.S. 928 (2004); *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1089 (9th Cir. 2005) ("Most courts have held that the Copyright Act does not preempt the enforcement of contractual rights"); *Blue Nile, Inc. v. Ice.com, Inc.*, 478 F. Supp.2d 1240, 1251 (W.D. Wa. 2007); *Meridian Project Systems, Inc. v. Hardin Construction Co.*, 80 U.S.P.Q.2d 1141, 1146 (E.D. Ca. 2006); *Universal Gym Equipment, Inc. v. Atlantic Health & Fitness Products*, 229 U.S.P.Q. 335, 346 (D.Md. 1985); *Smith v. Weinstein*, 578 F. Supp. 1297, 1307 (S.D.N.Y. 1984); *Firoozye v. Earthlink Network, Inc.*, 153 F. Supp. 2d 1115 (N.D. Cal. 2001) (breach of an implied-in-fact contract claim, which is not preempted, distinguished from an implied-in-law breach of contract claim, which is. Breach of an implied-in-fact contract would require a plaintiff to prove that a defendant had made an enforceable promise that breached promise, an additional element not required in a claim for copyright infringement.). Professor Nimmer and a minority of courts find many contract claims preempted.

⁷⁶ The Copyright Act does not preempt claims for civil conspiracy to commit an underlying tort or wrong other than copyright infringement, such as fraud. *See Xpel Techs. Corp. v. Am Filter Film Distribs.*, 2008 U.S. Dist. LEXIS 60893 at *24 (W.D. Tex. Aug. 11, 2008) (conspiracy to commit the fraud and misrepresentation along with copyright infringement not preempted); *Cooper v. Sony Music Entm't, Inc.*, Civ. A. No. 01-0941(DH), 2002 U.S. Dist. LEXIS 3832 at *11-12 (S.D. Tex. Feb. 22, 2002) (civil conspiracy claim not preempted to the extent it involves common law fraud, however, "[because] copyright law already recognizes the concepts of contributory infringement and vicarious copyright infringement...[a] civil conspiracy claims *does not add substantively to the underlying federal copyright claim and should be preempted.*" *Id.* at *11 (emphasis added). *See, Dun & Bradstreet*, 307 F.3d 197 at 217-218 (3d Cir. 2002).

⁷⁷ *Dastar v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003), limits Lanham Act "origin" misrepresentation claims, such as authorship, but arguably leaves 15 U.S.C. § 1125(a) false advertising concerning claims for passing off, false description or representation or false designation of affiliation viable to the extent they are based on characteristics of the goods or services themselves. *But see Baden Sports Inc. v. Molten USA Inc.*, No. 2008-1216 (Fed. Cir. Feb. 13, 2009), *available at* <http://www.cafc.uscourts.gov/opinions/08-1216.pdf> (holding that, under

Plaintiff, or Defendant represented that it was a lawful merchantable work, or maybe the work contained secret information.

VI. DMCA BREACHES.

A. Copyright vs. DMCA.

In our prior analogue world, copyright law primarily regulated cellulose copies.⁷⁸ Access to the copyrighted book, movie, etc. was assumed; otherwise, the infringer could not make copies. Copyright law is directed at the copying and use of the copies, *i.e.*, too similar or not, a fair use or not, etc. In contrast, in today's digital world, once a work is on the internet, the horse is out of the barn. Today, accessing the copyrighted work is the gate keeper act and is often locked out via encryption or other "digital rights management" technology.

The Digital Millennium Copyright Act⁷⁹ ("DMCA") gives technological means of preventing access to a copyrighted work the force of law. More technically, the DMCA makes unlawful acts that circumvent technological access controls, defeat copyright management systems, provide false copyright management information, remove copyright management information or traffic in works with altered copyright information. The rights granted by the DMCA are often confused with those granted by the Copyright Act. However, the physical act which violates the DMCA, *i.e.* unauthorized access, is not an act of copyright infringement, *i.e.* unauthorized copying, or vice versa. While the DMCA is inserted within the Copyright Act, it is self contained with its own rules, safe harbors and civil and criminal remedies.⁸⁰

Because copyright habits must be unlearned, it bears repeating that the DMCA controls the act of accessing a work, without consideration of whether the work is then copied or used. The accessing and copying steps are different physical acts. Copyright law considerations such as "fair use" and even constitutional considerations such as the First Amendment are irrelevant to the DMCA.⁸¹ Even if copyright law fair use defense facts and Constitutional First Amendment defense facts can be proved, "the playing without a licensed . . . player key would circumvent a technological measure that effectively controls access to a copyrighted work and violate the [DMCA] statute in any case."⁸² In contrast, regardless of how one obtains access to a work,

Ninth Circuit law, use of the term "innovative" in advertising "do[es] not go to the 'nature, characteristics, [or] qualities' of the goods, and [is] therefore not actionable" under the Lanham Act).

⁷⁸ "Copyright protection subsists, . . . , in original works of authorship fixed in any tangible medium of expression" § 102(a).

⁷⁹ 17 U.S.C. §1201, *et seq.* Through adoption of Public Law 105-304, a.k.a. the DMCA, Title 17 of the United States Code underwent revisions to the following sections: 101, 104, 104A(h), 108, 112, 114, 117, 411(a), 507(a), 701. Additionally, through Title I, section 103 "Copyright Protection Systems and Copyright Management Information," of the DMCA, an entirely new Chapter 12 of Title 17 of the United States Code was adopted, and, through Title II, an entirely new section of Chapter 5 of Title 17 of the United States Code was adopted.

⁸⁰ 17 U.S.C. § 1201 *et seq.*

⁸¹ 17 U.S.C. §512(c); *ALS Scan, Inc. v. Remarq Communities, Inc.*, 239 F.3d 619 (4th Cir. 2001); *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002); *Universal City Studios, Inc. v. Coreley*, 273 F.3d 429 (2d Cir. 2001).

⁸² *Universal City Studios, Inc. v. Reimerdes*, 82 F.Supp.2d 211, and 111 F. Supp. 2d 294, (S.D. N.Y. 2000).

whether by cracking encryption or at gun point, the acts of (1) merely viewing a work and (2) creating and publishing a critical commentary about it, are lawful uses of the work under copyright law.

