

COPYRIGHT LAW

RECENT DEVELOPMENTS

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by

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1. Copyright Registration: Does Section 411(a) of the Copyright Act restrict subject matter jurisdiction of federal courts over copyright infringement actions?

The Declaratory Judgment No Man's Land

Stuart Weitzman LLC v. Microcomputer Resources Inc., 542 F.3d 860 (11th Cir. 2008)

Weitzman hired Microcomputer Resources (MCR) to develop custom software. MCR owned all copyright rights to the software, but did not file for a copyright registration. For years the parties operated pursuant to an oral agreement and Weitzman used and modified the software. After a falling out, MCR asserted its copyright rights and notified Weitzman that he could not modify, change or reverse engineer the software. Weitzman, fearing a copyright infringement action, sued MCR for a declaratory judgment under a Declaratory Judgment Act that Weitzman was the rightful owner of a particular copy of custom software and that he could use and modify it without infringing MCR's rights.

On appeal of a grant of summary judgment against Weitzman, the 11th Circuit Court of Appeals held that no federal jurisdiction existed. First, the Court noted that it is well established that the Declaratory Judgment Act does not, of itself, confer jurisdiction upon federal courts.

Second, the Court noted that Section 411(a) of the Copyright Act makes clear that “no action for infringement of the copyright in any work shall be instituted until registration” of the work has occurred. The consensus among federal appellate courts, the Court noted, is that Section 411(a) is jurisdictional and that registration is a jurisdictional prerequisite to an infringement suit. “Thus, although courts have split over whether it is enough to have applied for registration or whether registration must have been approved/denied before an infringement suit may be maintained, . . . the case law is clear that only those copyright holders that at least apply to register their copyrights may invoke” federal jurisdiction in an infringement suit.

Because MCR had not even applied for a copyright registration on the disputed software program, the district court would lack subject matter jurisdiction if MCR brought an infringement suit against Weitzman. Accordingly, the Court held that since the Declaratory Judgment Act cannot confer jurisdiction and since MCR could not sustain an infringement action in federal court, the district court lacked subject matter jurisdiction over Weitzman’s declaratory judgment suit.

Practice Tip for copyright owners who have not registered their copyrights: If you want to “bully” a potential infringer and create havoc in the infringer’s marketing plans without going through the expense of a copyright infringement lawsuit, simply waive your “copyright ownership saber,” but do NOT file for a registration of the copyright until you actually plan to sue. Then file, using the expedited registration procedures of the Copyright Office.

The Supreme Court Comes to the Rescue

Reed Elsevier, Inc. v. Muchnik, 509 F.3d 116 (2d Cir. 2007), *certiorari granted*, _____ U.S. _____ (2009).

A federal district court in New York approved an \$18 million settlement in a class-action brought by freelance writers who had contracted with the defendant publishers to publish their works in print. The freelance writers claimed that the publishers reproduced the works for electronic distribution without authorization. Muchnick and others objected to the settlement.

The United States Court of Appeals for the 2nd Circuit overturned the settlement on the ground that the trial court lacked jurisdiction over claims relating to unregistered works. The appellate court stated that the Copyright Act grants the federal district courts jurisdiction only over those claims that arise from registered works. Since the vast majority of the claimants in the litigation based their claims

on unregistered works, the federal district court did not have the power to certify a class in the litigation or to authorize a settlement.

The Supreme Court granted certiorari to address the simple question: Does Section 411(a) of the Copyright Act restrict subject matter jurisdiction of federal courts over copyright infringement actions?

Stay tuned.

When Can You Sue for Copyright Infringement: After a Registration Application is Filed or After a Registration is Issued?

Goss Int'l Americas Inc. v. A-American Mach. & Assembly Co., No. 07 C 3248, 2007 U.S. Dist. LEXIS 88382 (N.D.Ill., Nov. 30, 2007)

The defendant in a suit for copyright infringement moved to dismiss on the ground that plaintiff had failed to meet the jurisdictional prerequisite that “registration of the copyright claim” must be “made in accordance” with the Copyright Act. Plaintiff argued that registration is effective on the date the Copyright Office receives all application materials; defendant argued that no suit can be instituted until the Copyright Office has issued a registration certificate.

