

# **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 Supreme Court Comes to the Rescue**

*Reed Elsevier, Inc. v. Muchnik*, 130 S.Ct. 1237 (2010).

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. The class, however, included free lance writers who had registered copyrights to their works, as well as those who had not. Muchnick and other writers who had not registered copyrights objected to the settlement that had been approved by the federal district court.

Section 411(a) of the Copyright Act generally (see *Vergara Hermosilla v. Coca-Cola, infra*) requires copyright holders to register their works before suing for copyright infringement. On appeal, the Second Circuit Court of Appeals raised, *sua sponte*, the question of whether Section 411(a) deprived federal courts of subject-matter jurisdiction over infringement claims involving unregistered copyrights, concluding that the lower court lacked jurisdiction to certify the class

or approve the settlement. The case was then appealed to the United States Supreme Court, which reversed, holding that, while Section 401(a)'s registration requirement was a precondition to filing an infringement action, failure to comply with that requirement does not restrict a federal court's subject matter jurisdiction over infringement actions involving unregistered works.

The Supreme Court first recognized that federal jurisdiction refers to a court's adjudicatory authority. A statutory requirement is considered "jurisdictional" only if Congress clearly states as such; otherwise, the requirement should be treated as non-jurisdictional in nature. Section 411(a), the Court held, does not clearly state that the registration requirement is jurisdictional. While the section contains the word "jurisdiction" and addresses a court's adjudicatory authority to determine a copyright claim's registrability, the section says nothing about whether a federal court has subject matter jurisdiction to adjudicate infringement claims involving unregistered works.

Interestingly, the Court specifically declined to decide whether Section 411(a) is a mandatory precondition to suit that district courts may or should enforce *sua sponte* by dismissing copyright infringement claims of unregistered works.

*Practice Tip: An attorney should not find solace in this case if that attorney pursues a copyright infringement action without first registering the alleged infringing work. Although the district court may have some discretion, to play it safe, an attorney should "register first" and file suit later. The question still remains, however, as to whether a mere application to register (as opposed to an issued registration) will suffice.*

### **An Application to Register a Copyright, as Opposed to a Final Registration, May be Sufficient But Beware of What Circuit You are In**

*Cosmetic Ideas, Inc. v. IAC/Interactivecorp*, 9<sup>th</sup> Cir., No. 08-56079 (May 25, 2010)

The Plaintiff, Cosmetic Ideas, created a costume necklace in 1997, applied for a copyright registration on the necklace on March 6, 2008 and, before registration had issued, filed suit for copyright infringement against the defendants on March 27, 2008. The District Court granted Defendants' motion to dismiss for lack of subject matter jurisdiction because no registration of the work had issued.

On appeal, the Ninth Circuit Court of Appeals concluded that, despite the holding in *Reed Elsevier*, registration could still constitute a required element of any copyright registration claim. The Court then considered the question of whether a

mere application met the statutory requirement of Section 411. The court concluded that the statutory language was ambiguous as to the precise meaning of “registration.” Finding no assistance from any other provisions under the Copyright Act, the Court then looked to policy considerations. The Court noted that a split in the Circuits existed, with the Fifth and Seventh Circuits adopting the “application approach” and the Tenth and Eleventh Circuits adopting the “registration approach.” Viewing the Copyright Act as a whole, the Court observed that, while registration is not required, Congress saw merit in a strong federal register of copyrighted works and encouraged copyright holders to register works through statutory incentives. “With this framework in mind, we conclude that the application approach better fulfills Congress’s purpose of providing broad copyright protection while maintaining a robust federal register.”

The application approach, the Court held, avoids unnecessary delay in copyright infringement actions. The application approach allows “a litigant to proceed with an infringement suit as soon as he has taken all of the necessary steps to register the copyright at issue.” Additionally, unlike the registration approach, the application approach in no way detracts from the key goal of copyright registration. Finally, the Court observed that the registration approach might “cause a party to lose its ability to sue,” since the Copyright Act’s three-year statute of limitations could expire while a plaintiff waited for the Copyright Office to issue a registration.