Thus, while the public has broadly incorporated the Supreme Court’s 1984 Sony holding that using an analogue VCR recorder for “time shift” copying of TV programs is lawful copying,⁸³ the public does not generally appreciate that making a backup copy at home of a lawfully purchased movie DVD by using a magic marker to defeat the DVD’s protective code is unlawful access.⁸⁴

Even less understood is that the DMCA comprises the USA’s implementation of international treaty terms and many foreign countries have similar laws. As electronic commerce shrinks the planet, these foreign laws increasingly intrude on our client’s operations.

This brief DMCA discussion does not address take down notices or ISP safe harbors under DMCA § 512.⁸⁵

B. Anti-Circumvention.

Section 1201(a)(1) states, “**No person shall circumvent a technological measure that effectively controls access to a work protected under this title.**”⁸⁶

“A work protected under this title”—“This title” is the Copyright Act. Only works protected by the Copyright Act are protected by the DMCA. Circumventing double secret encryption to acquire and publish “mere” data not protected via 17 U.S.C. § 106, or works whose copyright has expired, or to replace ink cartridges⁸⁷ or access a garage⁸⁸ does not breach the DMCA. In contrast, breaking a weak password to access your child’s short poem by guessing it is the school’s mascot breaches the DMCA.

“Technological measure” – A “technological measure” is a measure that “effectively controls access to a work” if the measure, in the ordinary course of its operation, requires the

⁸³ *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 447 (1984).

⁸⁴ Further, this paper’s teaching same breaches the DMCA.

⁸⁵ *Lenz v. Universal Music Corp.*, 572 F. Supp. 2d 1150 (N.D. Cal. 2008) (copyright holder must consider fair use prior to sending take down notice); *Perfect 10 v. CC Bell*, 488 F.3d 1102 (9th Cir. 2007).

⁸⁶ 17 U.S.C. § 1201(a)(1)(A).

⁸⁷ *Lexmark Intern., Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004) (printer manufacturer’s DMCA claim failed because its toner loading software program was not entitled to copyright protection).

⁸⁸ *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178 (Fed. Cir. 2004) (competitor’s transmitter that allowed consumers to access copyrighted software embedded in a garage door opener did not facilitate the infringement of a right protected by the Copyright Act because it merely allowed access without permitting unauthorized copying).

application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work.”⁸⁹

The DMCA makes it unlawful to “circumvent a technological measure,” *i.e.*, to “descramble a scrambled work, to decrypt an encrypted work or otherwise avoid, bypass, remove, deactivate or impair a technological measure, without the authority of the copyright owner.”⁹⁰ The technological measure does not need to be strong to be legally sufficient. Even a weak cipher sufficiently controls access “if, in the ordinary course of its operation” – *i.e.*, when a decryption program is not employed – the weak cipher “effectively controls access” within the meaning of the DMCA. Measures that “can be deemed to ‘effectively control access to a work’ include those based on encryption, scrambling, authentication, or some other measure which requires the use of a ‘key’ provided by a copyright owner to gain access to a work.”⁹¹ On the other hand, if the cipher is too weak to effectively control access, then breaking it is not a DMCA violation.⁹² Likewise, if access is obtained via another open route, then the measure did not “control access.”⁹³

“Circumvent a technological measure?” – “Circumvention” means “to descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner”⁹⁴ Accessing a protected work via a secret key obtained by reverse engineering to unlock the encryption is DMCA circumvention.⁹⁵ Accessing a protected work via unauthorized use of a password validly issued to a third party and then loaned to the person who obtains unauthorized access is not a DMCA circumvention.⁹⁶

⁸⁹ 17 U.S.C. § 1201(a)(3)(B); *Davidson & Associates v. Jung*, 422 F.3d 630 (8th Cir. 2005) (evasion of online game’s identification key violated the DMCA).

⁹⁰ 17 U.S.C. § 1201(a)(3)(A).

⁹¹ H.R. REP NO. 551, *supra* note 6, at 39.

⁹² *Agfa Monotype Corp. v. Adobe Systems, Inc.*, 404 F. Supp. 2d 1030, 1038 (ND Ill. 2006) (No DMCA violation because embedded bits did not effectively control access to or protect a right under DMCA).

⁹³ *Lexmark Intern., Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004). (“It is not Lexmark’s authentication sequence that “controls access” . . . The authentication sequence, it is true, may well block one form of “access” – the “ability to . . . make use of” the Printer Engine Program by preventing the printer from functioning, but it does not block another relevant form of “access” – the ability to [] obtain” a copy of the work or to “make use of” the literal elements of the program (its code). Because the statute refers to “control[ling] access to a work protected under this title,” it does not naturally apply when the “work protected under this title” is otherwise accessible. Just as one would not say that a lock on the back door of a house “controls access” to a house whose front door does not contain a lock and just as one would not say that a lock on any door of a house “controls access” to the house after its purchaser receives the key to the lock, it does not make sense to say that this provision of the DMCA applies to otherwise-readily-accessible copyrighted works . . .).

⁹⁴ 17 U.S.C. § 1201(a)(3)(A).

⁹⁵ *I.M.S. Inquiring Management Systems, Ltd. v. Bershire Information Systems*, 307 F. Supp. 2d 528 (S.D. N.Y. 2004).

⁹⁶ *Id.*

C. Anti-Trafficking.

Section 1201(a)(2) prohibits trafficking “**primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title;**”⁹⁷

“Trafficking” -- Trafficking is “manufacture, import, offer to the public, provide, or otherwise, traffic in a circumvention technology.” Any trafficking in circumvention technology, even if to facilitate a wholly fair use permitted by copyright law, may breach Section 1201(a)(2).⁹⁸

Intent – Trafficking is not unlawful unless the accused person knows that what he or she is doing is unlawful trafficking. This is a substantial limitation. For example, liability for linking to a website that contains anti-circumvention information requires “clear and convincing evidence that those responsible for the link (a) know at the relevant time that the offending material is on the linked-to site, (b) know that it is circumvention technology that may not lawfully be offered, and (c) create or maintain the link for the purpose of disseminating that technology.”⁹⁹

D. Copyright Management Information.

Section 1202 prohibits (a) distribution of false copyright management information (“CMI”) and (b) removal or alteration of CMI.¹⁰⁰ CMI includes a work’s title; the author’s name and any other identifying information about the author; the name and identifying information of credited performers, writers, or directors; the terms and conditions for use of the work; and any identifying numbers or symbols.¹⁰¹ Removing this paper’s “©Mark Miller 2000-2009” breaches the first prohibition. Replacing this paper’s copyright notice with “©Jane Doe 2009” breaches both prohibitions.