The court acknowledged a split in the circuits. The Tenth Circuit requires approval of the copyright application before filing an infringement claim. The Fifth and Eighth Circuits hold that a plaintiff need only file the application, deposit and fee. the Seventh Circuit of which the Northern District of Illinois is a part has held that only an application for registration must be filed before instituting a copyright action. This conclusion was based upon Judge Posner’s observation that the Copyright Office, once it approves an application, uses the filing date as the effective date of the registration. The court concluded that in the present case (unlike Judge Posner’s case), no copyright had been issued yet. Meanwhile, the plaintiff was allegedly suffering financial damage. “It hardly seems fair . . . to refuse plaintiff the opportunity to sue for infringement until the Copyright Office takes some action when plaintiff will be able to sue after that determination, regardless of the outcome.” For that reason, the court adopted the reasoning of the Fifth and Eighth Circuits and held that only an application needs to be filed to confer jurisdiction..

Practice Tip: If suing under multiple copyrights, file for an expedited registration for one copyright and file the remaining copyrights using the standard registration

procedures. This way you avoid being completely thrown out of court should the court require that a registration be issued to maintain jurisdiction.

2. Jurisdiction Over Copyright Infringement Actions

Asserting Your Copyright Rights Can Subject You To Jurisdiction: Betty Boop Strikes

Dudnikov v. Chalk & Vermilion Fine Arts, Inc., 514 F.3d 1063 (10th Cir. 2008)

Plaintiffs, through eBay, sold fabric with images of Betty Boop. The copyright holders for the Betty Boop images got eBay to suspend plaintiffs auction of the fabric and also contacted plaintiffs by email, threatening a suit for copyright infringement. The fabric designer struck first and sued for a declaratory judgment of non-infringement. The defendant copyright holders moved to dismiss for lack of personal jurisdiction. The district court dismissed and the Court of Appeals reversed.

The Court concluded that the applicable standard for jurisdiction is whether the defendants “purposely directed” their activities at the forum state. The Court concluded that the standard was met given (i) defendants’ intentional transmission of a letter to eBay invoking eBay’s takedown procedures, (ii) defendants’ intention to terminate plaintiffs’ auction, thereby causing business damage, (iii) plaintiffs’ contention that defendants’ action was based on an erroneous copyright claim, and (iv) plaintiffs’ allegation that defendants’ real motive was not to protect their copyrights, but to interfere with plaintiffs’ lawful sale of fabric.

Practice Tip: Beware when you threaten an infringement action. If such threats constitute “purposely directed” activities in a foreign state, you may well be subject to jurisdiction in that state.

3. Federal Preemption of Copyright Actions

Hot News is Hotter than Ever

Associated Press v. All Headline News Corp., 608 F.Supp.2d 454 (S.D.N.Y. 2009)

Defendant All Headline News (“Headline News”) disseminated news reports to customer web sites, including reports of breaking news. Associated Press (“AP”) sued Headline News for copying AP’s copyright registered news stories (a federal

cause of action) and for “free riding” and misappropriating AP’s “hot news” (a state cause of action). The question posed was whether the “hot news” cause of action was preempted by the Copyright Act.

The Court noted that the “hot news” misappropriation claim has its origins in a 1918 Supreme Court decision and is still recognized under the laws of various states, including New York, the applicable state law in this case. The “hot news” claim arises when a plaintiff generates or gathers information at a cost, the information is time-sensitive, the defendant’s use of the information constitutes free riding on the plaintiff’s efforts, the defendant competes directly with the plaintiff, and the ability of other parties to free ride on the plaintiff’s efforts would so reduce the incentive to produce the information that its existence or quality would be substantially threatened. Applying a prior decision by the Second Circuit Court of Appeals, *National Basketball Ass’n v. Motorola, Inc.*, 105 F.3d 841, 845 (2d Cir. 1997), the court held that the state claims for “hot news” misappropriation are not preempted by the federal Copyright Act.