*Practice Tip: Play it safe. Register at least one of the works via the more expensive, but much faster, expedited registration regulations of the Copyright Office.*

### **Not Everyone Needs to Register: Foreign Works are Exempt**

*Vergara Hermosilla v. Coca-Cola Co.*, No. 10-21418, 2010 WL 2232657 (S.D. Fla. June 2, 2010)

Coca-Cola hired plaintiff to write and produce a Spanish language version of its theme song that was created for the 2010 World Cup. Plaintiff agreed to create the work for \$1 provided his name would be listed in the credits. After the song was written and produced, Coca-Cola refused to give him credit. Plaintiff sued for an emergency preliminary injunction to halt Coca-Cola from using the song. Among Coca-Cola’s defenses was that the plaintiff had no standing because he had not registered the work prior to suing.

In granting the injunction, the Court quickly disposed of Coca-Cola's standing argument. Because the work was first published in Mexico, no registration is required. Section 411 of the copyright Act applies only to U.S. works, not foreign works.

*Practice Tip: Failure to register a foreign work also means that statutory damages and attorneys' fees are unavailable.*

## **2. Preliminary Injunctions: What are the Standards?**

### **Irreparable Harm Cannot be Presumed**

*Salinger v. Colting*, No. -09-2878-cv (2d Cir., April 30, 2010)

J.D. Salinger filed a suit for copyright infringement against the author and self-publisher of a book titled "60 Years Later Coming Through the Rye." Salinger alleged that the book was an unauthorized and infringing derivative work in that it was nothing more than a sequel to his famous coming-of-age book titled "Catcher in the Rye." The lower court granted Salinger a preliminary injunction preventing publication of the book. In doing so, the court recognized that the Copyright Act authorizes courts to "grant temporary and final injunctions on such terms as [they] may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. Section 502(a). In accordance with long-standing Second Circuit case law, the lower court made a finding of irreparable harm and either (i) likelihood of success on the merits or (ii) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardship tipping decidedly toward the party requesting the preliminary relief. The lower court also followed prior precedent in assuming the existence of irreparable harm merely upon a finding of likelihood of success on the merits.

On appeal, the Second Circuit, while agreeing that Salinger was likely to succeed on the merits, reversed the grant of a preliminary injunction on the ground that the lower court failed to apply the appropriate test enunciated by the Supreme Court in *eBay, Inc. v. MercExchange, L.C.C.*, 547 U.S. 388 (2006). In *eBay*, the Supreme Court held that under well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between

the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. *eBay*, 547 U.S. at 391.

The Second Circuit decided that the *eBay* standards applied with equal force (i) to copyright infringement claims, as well as patent infringement claims, and (ii) to preliminary injunctions as well as permanent injunctions. The Court held that the lower court only decided one of the *eBay* standards – likelihood of success on the merits. Accordingly, the Court remanded the case to apply the remaining standards in accordance with the *eBay* decision.

### **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.

#### **And it Just Got Hotter**

*Barclays Capital Inc. v. Theflyonthewall.com*, No. 06 Civ. 4908 (S.D.N.Y., March 18, 2010)

The Southern District of New York reaffirmed its conclusion in *Associated Press v. All Headline News Corp*, holding that an online financial news service that collects and redistributes key information and recommendation distributed to subscribers of an investment report misappropriated the investment report's "hot news." In this case, plaintiffs Barclays, Merrill Lynch and Morgan Stanley produced analyst research reports on stocks. The reports were distributed – typically before the New York Stock Exchange opened for the day – to large institutional investors for a fee. The reporting firms went to great lengths to control access to the reports via password-protected websites, licensing agreements and other means. Inevitably, however, the research reports and recommendations would leak out and defendant Flyonthewall would publish this leaked information on a newsfeed to its clients over the Internet. The Court recognized that the financial facts that plaintiffs were creating were not subject to copyright protection. Applying the "hot news" exception, however, courts can protect fact gathering without running afoul of the preemption provision in the federal copyright statute when unauthorized copying of the facts is likely to deter the plaintiff or others similarly situated from gathering and disseminating the facts that the defendant has copied. Applying the tests set forth in *National Basketball Ass'n v. Motorola, Inc.*, the Court held for the plaintiffs and issued an injunction "forbidding the dissemination of the Firms' Recommendations until one half-hour after the opening of the New York Stock Exchange or 10:00 a.m., whichever is later." For recommendations issued during trading, defendant was required to wait two hours after issuance of the recommendations.