Section 1202 provides an additional incentive to sprinkle copyright notices within works likely to be copied because an infringer typically removes such CMI before distributing infringing copies. Whether the CMI must be in digital form and what that means is unclear.¹⁰² However, “To recover for a violation of § 1202(b), a plaintiff must demonstrate that the

⁹⁷ 17 U.S.C. § 1201(a)(2).

⁹⁸ *Universal City Studios, Inc. v. Reimerdes*, 82 F.Supp 2d 211, and 111 F.Supp 2d 294, (S.D.N.Y. 2000) (“The anti-trafficking provision of the DMCA is implicated where one presents, holds out or makes a circumvention technology or device available, knowing its nature, for the purpose of allowing others to acquire it.”)

⁹⁹ 111 F. Supp. 2d at 340.

¹⁰⁰ 17 U.S.C. § 1202.

¹⁰¹ 17 U.S.C. § 1202(c).

¹⁰² *McClachey v. Associated Press*, 2007 WL 776103, 82 U.S.P.Q.2d 1190 (W.D. Penn. March 9, 2007) (Plaintiff used her home computer’s software to print her name and copyright notice, therefore “digital” CMI requirement met. Defendant who copied a printed copy of plaintiff’s photo and cropped out plaintiff’s name and copyright notice violated DMCA). *IQ Group, Ltd. v. Wiesner Publishing LLC*, 409 F. Supp.2d 287, 597 (N.J. 2006).

defendant intentionally removed or altered CMI knowing, or having reasonable grounds to know, that the removal will aid infringement.”¹⁰³

Another limitation is that the removed or altered CMI must have been in “the body” or the area around the Plaintiff’s work itself. For example, removing CMI from the inside cover of a book of photos was held in one case to not be a §1202 violation.¹⁰⁴ In that case, if the removed CMI had instead been in one of the copied photos, then removal would have been a § 102 violation. Not all ownership information is CMI.¹⁰⁵

E. Remedies.

What drives DMCA consideration is statutory damages of up to \$2,500 per circumvention of a technological measure and up to \$25,000 per act of providing false CMI or removing or altering CMI.¹⁰⁶

VII. INSURANCE COVERAGE

A. Submit Claim

While insurance issues are arguably not in a litigation attorney’s scope of engagement, your client will be a happier client if, due to your suggestion to check its insurance policy, the asserted claim is covered by “advertising injury,” “piracy” or other coverage. Even if defendant’s policies appear inapplicable, have your client provably forward any IP demand to all of the client’s insurance carriers and provably keep them apprised of developments.¹⁰⁷ **Practice Point.** Your client may sue you if you do not provably suggest same. Even a cease and desist letter should be forwarded to the carrier rather than waiting to see if the matter will rise to the level of a lawsuit.¹⁰⁸ Likewise, depending on plaintiff’s goals, the Complaint can be drafted to more likely trigger or not trigger insurance coverage.

¹⁰³ *Schiffer Publishing, Ltd. v. Chronicle Books, LLC*, 73 U.S.P.Q.2d 1090 (DC ED Penn. 2004). (Although Defendants removed CMI, they were not liable under §1202 because “Defendants did not believe Plaintiffs had a copyright in their photographs.”) Thus, for example, ISPs that merely transmit material with deleted or altered CMI are typically not DMCA violators. *Hendrickson v. ebay, Inc.*, 165 F.Supp 2d 1082 (C.D. Cal. 2001); *but see Ellison v. Robertson*, 357 F.3d 1072 (9th Cir. 2004).

¹⁰⁴ *Schiffer, Id.*; *Kelly v. Arriba Soft Corp.*, 77 F.Supp 1116 (C.D. Cal. 1999).

¹⁰⁵ *The IQ Group, Ltd. v. Wiesner Publishing, LLC.*, 409 F. Supp. 2d 587 (D.N.J. 2006) (removal of logo and hypertext link not a DMCA violation because they were not “copyright management information;” they were not connected to or part of a technological access or rights control system; they merely provided trademark and copyright information).

¹⁰⁶ 17 U.S.C. § 1203.

¹⁰⁷ Although insurance policies have prompt-notice provisions, some states, including Texas, hold that only a material breach of the timely notice provision that prejudices the insurer excuses the insurer. *Prodigy Communications v. Agricultural Excess & Surplus, Ins.*, No. 06-0598 (Tex. Mar. 27, 2009).

¹⁰⁸ Many policies define a “claim” to mean a civil proceeding commenced by the filing of a complaint or any written demand or notice to the insured that make commencement of litigation likely. The cases are mixed concerning whether receipt of a demand letter threatening litigation is or is not a “claim.” Sometimes waiting until service of a lawsuit can result in missing the policy’s required reporting deadline. Further, most policies do not

B. Coverage

Comprehensive general liability (CGL) policies are typically sold on standard forms which are revised every few years responsive to coverage litigation to narrow coverage.¹⁰⁹ A CGL policy typically covers copyright infringement claims concerning advertising¹¹⁰ that customers see before making their purchase of defendant's product or service and does not cover copyright infringement claims directed to works customers do not see until after making their purchase.¹¹¹ For example, if the Complaint alleges defendant's packaging copied the outside packaging Microsoft software comes in, the claim is typically covered, while if it only alleges defendant copied the WINDOWS software inside the box, the claim is typically not covered.¹¹²

allow recovery of pre-tender costs. Thus, promptly reporting a claim or not may determine whether or not you can recover your initial investigation and defense costs. On a going forward basis, some clients should consider internet liability policies and riders. *Axis Surplus Ins. Co. v. Clear!Blue, Inc.*, 2008 WL 2026123 (E.D. Mich. May 12, 2008) (Insured's receipt of letter from trademark owner concerning settling the dispute prior to getting insurance policy comprised a "claim"). Although insurance policies have prompt-notice provisions, some states like Texas hold that only a material breach of the timely notice provision that prejudices the insurer excuses the insurer. *PAJ, Inc. d/b/a Prime Art & Jewel v. The Hanover Insurance Company*, 243 S.W.3d 630 (Tex. 2008).