But Obituaries are Too Cold to Constitute Hot News

Scranton Times, L.P. v. Wilkes-Barre Publishing Co., No. 3:08-cv-2135 (M.D.Pa. March 6, 2009)

Plaintiff Scranton Times sued defendant for copying its obituaries. Plaintiff claimed copyright infringement, as well as misappropriation of “hot news.” The court noted that the key elements of the “hot news” cause of action that would allow Plaintiff’s claim to survive federal preemption under the Copyright Act are (i) the time sensitive value of the factual information, (ii) free-riding by a defendant, and (iii) the threat to the existence of the service provided by the plaintiff. While the Court found that the first two factors were met, the Court held that any alleged misappropriation did not pose a threat to the existence of the Scranton Times or its ability to timely publish obituaries.

4. Originality of Copyrighted Works

Digital Modeling of an Original Copyrightable Design is Not Itself Original

Meshwerks, Inc. v. Toyota Motor Sales U.S.A., Inc., No. 06-4222 (10th Cir., June 17, 2008)

As part of its advertising campaign, Toyota commissioned Meshwerks to create digital models of its 2004 line of cars. Digital models are essentially digital

photographic substitutes for cars, allowing the advertiser to change the color of a car and its surroundings and even edit physical dimensions to portray changes in vehicle styling. The digitization process involved collecting physical data points from the car. Specifically, Meshwerks took copious measurements of Toyota's vehicles by covering each vehicle with a grid of tape and running an articulated arm tethered to a computer over the vehicle to measure all points of intersection in the grid. Based on the measurements, Meshwerks then used modeling software to generate a digital image. Simply put, the data point measurements were mapped onto a computerized grid and the modeling software simply connected the dots to create a wire frame model of the vehicle. Thereafter, Meshwerks fine tuned or "sculpted" the lines by hand to resemble the vehicle.

The dispute arose because Meshwerks believed it had contracted with Toyota for a single use of its models as part of one television commercial. When Toyota used the models for other advertisements, Meshwerks sued alleging copyright infringement on account of Toyota's reuse and redistribution of the models created by Meshwerks.

In upholding the lower court's finding that the digital models lacked originality, the Court of Appeals first looked to prior case law regarding the copyrightability of photographs. Such case law has held that a photograph is copyrightable only to the extent it reflects the photographer's decisions regarding pose, positioning, background, lighting, shading and the like. These elements owe their origins to the photographer, as opposed to the subject of the photograph, and confer copyright rights on the photograph.

Applying these principles of photography to the digital medium, the Court concluded that Meshwerks' models were not so much independent creations as very good copies of Toyota's vehicles. The Court observed: "Key to our evaluation of this case is the fact that Meshwerks' digital wire-frame computer models depict Toyota's vehicles without any individualized features: they are untouched by a digital paintbrush; they are not depicted in front of a palm tree, whizzing down the open road, or climbing up a mountainside. Put another way, Meshwerks' models depict nothing more than unadorned Toyota vehicles—the car as car." The Court concluded, that works—such as the models—are not copyrightable to the extent they do not involve any expressions apart from the raw facts in the world. Just as a photographer cannot lay claim to the matter depicted in a photograph, Meshwerks cannot lay claim to the digital models of vehicles, which vehicles were created and designed by Toyota.

Acknowledging that digital medium can certainly be employed to create vivid new expressions fully protectible in copyright, the Court concluded that Meshwerks' digital models simply failed to meet the appropriate level of originality required under the Copyright laws.

5. Proving Copying: Making a Work “Available” Does Not Mean “Distributing” the Work

Atlantic Recording Corp. v. Howell, 554 F.Supp.2d 976 (D.Ariz. 2008)

An Internet user does not commit copyright infringement merely by the act of storing a music file on his computer in a location that makes it available to others to copy, when there is no evidence that anyone actually downloaded it from that user's computer. This only amounts to “attempted” distribution, which is not recognized as a valid claim for infringement. “Merely making an unauthorized copy of a copyrighted work available to the public does not violate a copyright holder's exclusive right of distribution.” In denying the recording company's motion for summary judgment, the Arizona District Court also noted that there was a question of fact as to how infringing songs ever got into the “shared folder” created by the Kazaa peer-to-peer file sharing program.