### **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 treat to the existence of the Scranton Times or its ability to timely publish obituaries.

#### 4. Digital Millennium Copyright Act

**Take Down Notices: Copyright Holders Must BE SPECIFIC! General Awareness of Infringement Will Not Result in Loss of Safe Harbor Exemption**  
*Viacom International Inc., v. YouTube Inc.*, No. 07 Civ. 2103 (S.D.N.Y., June 23, 2010)

In a lawsuit against YouTube for copyright infringement, Viacom alleged that “tens of thousands of videos on YouTube, resulting in hundreds of millions of views, were taken unlawfully from Viacom’s copyrighted works without authorization.” Viacom further alleged that YouTube had “actual knowledge” and was aware of the facts and circumstances from which infringing activity was apparent, but failed to cure the infringement. YouTube, however, had designated an agent, and when it received specific notice (e.g., a URL link) that a particular item infringed a copyright, YouTube swiftly removed the alleged infringing work. Thus, according to the Court, “the critical question is whether the statutory phrases ‘actual knowledge that the material or an activity using the material on the system or network is infringing,’ and ‘facts or circumstances from which infringing activity is apparent’ in § 512(c)(1)(A)(i) and (ii) [of the DMCA] mean a general awareness that there are infringements (here, claimed to be widespread and common), or rather mean actual or constructive knowledge of specific and identifiable infringements of individual items.” The Court concluded the “mere knowledge” of infringing activity “is not enough.” Specifically, “[t]o let knowledge of a generalized practice of infringement in the industry, or of a proclivity of users to post infringing materials, impose responsibility on service providers to discover which of their users’ postings infringe a copyright would contravene the structure and operation of the DMCA.” YouTube, the Court noted, had no way of knowing whether a video was licensed by the owner, constituted fair use or “whether its copyright owner or licensee objects to its posting.” Finally, the Court observed: “Indeed, the present case shows that the DMCA notification regime works efficiently: When Viacom over a period of months accumulated some 100,000 videos and then sent one mass takedown notice on Feb. 2, 2007, by the next business day YouTube had removed virtually all of them.”

*Practice Tip: If you are demanding that a service provider take down alleged infringing works, the demand must be specific and identify the specific work and location of the work at issue.*

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

*Zango, Inc. v. Kaspersky Lab, Inc.* 568 F.3d 1169 (9<sup>th</sup> 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.



## **But Anti-Circumvention Must Protect a Copyrighted Work, Not Merely Seek to Control Use of that Work**

*MGE UPS Systems, Inc. v. GE Consumer & Industrial, Inc.*, No. 08-10521 (5<sup>th</sup> Cir., July 20, 2010)

MGE sued GE alleging violation of the DMCA's anti-circumvention provision. Specifically, MGE alleged that GE had hacked software used to maintain uninterruptible power supply units that provided backup to mission critical systems during power outages. Maintenance on the units required MGE's software and a special hardware key – a dongle device. MGE alleged, and GE conceded, that GE had hacked the security scheme on the software and used the software at least five times. GE, however, argued that its action did not violate the DMCA because the software and dongle did not protect any copyrighted work. The lower court judge agreed and dismissed the DMCA claims.

On appeal, the Fifth Circuit Court of Appeals upheld the dismissal. The Court concluded that the DMCA prohibits circumvention of a technical protection measure designed to enforce rights granted by copyright only. Bypassing the dongle to allow the software to be used, rather than copied, does not run afoul of the DMCA. "Because the dongle does not protect against copyright violations, the mere fact that the dongle itself is circumvented does not give rise to a circumvention violation within the meaning of the DMCA."