¹⁰⁹ Legal research maddening as reported decisions in "the CGL form" often concern a form which is slightly but critically different from the CGL form in the instant suit. The 1986 Insurance Service Office CGL form covers "misappropriation of advertising ideas or style of doing business." In the 2001 edition of the CGL policy, coverage may arise via an exception to an exclusion:

[This insurance does not apply to] "Personal and advertising injury" arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights. However, this exception does not apply to infringement in your "advertisement," of copyright, trade dress, or slogan.

¹¹⁰ "Advertisement" is defined as: "Advertisement" means a notice that is *broadcast* or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supports. *Stonewall Insurance Co. v. Asbestos Claims Management Corp.*, 73 F.3d 1178 (2d Cir. 1995) (applying Texas and New York law); Richard L. Antognini, What You Need to Know About Intellectual Property Coverage, 31 Tort & Insurance L.J. 895 (1996).

¹¹¹ There must be a "causal nexus" between the asserted injury and defendant's advertisement. *Sentry Ins. V. R.J. Weber Co. Inc.*, 2 F.3d 554, 556-57 (5th Cir. 1993) (*per curiam*). (Coverage denied because the insurance policy's "clear language provides that the policy covers a copyright infringement suit only if Weber infringes someone's copyright in the course of its advertising. If Weber infringes a copyright in another context, there is no coverage under the terms of the policy." *Id.* at 556.); *Poof Toy Prods. Inc. v. United States Fid. & Guar. Co.*, 891 F. Supp. 1228, 1235 (E.D. Mich. 1995) ("Where the complaint does not identify any connection between the copyright claims and the advertising activity, there is no duty to defend.").

¹¹² *Acuity v. Bagadia*, Wisconsin Court of Appeals, Case No. 06-1153, April 25, 2007. ("In order to determine that the policy covers the Oregon damages, we must answer 'yes' to three questions: (1) Did the damages arise from an enumerated offense in the policy? (2) Did UNIK engage in advertising? (3) Is there a causal connection between UNIK's advertising and the damages? . . . We therefore apply the broad definition of 'advertising' and find that UNIK advertised its product by sending samples to potential customers." Holding that distribution of infringing samples created advertising injury); *Fireman's Fund Ins. Co. of Wis. v. Bradley Corp.*, 2003 WI 33, ¶ 26, 261 Wis.2d 4, 660 N.W.2d 666; *Doron Precision Systems, Inc. v. United States Fidelity & Guaranty Co.*, 963 P.2d 363 (Idaho 1998) (Complaint alleged copyrighted computer programs and films were infringed by defendant's "copying of such material, placing the material on the market, by selling and giving away such material, and by showing and displaying such material." Display of the infringing materials held sufficiently related to advertising to require the insurer to defend.); *Amway Distributor's Benefits Association v. Federal Insurance Co.*, 990 F. Supp. 936 (W.D. Mich. 1997) (Complaint alleged Amway distributed infringing videotapes through down line distributors. This was sufficiently related to advertising to be covered by insurance because "distributor Plaintiff's pool of existing down

Copyright Complaints may also include express or implied allegations of trademark infringement,¹¹³ defamation or trade libel which may be covered under personal injury or advertising injury coverage. Counterclaims for malicious prosecution and the like may be covered by the insurer's duty to defend¹¹⁴ and indemnify "personal injuries."¹¹⁵ Intentional acts, contract disputes¹¹⁶ and other circumstances or acts set out in the policy's lengthy exclusions and rider booklets attached to the policy defeat coverage.¹¹⁷

Insurers must defend suits that seek potentially covered damages.¹¹⁸ Even if the carrier believes it has no duty to indemnify, it may owe a duty to defend.¹¹⁹

liners, as well as potential down liners, are the target market for advertising which promotes Amway products." *Id.* at 945-46.).

¹¹³ Although most jurisdictions hold the GLC policy covers trademark infringement, *see, e.g., General Casualty Co. of Wisconsin v. Wozniak Travel*, No. A08-321 (Minn. Mar. 19, 2009), the Fifth Circuit has a contrary case *Sport Supply Group, Inc. v. Columbia Casualty Co.*, 335 F.3d 453 (5th Cir. 2003). *Sport Supply* is a much criticized case. *See State Auto Property & Casualty Insurance Co. v. Travelers Indemnity Co. of America*, 343 F.3d 249 (4th Cir. 2003).

¹¹⁴ Even if malicious prosecution judgments are not covered, defense costs may be. *See, e.g., Downey Venture v. LMI Ins. Co.*, 66 Cal. App. 4th 478, 507 (1998) ("while indemnification of [malicious prosecution] claim is precluded by [California public policy], that conclusion does not apply to LMI's defense commitment"); *Cruz v. County of Dupage*, No. 96 C 7170, 1998 U.S. Dist. LEXIS 18787, at *26 (N.D. Ill. Nov. 19, 1998) (defense fees in malicious prosecution claim covered).

¹¹⁵ Although insurers assert they do not cover intentional torts, that is not clear. Some CGL policies obligate insurers to "pay those sums that the insured becomes legally obligated to pay as damages because of 'personal ... injury,'" which often is defined to include "malicious prosecution." CGL Insurance Coverage Form, § I, Coverage B, ¶ 1.a; § V, ¶ 14. (ISO Properties Inc. 2000). Courts reach different conclusions regarding malicious prosecution indemnification (as opposed to defense). *Downey Venture v. LMI Ins. Co.*, 66 Cal. App. 4th, 478 (1998) (no indemnity coverage for malicious prosecution claims); *Photomedex Inc. v. St. Paul Fire & Marine Insurance Co.*, No. 07-0025, 2008 U.S. Dist. LEXIS 8526 (E.D. Pa. Feb. 6, 2008) (malicious prosecution indemnified); *Fluke Corp. v. Hartford Accid. & Indem. Co.*, 34 P.3d 809, 814 (Wash. 2001) ("coverage for malicious prosecution does not violate public policy in Washington"); *First Nat'l Bank of St. Mary's v. Fid. & Deposit Co.*, 389 A.2d 359 (1978) (malicious prosecution indemnified); *Vargas v. Hudson County Bd. of Elections*, 949 F.2d 665, 672 (3d Cir. 1991) (coverage is "not confined to negligent or inadvertent actions"); *Sarrio v. McDowell*, No. 85-1692, 1987 U.S. Dist. LEXIS 12370, at *2 (E.D. La. Dec. 23, 1987).