London-Sire Records, Inc. v. Doe. 542 F.Supp.2d 153 (D.Mass. 2008)

The Arizona District Court in *Howell* also relied on a recent similar ruling by the Massachusetts District Court. In that case, Judge Gertner found that merely making a copyrighted file available for others does not constitute infringement absent proof that someone actually copied the file. The case involved a motion to quash subpoenas issued by recording companies seeking the identity of potential infringers. While the court allowed the subpoenas to be issued, it required that they be modified to provide greater specificity in the discovery requests.

Atlantic Recording Corp. v. Brennan, 534 F.Supp.2d 278 (D. Conn. 2008)

Court denies recording company's motion for default judgment, citing as one reason the defense that making an infringing copy available for copying may not constitute distribution.

Capitol Records Inc. v. Thomas, 579 F.Supp.2d 1210 (D. Minn. 2008)

Following a jury verdict in favor of the record companies in the first file sharing infringement case to go to trial, the District Court Judge said ordered a new trial on the grounds that the jury instruction—which equated the simple act of making a file available for others to copy with no evidence of copying constituted distribution—was in error.

But beware a new trial: At the retrial, the original \$220,000 judgment was replaced with a \$1.9 Million judgment – (\$80,000 for each of 24 copyrighted songs that the jury found were willfully infringed). (Verdict Entered, D.Minn. June 19, 2009)

6. Copyright Infringement of Open Source Software

Open Source Does Not Mean “Free Source”

Jacobsen v. Katzer, 535 F.3d 1373 (Fed. Cir. 2008)

In this case, the Court of Appeals for the Federal Circuit considered the ability of a copyright holder to dedicate his software to free public use pursuant to an open source license, yet enforce that license to control the future distribution and modification of that work. Jacobsen, the copyright holder, made his software available for public download under an open source license. Katzer developed commercial software and allegedly incorporated some of Jacobsen’s code in violation of the open source license agreement. Specifically, Katzer did not include the authors’ names or copyright notice and failed to identify the source of the program or provide a description of how Jacobsen’s computer code had been changed. Jacobsen sued for infringement and sought an injunction.

The lower court held that the open source license created an “intentionally broad” nonexclusive license which was unlimited in scope and thus did not create liability for copyright infringement. The Court of Appeals reversed.

The Court noted that open source licensing “has become a widely used method of creative collaboration that serves to advance the arts and sciences,” citing the Linus and Firefox software programs, as well as Wikipedia, as examples. 535 F.3d at 1378 – 9. The Court held that since the open source license was limited in scope (by including conditions – as opposed to mere covenants – restricting how others could use the software) and the licensee, Katzer, acted outside the scope of the

license, then the licensor, Jacobsen, could in fact bring an action for copyright infringement, as opposed to an action for contract breach. The Court concluded that it was outside the scope of the license for Katzer to distribute copyrighted materials without a copyright notice or without tracking the modifications made. The Court observed: “The attribution and modification transparency requirements directly serve to drive traffic to the downstream users of the project, which is a significant economic goal of the copyright holder that the law will enforce.” Accordingly, the Court reversed the lower court’s denial of an injunction and remanded the case for further proceedings consistent with the decision.

7. Contributory Infringement and Vicarious Liability

Investors Can Breathe Easy (ier)

UMG Recordings, Inc. v. Veoh Networks Inc. (Unpublished Order), No. 07-CV-5744-AHM (C.D.Cal Feb. 2, 2009)

Recording companies sued investors of a streaming media web site for contributory and vicarious copyright infringement. Regarding contributory infringement, the plaintiffs alleged that the investors were liable for the company’s actions because the investors, as a majority of the board of directors, made most of the company’s day-to-day business decisions. The Court rejected this argument, holding that two seats on the board did not constitute actual control of the company and merely exercising the power to select board members “cannot invite derivative liability for infringement.” Similarly, “the mere objective of increasing the value of ownership is neither invidious nor a sufficiently ‘direct’ benefit” to justify derivative liability for infringement.