## **5. Punitive Damages**

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

*Capitol Records Inc. v. Thomas*, 680 F.Supp. 2d 1045 (D. Minn. 2010)

This is an 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 approximately \$1 each) that the jury found were willfully infringed. The Judge called the jury's award "monstrous" and "shocking" and "a gross injustice." The Judge gave the option to plaintiffs to either accept a reduced award of \$54,000 or agree to a new trial. Even then, the Judge felt his own reduced award was "significant and harsh" and was a much greater award "than the court might have chosen to impose in its sole discretion." The judge ordered a new trial when the plaintiffs rejected a reduced award.

Defendant has argued that Supreme Court's rulings in *BMW v. Gore*, 517 U.S. 559 (1996) and *State Farm v. Campbell*, 538 U.S. 408 (2003) should apply to statutory damages and that punitive damages exceeding 10 times actual damages violates due process under the Constitution.

*Sony BMG Music Entertainment v. Tenenbaum*, No. 07-CV-11446 (D. Mass., July 9, 2010)

In another similar RIAA case for willful infringement, the jury awarded \$675,000 for copyright infringement arising from the unauthorized downloading of 30 songs. The Court was asked to rule on whether the damage award by the jury – amounting to approximately 20,000 times the actual damages – violated the Constitution's due process principles. The Court looked to the Supreme Court's jurisprudence enunciated in *BMW* and *State Farm*. In applying this jurisprudence, the Court stated that "I will remain cognizant of two factors that distinguish this case from a typical case in which punitive damages are awarded: (1) the jury's award fell within a range authorized by Congress, and (2) the maximum and minimum amount of statutory damages that could be imposed for each of Tenenbaum's acts of infringement was clearly set forth in section 504(c). While the *BMW* guideposts are helpful aids, my ultimate task is to determine whether the jury's statutory damages award is 'grossly excessive' in relation to the government's legitimate interests in prescribing such awards – namely, compensating copyright owners and deterring infringement."

The Court concluded that the jury award did in fact violate the principles of due process. Accordingly, the Court awarded \$54,000 – \$2,250 per song, or three times the minimum statutory damages under the Copyright Act. This, according to the Court, was the maximum that the Constitution's due process clause would allow. Nonetheless, the Court went on to note that: "This award is far greater than necessary to serve the government's legitimate interests in compensating copyright owners and deterring infringement. In fact, it bears no meaningful relationship to these objectives. To borrow Chief Judge Michael J. Davis' characterization of a smaller statutory damages award in an analogous file-sharing case, the award here is simply 'unprecedented and oppressive.' *Capitol Records Inc. v. Thomas*, 579 F. Supp. 2d 1210, 1228 (D. Minn. 2008)."

## 6. Fair Use

### **Fair Use Trumps Cheaters**

*A.V. v. iParadigms, LLC*, 562 F.3d 630 (4<sup>th</sup> 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.

### **Conversion Claim to Avoid Copyright Act’s Fair Use Doctrine Preempted**

*Christen v. IParadigms LLC*, No. 10-620 (E.D.Va., August 4, 2010)

In an effort to avoid the *A.V. v. IParadigms* holding, a graduate student sued iParadigms on the grounds that its “Turnitin” plagiarism detection service unlawfully converted the student’s digital property. Judge Hilton of the Eastern District of Virginia held that the conversion claim sought to enforce rights that fell on all fours within the ambit of the Copyright Act and was therefore federally preempted.

### **DMCA Anti-Circumvention Provision Trumps Fair Use**

*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.”

## **7. 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.

## **8. 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. 09-35969 (9<sup>th</sup> Cir., Sept. 10, 2010)

In a declaratory judgment action, the lower court concluded 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. The Ninth Circuit, however, vacated the grant of summary judgment. Specifically, the Court held that because the Autodesk software user from whom Vernor purchased a copy of the software "is a licensee, not an owner, the 'sale' of . . . copies to Vernor did not convey ownership. Vernor is accordingly not entitled to invoke the first sale doctrine or the essential step defense, on behalf of his customers."

### **Supreme Court Will (Hopefully) Clarify First Sale Doctrine as to Foreign Copies**

*Costco Wholesale Corp. v. Omega S.A.*, No. 08-1423 (*certiorari granted* April 19, 2010)

Supreme Court will determine limits of the first sale doctrine with respect to sales of foreign-made copies.