¹¹⁶ Current CGL policies exclude "Personal and advertising injury arising out of a breach of contract, except an implied contract to use another's advertising idea in your 'advertisement.'" This was held to exclude coverage if there is even an "incidental" connection between a licensee's breach of the contract and the infringement. *Sport Supply Group, Inc. v. Columbia Cas. Co.*, 335 F.3d 453, 458-459 (5th Cir. 2003) (Texas law).

¹¹⁷ Some general liability policies exclude "infringement of intellectual property rights" and "'Personal and advertising injury' arising out of any violation of any intellectual property rights such as ... patent ..." ISO, Policy Form CG 00 65 12 07, § (I)(2)(g). Infringement begun before the policy period is typically not covered. *Two Pesos v. Gulf Insurance*, 901 S.W.2d 495 (Tex. App.—Houston [14th Dist.] 1995).

¹¹⁸ *Kazi v. State Farm Fire & Cas. Co.*, 15 P. 3d 223, 228 (Cal. 2001); *GuideOne Elite Ins. Co. v. Fielder Rd. Baptist Church*, 197 S.W.3d 305, 308 (Tex. 2006); *Gray v. Zurich Ins. Co.*, 419 P. 2d 168, 176 (Cal. 1966); *Frontier Insulation Contractors Inc. v. Merchs. Mut. Ins. Co.*, 690 N.E. 2d 866, 868 (N.Y. 1997) ("The duty ... to defend its insured arises whenever the allegations ... potentially give rise to a covered claim..."); *Carr v. Vogelzang* (In re *Country Mut. Ins. Co.*), 889 N.E. 2d 209 (Ill. 2007).

¹¹⁹ *Hugo Boss Fashions, Inc. v. Federal Insurance Co.*, 252 F.3d 608 (2d Cir. 2001); *Concept Enterprises, Inc. v. Hartford Ins. Co. of the Midwest*, (CV-00-7267 NM (JWJY) (C.D. Cal. 2001) (Insurer must pay full cost of defense in a mixed copyright, trademark and contract case).

C. The Coverage Dance

Knowing what is covered, what triggers exclusion of coverage, etc. informs defendant's communication with the carrier. Defendant may benefit from having his independent counsel involved in defendant's communications with the carrier concerning getting and keeping coverage.

If the carrier offers to defend, it will do so subject to a lengthy reservation of rights letter.¹²⁰ The insured typically accepts the carrier's offer to defend subject to the reservation of rights letter because then the insurance company will start writing checks to carrier's chosen lawyers. However, the attorney chosen by the carrier may not aggressively seek ways to expand the carrier's coverage responsibilities, and counsel with substantial copyright litigation experience, which the insured believes his defense deserves, typically have a much higher hourly rate than the carrier's approved lawyers. While the insured can suggest attorneys who it believes will put the insured's interests first, getting the carrier to agree will require negotiation concerning hourly rates.¹²¹ If the carrier defends, it is entitled to allocate the cost of defense between covered and non-covered claims and recover the latter cost from the insured, but this is typically not asserted for pure defense.¹²² If the case develops toward potential exclusion of coverage, carrier appointed counsel may have a conflict of interest and the insured may demand and be entitled to independent counsel at the carrier's expense. Of course, unless the insured is paying independent counsel to monitor the case, the insured will be unaware of such issues.

If the insured rejects the carrier's reservation of rights letter because the insured believes the carrier's duties are clear and not contingent, the carrier stands on its reservations, the insured retains counsel of insured's choosing and the claim is later determined to be covered; then the carrier is responsible for reasonable defense costs for covered claims.¹²³ Where fees and expenses, say for a deposition, are attributable to both covered and non-covered claims, the cases give mixed results.¹²⁴ A carrier who refuses to defend is bound by the Judgment's findings, including those which establish coverage.¹²⁵ Thus, if the carrier refuses to defend, plaintiff and defendant may have a common interest in structuring the Amended Complaint's claims and the Judgment's findings to establish coverage.¹²⁶ For example, plaintiff may not seek a willfulness

¹²⁰ A reservation of rights letter is an interminably long letter from the insurance company setting out all possible reasons why the incident is not covered and offering to pay for the insured's defense, but only if the insured agrees the carrier can bail out at any time, the carrier can seek recovery of all its attorney's fees if carrier changes its mind about its defense responsibility, and that the carrier can still contend it is not liable to pay an adverse judgment.

¹²¹ As a practical matter, the price gap between counsel who are and are not on the carrier's approved list is typically so great that the carrier's suggested counsel will be used.

¹²² *Equal Employment Opportunity Commission v. Southern Guaranty Insurance Co.*, 894 F.2d 785 (5th Cir. 1990).

¹²³ *Britt v. Cambridge Mut. Fire Ins. Co.*, 717 S.W.2d 476 (Tex.Civ.App.—San Antonio 1986, writ ref' n.r.e.); *Rhodes v. Chicago Ins. Co.*, 719 F.2d 116 (5th Cir. 1983).

¹²⁴ As a practical matter, there will likely be disputes between the insured and the insurer concerning responsibility for attorney's fees when some claims are covered and others are not. The insurer is typically obligated to pay costs "reasonably related to the defense of the covered claims" even if those costs are also related to non-covered claims. *Cont'l Cas. Co. v. Bd. of Educ.*, 489 A.2d 536, 545 (1985).

¹²⁵ *Inserch Corp. v. Shand Morahan & Co.*, 952 F.2d 1485, 1493 (5th Cir. 1992) (applying Texas law).