With respect to the claim for vicarious copyright infringement, the Court did not address whether the investors had the right and ability to supervise the infringing activity. Rather, the court held that no direct financial interest in the infringing activities existed. The financial benefit of increasing the value of the company “is too far removed from the alleged infringement to be considered a ‘direct’ financial interest.”

8. Computer Decency Act and Digital Millennium Copyright Act

Good Samaritan Blocking and Screening of “Offensive Material” Shields Spyware Removal Software

Zango, Inc. v. Kaspersky Lab, Inc. 568 F.3d1169 (9th Cir. 2009)

Kaspersky Lab marketed a spyware and malware removal software targeting Zango’s downloadable software that peppered users with online ads. Zango sued alleging for tortious interference with contracts. Kaspersky moved to dismiss on the ground that its actions were protected by the Computer Decency Act (CDA).

The CDA provides, in a section labeled “Protection for ‘good samaritan’ blocking and screening of offensive material,” that a provider or user of an interactive computer service will not be liable for any action that enables others to restrict access to offensive material. CDA Section 230(c)(2) and (c)(2)(B). The Court noted that a software provider was within the protected class of providers under the CDA. Furthermore, because Kaspersky provided an online update feature (virtually all spyware removal programs have this capability), it was also an “interactive computer service.” Accordingly, Kaspersky was granted immunity. The Court concluded that a provider of “access tools that filter, screen, allow or disallow content that the provider or user considers obscene, lewd, lascivious, filthy, excessively violent, harassing or otherwise objectionable is protected from liability . . . for any action taken to make available to others the technical means to restrict access to that material.” 568 F.3d at 1173.

Anti-Circumvention Provision Under DMCA is as Strong as Ever

Nintendo of America Inc. v. Chan, 2009 WL 2190186 (C.D.Cal. July 21, 2009)

Defendant marketed devices that enabled users to download Nintendo games to portable memory storage devices. The devices evaded security measures that Nintendo had included to control access to its works and protect its copyright rights. Nintendo sued for copyright infringement under the DMCA. The Court held that Nintendo’s security system was clearly a technological measure that controls access to its copyrighted work and was protected from circumvention under the DMCA. Noting that one of Defendant’s device enabled users to play hundreds of Nintendo games, the Court ordered an injunction under the DMCA.

9. Punitive Damages

No If's, And's or "But's: Punitive Damages Are Unavailable Under Copyright Law for Non-Statutory Damages

Viacom Int'l Inc. v. YouTube, Inc., 540 F.Supp.2d 461 (S.D.N.Y. 2008)

Viacom sued YouTube for copyright infringement of Viacom's television shows. Viacom sought to amend its complaint to assert a claim for punitive damages. The original complaint sought statutory damages (which provides a higher damage limit for willful infringement) or, alternatively, actual damages plus profits. The amended complaint sought to make clear that if Viacom elected to recover actual damages and profits, it could seek punitive damages.

The court held that the Copyright Act makes no provision for punitive damages. Period.

Can Statutory Damages for Willful Infringement be Punitive and Therefore Unconstitutional?

Capitol Records Inc. v. Thomas, 579 F.Supp.2d 1210 (D. Minn. 2008) (on appeal)

This is another RIAA case for willful infringement of songs made available and distributed on a peer-to-peer network. The jury awarded \$1.9 Million – \$80,000 for each of 24 copyrighted songs (worth \$.50 each) that the jury found were willfully infringed. Plaintiff is appealing, arguing that, based on recent Supreme Court precedent, the statutory damages awarded were unconstitutionally punitive. The U.S. Government has intervened, arguing that the Supreme Court precedent does not apply to statutory damages awards.