¹²⁶ *Steil v. Florida Physician's Insurance Reciprocal Exchange*, 448 So.2d 589 (Florida.Court.App.1984).

finding because that lets the insurance company off the hook, leaving only the judgment proof defendant or, alternatively, seek a willfulness finding to prevent defendant from discharging the damages award in bankruptcy.¹²⁷

Proactively, counsel may suggest to clients that they read their policies, provably ask their agent “if we get sued for copying someone’s stuff, are we covered?” questions, ask what different coverages are available at what costs and shop around for different prices, and different coverages. The expansive scope of possible direct and indirect copyright liability makes directors and officers coverage (“D&O”) important because they are increasingly being named as defendants in copyright cases.¹²⁸

VIII. DEFENDANT’S ATTORNEY’S FEES

A. Lay Foundation.

Although recovery of attorney’s fees is not any suit’s initial main goal, it usually becomes a material goal, and sometimes crowds out whatever was the original goal. A prevailing party in any federal case may seek recovery of exceedingly narrowly defined “costs.”¹²⁹ However, the Copyright Act gives the court discretion to award a prevailing copyright party its attorney’s fees.¹³⁰

In the normal course, the Answer’s bland denials put plaintiff to plaintiff’s burden of proof and afford defendant the opportunity to unexpectedly pounce on any neglected element of plaintiff’s case upon the close of evidence. Sometimes, however, to encourage settlement and improve its odds of recovering attorney’s fees, defendant may plead its defenses with greater explicitness than required by mere notice pleading if the issue’s relevant facts are fixed. If defendant succeeds on a defense set out in great detail in the Original Answer, defendant is better placed to argue “Plaintiff’s unreasonable obstinacy was the sole cause of this Court having to spend its time and” in seeking recovery of its hundreds of thousands of dollars of attorney’s fees.¹³¹

¹²⁷ In re *Albarran*, 347 B.R. 369 (9th Cir. BAP 2006); *but see*, In re *Barboza*, 545 F.3d 702 (9th Cir. 2008) (Copyright Act “willfulness” not equal to Bankruptcy Act “willfulness,” remand to determine if the infringement was “intentional” or merely “reckless”).

¹²⁸ From the director/officer’s perspective: (a) corporate bankruptcy may, as a practical matter, end the company’s D&O policy; (b) company’s failure to disclose material facts on the insurance application may negate carrier’s duties (need severability provision); (c) if the joint company/D&O policy includes a self insured retention amount – maybe \$1 million – before coverage kicks in, and company bankrupts, the officer/director is in a pickle. (need insolvent company carve out); (d) policy should pay defense costs on an as-incurred basis; (e) carve out making clear that claims by company bankruptcy trustees or creditors are covered (f) provision that D&O claims and costs are paid first to avoid getting capped by carrier’s payment of company’s defense and liability; (f) numerous exclusions may kill D&O coverage, such as an employee “intentionally” infringing, unless the D&O policy carves out same; (g) safest coverage is independent non-rescindable D&O coverage, paid for by company.

¹²⁹ Fed. R. Civ. P. 54(d)(1); 38 U.S.C. § 1920; *Corwin v. Walt Disney Co.*, 81 U.S.P.Q.2d 1496 (11th Cir. 2007). Basically, court reporter costs and little else.

¹³⁰ § 505; *Fogerty v. Fantasy, Inc.*, 114 S.Ct. 1023 (1994).

¹³¹ *Knitwaves, Inc. v. Lollytogs, Ltd.*, 104 F.3rd 353 (2d Cir. 1996).

Likewise, if defendant makes and plaintiff defeats an early motion to the merits due to pre-verdict motions' high burden of proof, but defendant ultimately wins on the motion's point; defendant has a soap box from which to argue that plaintiff's unreasonableness should be punished by awarding defendant its attorney's fees. Sometimes early submission of defendant's best narrow issue is appropriate if the case is otherwise a loser to keep it from being subsumed in the general rout. Your rotten client may deserve to hang, but if plaintiff's case lacks one element, your motion may be an ice pick to plaintiff's heart.

The general point is that defendant has an opportunity to lay the foundation to recover attorney's fees if he ultimately wins by pleading in his Original Answer and early motions the sentences he wants to quote in his post-verdict motion for attorney's fees.

A second foundation laying measure is to file narrowly targeted declaratory judgment counterclaims concerning issues where plaintiff is overreaching, perhaps for judgment that defendant's copying of a limited public domain portion of plaintiff's copyright work is not an infringement, or that defendant's acts were not acts of willful infringement, or that plaintiff is not entitled to willful statutory damages. If plaintiff prevails on some of its infringement count, and defendant prevails on some of its declaratory judgment counts, the defendant will argue that the case produced mixed results, which fact the court should consider in awarding attorney's fees. As long as defendant pleads counterclaims he wins on, this can't hurt. At a minimum, such claims may help in the charge conference.

B. Offer of Judgment.

The copyright defendant sometimes faces a case he is sure to lose and a plaintiff who refuses to settle reasonably, perhaps because plaintiff is in fact sure to win and then likely recover his attorneys' fees.¹³² In such a circumstance, the earlier defendant makes a Rule 68 Fed. R. Civ. P. Offer of Judgment of money and injunctive relief that exceeds what plaintiff is likely to recover at trial, the better.

First, if plaintiff wins, but its recovery does not exceed defendant's Rule 68 Offer, defendant will argue that plaintiff should not recover any attorneys' fees because plaintiff is not a § 505 "prevailing party."¹³³ Even without making this an explicit finding, the court can look at the practicality of plaintiff's failure to win as much as defendant offered and use plaintiff's refusal to accept defendant's early fair offer to deny or reduce plaintiff's attorneys' fees.

Second, even if plaintiff obtains some relief, defendant will argue that the court should hold defendant to be the "prevailing party" because plaintiff did not recover more than defendant offered. In this event, the court may award defendant its costs and attorneys' fees.¹³⁴

¹³² 17 U.S.C. § 505(a)

¹³³ 17 U.S.C. § 505, *Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc.*, 367 F.2d 236, 243 (9th Cir. 1966).

¹³⁴ *Jordan v. Time Inc.*, 111 F.3d 102 (11th Cir. 1997); *ScreenLife Establishment v. Tower Video Inc.*, 868 F.S. 47 (S.D. N.Y. 1994); *BIC Leisure Products v. Windsurfing Int'l, Inc.*, 850 F. Supp. 224 (S.D. N.Y. 1994) (patent case).

In sum, a Rule 68 Offer generous enough to exceed plaintiff's likely recovery creates for Defendant a counter to an unreasonable plaintiff where none existed before. Plaintiff's counsel must then explain to plaintiff that not accepting defendant's reasonable offer may subject plaintiff to paying defendant's attorney's fees. Whether the Texas Offer of Settlement Statute is applicable to state claims in federal court, and can be used for the same purpose, is an interesting question.¹³⁵

IX. MISUSE

Copyright misuse is "use of the . . . [copyright] to secure an exclusive right or limited monopoly not granted by the [Copyright] Office and . . . contrary to public policy."¹³⁶ Misuse most typically occurs when the copyright owner leverages his copyright right to obtain other rights he is not entitled to such as a license agreement which gives patent-like protection to preempt a field.¹³⁷

License terms sometimes held to comprise copyright misuse include:

- (1) Licensee agrees not to create competing products.¹³⁸
- (2) Licensee agrees not to use competing products.¹³⁹
- (3) Copyright owner enforces license terms which effectively lock licensee in or prevent development of new non-infringing works.¹⁴⁰

¹³⁵ Tex. Civ. Prac. & Rem. Code Ann. §§ 42.001-005 (Vernon 2008). There is arguably no conflict between Rule 68 and the Texas offer of settlement statute because Rule 68 only applies to an offer of judgment, not an offer to settle. *Garcia v. Wal-Mart Stores, Inc.*, 209 F.3d 1170 (10th Cir. 2000); *S.A. Healy Co. v. Milwaukee Metro. Sewage Dist.*, 60 F.3d 305, 310 (7th Cir. 1995). (Federal court application of a state offer of settlement statute awarding attorney's fees for defending the state law claims upheld); *MRO Commc'ns, Inc. v. AT&T*, 197 F.3d 1276, 1279 (9th Cir. 1999) ("In an action where a district court is exercising its subject matter jurisdiction over a state law claim, so long as 'state law does not run counter to a valid federal statute or rule of court, and usually it will not, state law denying the right to attorney's fees or giving a right thereto, which reflects a substantial policy of the state should be followed.'" citing *Aleyska Pipeline Serv. Co. v. Wilderness*, 421 U.S. 240, 259 n. 31 (1975)). Whether the court is exercising diversity or federal question jurisdiction may matter.

¹³⁶ *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 972 (4th Cir. 1990).

¹³⁷ *Metro-Goldwyn-Mayer Studios Inc. vs. Groskter Ltd.*, 81 USPQ2d 1461 (C.D. Cal. 2006) ("In sum, the existing case law teaches that the misuse defense applies when a copyright holder leverages its copyright to restrain creative activity.").

¹³⁸ *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 972 (4th Cir. 1990).

¹³⁹ *Compare, Practice Management Info Corp. v. American Medical Association*, (copyright in Physician's Current Procedural Terms invalid because federal agency required that physicians use the book's numerical codes for describing medical procedures); *with, Veeck v. Southern Building Code Congress Intern., Inc.*, (copyright not invalid where model building code was adopted by several municipalities but there were no restrictive licensing provisions).

¹⁴⁰ It is unclear whether restricting reverse engineering or restricting a licensee from dealing in the copyrighted products of others comprises misuse. *Alcatel USA Inc. v. DGI Technologies, Inc.*, 166 F.3d 772 (5th Cir. 1999) (copyright owner's software agreements which limited the software's use to the copyright owner's hardware was misuse because it created patent like protection); *Reliability Research Inc. v. Computer Associates International*

Copyright misuse case law is still developing. Although the offending contract term need not rise to the level of an antitrust violation, whether market power or enforcement of the challenged terms to foreclose competition or both are required is unclear.¹⁴¹ Perhaps the Supreme Court's holding that antitrust tying claims require proof of market power will affect copyright misuse law.¹⁴² What is scary from the copyright owner's perspective is that technically permitted acts may be deemed misuse if contrary to copyright public policy.

Since evidence of the misuse, market power, enforcement, and effects contrary to public policy may be found in the copyright owner's agreements and relationships with third parties, pleading misuse may permit defendant to conduct discovery into the copyright owner's third party agreements and relationships concerning the copyrighted work.¹⁴³ Because copyright misuse does not invalidate the copyright it can, in theory, be purged. Defendant's unclean hands may bar assertion of misuse.¹⁴⁴ Terms that are problematic under USA misuse law may additionally violate antitrust law, various EU directives, European national laws and USA state laws. This is an evolving, uncertain and unpredictable area. New questions are surfacing; no one knows the answers.¹⁴⁵

X. WEBSITE TERMS OF USE

A. No Terms.

Website Terms of Use ("TOU") and their implementation are often not focused on until after the client's call concerning a suit filed against the client in a remote jurisdiction due to transactions undertaken through the client's website. Many clients have websites and would benefit from TOU that website users must provably click through to deal with the client via the website. Many clients' websites, however lack TOU.

Inc., 793 F. Supp. 68 (E.D. N.Y. 1992) (copyright license which contained a grant back clause, *i.e.*, transferred the licensee's copyright rights to the copyright owner, could comprise misuse).

¹⁴¹ *United States v. Microsoft Corp.*, 54 USPQ.2d 1365 (D.C. D.C. 2000) (Copyright owner is not entitled to use copyright ownership in ways that threaten competition.); *see also*, 15 U.S.C. § 271(d) (no patent misuse absent market power).

¹⁴² *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

¹⁴³ *International Motor Contest Association, Inc. v. Staley*, 434 F. Supp. 2d 674, 82 U.S.P.Q.2d 1236 (N.D. Iowa 2006).

¹⁴⁴ *Atari Games Corp. v. Nintendo of America, Inc.*, 24 USPQ 2d 1145 (Fed. Cir. 1992) ("Atari's unclean hands prevent it from invoking equity . . . Atari appears ineligible to invoke the [misuse] defense. *Id.* at 847.).

¹⁴⁵ The effect of the copyright owner adding a savings clause to its no reverse engineering, non-competition, single source, and grant back terms such as "except to the extent this limitation is prohibited or such activity is permitted by applicable law notwithstanding this limitation" or the like is unknown. Can't hurt.

B. Insufficient Assent.

There is a growing body of law concerning the enforceability of TOU.¹⁴⁶ Generally, the more conspicuous the requirement or option to enter the TOU, the more opportunity the user has to view and print the TOU, the more affirmative clicking, choosing or physically typing “I agree” the user must undertake, the more times the user must assent, perhaps every time the user returns to make a new transaction, the more likely an enforceable act of assent is to be found.¹⁴⁷ However, TOU and multiple assents to same are useless unless procedures are implemented and policed to capture and maintain a record of that particular user’s clicking through the TOU.¹⁴⁸ In business-to-business transactions, it is best if your website client requires that each employee at the customer’s business with authority to do deals via the website has a separate password.