10. Fair Use

It's Only Fair to Consider Fair Use in Takedown Procedures Under DMCA

Lenz v. Universal Music Corp., 572 F.Supp. 2d 1150 (N.D.Cal. 2008)

Lenz posted on YouTube a 29 second video of her children singing while a song by Prince played in the background. Universal notified YouTube under the DMCA takedown procedures and demanded that the video be removed. YouTube complied. Lenz sent a counter-notice to Universal contending that the video constituted fair use of Prince's song and YouTube re-posted the video. Lenz filed

suit alleging misrepresentation by Universal under the DMCA and seeking a declaration of non-infringement.

On a motion to dismiss, the Court noted that the question presented was whether the DMCA takedown procedures require a copyright owner to consider the fair use doctrine in formulating a good faith belief that use of the material is not authorized. Lenz contended that fair use was an authorized use of copyrighted material. “Whether fair use qualifies as a use ‘authorized by law’ in connection with the takedown notice pursuant to the DMCA appears to be an issue of first impression.” Recognizing that fair use is a lawful use of a copyright, the Court held that “in order for a copyright owner to proceed under the DMCA with ‘a good faith belief that use of the material . . . is not authorized . . .’ the owner must evaluate whether the material makes fair use of the copyright.” The Court therefore concluded that an allegation that a copyright owner acted in bad faith by issuing a takedown notice without proper consideration of the fair use doctrine was sufficient to state a misrepresentation claim under the DMCA.

Fair Use Trumps Cheaters

A.V. v. iParadigms, LLC, 562 F.3d 630 (4th Cir. 2009)

iParadigms runs a plagiarism detection service called “Turnitin”. Turnitin digitally compares a student’s work to content on the Internet and its own database made up of an archive of student work previously submitted.

Four students who were required by their schools to submit papers to Turnitin filed suit, alleging copyright infringement. The lower court held that iParadigms’ use of the student papers constituted fair use and was transformative – meaning that it had used the papers for a completely different purpose and function than that of the original works.

The Fourth Circuit Court of Appeals agreed that iParadigms’ copying of the student papers was allowed under the fair use doctrine. The archiving of students’ papers was transformative and iParadigms’ use of the works “was completely unrelated to expressive content and was instead aimed at detecting and discouraging plagiarism.” 562 F.3d at 640. Accordingly, the Court affirmed the dismissal of Plaintiffs’ copyright infringement claims.

DMCA Anti-Circumvention Provision Trumps Fair Use Does Not
RealNetworks, Inc. v. DVD Copy Control Association, 2009 WL 2475338
(N.D.Cal. Aug. 11, 2009)

In this case, the federal district court held that the anti-circumvention provisions of the DMCA applied even to a product intended to help consumers exercise their fair use rights. RealNetworks marketed software that decrypted (“ripped”) DVDs and allowed users to make copies. Copies created by RealNetworks’ product were themselves encrypted to prevent redistribution. Nonetheless, the Court ruled that even though consumers may have a fair use right to make copies of encrypted DVDs, the DMCA prohibits the sale of tools used to make those copies. “While it may well be fair use for an individual consumer to store a backup copy of a personally owned DVD on that individual’s computer, a federal law [the DMCA] has nonetheless made it illegal to manufacture or traffic in a device or tool that permits a consumer to make such copies.”

11. Copyright Misuse

The Copyright Misuse Defense Lives On: This Time as a Counterclaim

Apple Inc. v. Psystar Corp., 209 WL 303046 (N.D.Cal. Feb. 6, 2009)

Apple sued Psystar alleging copyright infringement. Psystar was selling Mac OS compatible computers, allowing customers to choose the operating system on the computers they purchase. In defending against Apple’s claims of infringement, Psystar alleged in a counterclaim that Apple was improperly leveraging its Mac OS copyrights in order to gain exclusive rights with respect to Mac OS compatible hardware systems by (i) requiring users of the OS to agree to an End User License Agreement (“EULA”) which required that consumers install the Mac OS only on Apple computers, and (ii) using its copyrights to improperly assert dubious claims under the DMCA.