C. Counterproductive Terms.

TOU agreements are magnetic. They attract all possibly useful terms anyone in the lawyer’s and client’s offices can think of throwing in. The rationale is that since users click through anyway, there is a possible benefit and no detriment to every additional sentence, paragraph and page of terms. There are, however, limits. Overreaching terms may weigh down and perhaps sink necessary terms under general contract law unconscionability and adhesion doctrines. Additionally, countervailing forces to unreasonable consumer and even business-to-business agreements are slowly surfacing.

Texas lawyers rarely consider statutory unconscionability because although the Texas Deceptive Trade Practices Act makes unconscionable agreements unenforceable and unlawful,¹⁴⁹ it is so hard to meet its elements that it is rarely asserted. Under the California Consumer Legal Remedies Act,¹⁵⁰ or, the California Uniform Practices Act,¹⁵¹ however, California consumers may have a cause of action against a website owner who requires unconscionable terms. Attempting to avoid California law and venue in California courts concerning consumer

¹⁴⁶ The Uniform Electronic Transactions Act (“UETA”), found at: http://www.law.upenn.edu/bll/archives/ulc/ecom/ueta_final.pdf, provides for the validity of electronic signatures. The federal Electronic Signatures in Global and National Commerce Act, 15 U.S.C. § 7001(a) (2008) does not preempt a state’s UETA if the UETA was enacted without modification. 15 U.S.C. § 7004(b)(2) (2008). Texas enacted UETA, Texas Business and Commerce Code Chapter 43.

¹⁴⁷ Compare, *Caspi v. The Microsoft Network, L.L.C. et al.*, 732 A.2d 528 (N.J.A.D. 1999), *certification denied* 743 A.2d 851 (1999) (online contract enforceable where consumer could review entire contract and click “I Agree” or “I Disagree”), with, *Specht v. Netscape Comm’ns Corp.*, 306 F.3d 17 (2d Cir. 2002) (contract unenforceable where downloaded software required assent to terms, but end users needed to scroll to a next screen to see it).

¹⁴⁸ In some cases, assent can be inferred. *Register.com, Inc. v. Verio, Inc.*, 356 F.3d 393, 403 (2d Cir. 2004) (“When a benefit is offered subject to stated conditions, and the offeree makes a decision to take the benefit with knowledge of the terms of the offer, the taking constitutes an acceptance of the terms, which accordingly become binding on the offeree.”)

¹⁴⁹ Tex. Bus. Comm. Code § 17.50(a)(3).

¹⁵⁰ Cal. Civ. Code § 1750 *et seq.*

¹⁵¹ California business and Professions Code, § 17200 *et seq.* Mere inclusion of a non-competition clause – or its equivalent – or engages in “unlawful, unfair, or fraudulent business practices” is a breach.

transactions with California consumers is wishful thinking.¹⁵² Further, the CLRA gives the class of affected California consumers the right to assert those rights pursuant to a class action.¹⁵³ Private attorney general bounty hunting is not typical in Texas. Texas lawyers are unprepared for the fact that these strange California acts not only have teeth, but are enforced by California lawyers who seek out potential defendants. The lead plaintiff in the suit against your client by the class of all (unknowingly) adversely affected California consumers may have been the lead plaintiff for the same lead lawyer in prior suits concerning the same or other adversely affected classes asserting one or another California statute, all of which suits settled on confidential terms.

A cost benefit analysis may cause larger clients to localize their website TOU per major jurisdictions. This is a painful conclusion, resisted by rational minds. Nevertheless, so many jurisdictions preclude enforcement of – or make unlawful – out of state venue, arbitration, class action waivers, restraints on competition, etc. that trying to stack them into one document produce an unworkable patchwork quilt of a document.

TOU are also subject to misuse-type attack. Clauses prohibiting reverse engineering¹⁵⁴ competition obtaining competitive software and for exclusive dealing,¹⁵⁵ may violate copyright policy (misuse), the European Economic Unions Copyright Directive and other USA directives and should be conditioned with “except as otherwise required by law” clauses.¹⁵⁶

Once the Pandora’s Box of TOU is opened, federal and state privacy rules, required identity theft prevention program (“Red Flag” rules) surface. It is enough to make a copyright lawyer’s head hurt.

XI. CONCLUSION

We are all smart enough to resolve the topics discussed in this paper if we focus on them. Their common thread is that they are non-emergency matters when they come in. They don’t even “come in,” they only exist if you affirmatively seek them out. Even if looked for and identified, the lack of a drop-dead due date permits them to slide while one puts out the several bonfires consuming your desk. Few clients instruct that all possible measures be taken immediately regardless of high cost and unlikely benefit. The best any lawyer can do is triage the daily flood of possibilities into a few completed projects, leaving the rest undone until tomorrow. Experience helps make the triage more informed, but no less a probability game.

¹⁵² *America Online v. Superior Court*, 108 Cal. Rptr. 2d 699 (2001). “Enforcement of the contractual forum selection and choice of law clauses would be the functional equivalent of a contractual waiver of the consumer protections under the CLRA and, thus, is prohibited under California law.”

¹⁵³ *America Online v. Superior Court*, 108 Cal. Rptr. 2d 699 (2001).

¹⁵⁴ An agreement to not copy or reverse engineer may be enforceable from a contract law point of view. *Bowers v. Baystate Technologies, Inc.*, 320 F.3d 1317 (Fed. Cir. 2003), *cert. denied*, 539 U.S. 928 (2004) (Shrink-wrap license’s prohibition on reverse engineering upheld.), but still be subject to preemption and misuse attack as discussed.

¹⁵⁵ *Comedy Club, Inc. v. Improv West Associates, Inc.*, 353 F.3d 1277 (9th Cir. 2009) (trademark licensing agreement’s exclusive dealing clause blue penciled).

¹⁵⁶ *Davidson & Assoc. v. Jung*, 422 F.3d 630 (8th Cir. 2005).

Our common problem is that low probability events for the client can be Russian Roulette for the lawyer if the risk is shifted from the client to the lawyer.

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