The Court rejected Apple’s contention that copyright misuse can only be asserted as a defense, not as a counterclaim, concluding that a counterclaim for declaratory relief is allowed.

12. First Sale Doctrine

Reselling Software: When Does the First Sale Doctrine Provide a Safe Haven?

TracFone Wireless Inc. v. King Trading Inc., 2008 WL 4826035 (N.D.Tex. Nov. 6, 2008)

TracFone filed a complaint alleging that the defendants conspired to buy TracFone' prepaid cell phones in bulk, alter the software and resell the phones for profit. In defendants' answer, several affirmative defenses to copyright infringement were asserted, including the first-sale doctrine. The first sale doctrine essentially states that a copyright holder has the exclusive right to sell and place restrictions on the use of its copyrighted work during the first sale, but has no control over future sales.

The Court held that because the defendants only admitted that they bought genuine TracFones from independent contractors, an unresolved questions remained about whether the alleged sale by the independent contractors would amount to a first sale. Accordingly, the Court denied TracFone's motion to strike the affirmative defense.

Vernor v. Autodesk, Inc., No. C07-1189RAJ (W.D. Wash., May 20, 2008)

In a declaratory judgment action, court concludes that plaintiffs' sale of authentic, used copies of Autodesk software over eBay was not infringing on the ground that the copyright owner's rights of distribution of those particular copies were extinguished under the first sale doctrine.

13. Arbitration of Copyright Infringement Claims

When Does an Arbitration Provision in a License Agreement Also Require Arbitration of Copyright Infringement Claims?

NCR Corp. v. Korala Assoc. Ltd., 512 F.3d 810 (6th Cir., 2008)

NCR entered into a Software License Agreement with Korala whereby Korala agreed to develop software for NCR for use in its ATMs. As part of the License Agreement, NCR agreed to loan certain NCR software—APTRA XFS—that was necessary to enable Korala to adapt and support the software for development. NCR sued Korala for copyright infringement alleging that Korala had used and

copied the APRA XFS software without authorization under the License Agreement and had accessed and copied other ATM software owned by NCR by obtaining copies from NCR licensees.

The License Agreement included a standard “arising out of or related to” arbitration provision. NCR appealed the lower court’s decision to transfer the copyright infringement claims to arbitration. On appeal, the Sixth Circuit Court first determined that the “touches upon matters” standard for determining the application of arbitration provisions was simply too broad and not accepted. Rather, the Court held that if an action could be maintained “without reference to the contract or relationship at issue,” then it is likely outside the scope of the arbitration provision.

With respect to NCR’s APTRA XFS software that NCR provided Korala under the License Agreement, NCR could not maintain an infringement claim without referencing the License Agreement to determine if Korala’s use was licensed or otherwise authorized. Accordingly, that infringement claim had to be arbitrated.

NCR’s other infringement claim with respect to software not encompassed by the License Agreement, however, could be maintained without reference to the agreement and therefore need not be arbitrated.

Practice Tip: To ensure that copyright claims are not arbitrated, include a specific provision in the license agreement carving out such claims from arbitration.

14. Attorneys’ Fees in Copyright Infringement Actions

Voluntary Dismissal of Infringement Actions May Mean Involuntary Payment of Opposing Party’s Attorneys’ Fees

Riviera Distributors, Inc. v. Jones, 517 F.3d 926 (7th Cir., 2008)

Atlantic Recording Corp. v. Andersen, No. 05-CV-933-AS, 2008 WL 185806 (D.Or., Jan. 16, 2008)

When the plaintiff in a copyright infringement claim voluntarily dismissed its action with prejudice, the lower court is entitled by statute to award attorneys’ fees

to the defendant as the “prevailing party.” Simply put, a defendant’s entitlement to attorneys’ fees does not necessarily require a ruling on the merits.

Practice Tip: If you realize your copyright infringement case has gone South and want to dismiss to avoid further waste of time and money, make sure you get an agreement from the defendant that such dismissal constitutes full and final settlement of all claims.