

COPYRIGHT LITIGATION: STRATEGIC OPPORTUNITIES FOR SETTLEMENT

Robert L. Kann, Esq.

Judith R.S. Stern, Esq.

Bromberg & Sunstein LLP, Boston

I. SCOPE NOTE

This article identifies key strategic opportunities for settlement during the course of copyright litigation. The focus of this article is on copyright litigation where the subject matter is computer software, and thus the concepts may be more relevant to such litigation. Part II provides a substantive overview of copyright protection, the elements of a copyright infringement claim, the nature of available monetary and non-monetary relief, and potential defenses.¹ Part III gives some prelitigation tips, focusing on the benefits of copyright registration, copyright notice, and recording transfers with the Copyright Office. The heart of this article appears in Part IV, which takes the reader through the important procedural steps of a copyright infringement case, from the initial client contact through appeal, identifying key opportunities for settlement.

II. SUBSTANTIVE OVERVIEW

A. Scope of Protection

Copyright protects “original works of authorship fixed in any tangible medium of expression.” 17 U.S.C. §102(a). The work must be created independently (not copied), but it need not be novel or unique. The work must possess “at least some minimum degree of creativity.” *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991).

Copyright protects original expression, but not ideas, procedures, processes, systems, methods of operation, concepts, principles, or discoveries. 17 U.S.C. § 102(b).

¹ This article relies on the law of the Court of Appeals for the First Circuit to the extent that the Court has enunciated applicable standards and where such holdings vary from those of other Circuits.

A certificate of copyright registration issued before or within five years after the first publication of the work constitutes *prima facie* evidence of the validity of the copyright and the facts stated in the certificate. 17 U.S.C. § 410(c). However, the defendant can still attack the validity of the copyright, and can also argue that any allegedly copied portions of the work are not protectable.

1. *Exclusivity*

The Copyright Act gives the copyright owner exclusive rights, including the exclusive right to reproduce or make copies of the work; to prepare derivative works based upon the work; to distribute copies of the work to the public by sale or other transfer of ownership, lease or rental; and to perform or display the work publicly. 17 U.S.C. § 106.

Limitations on exclusive rights:

Statutory limitations to the exclusive rights of the copyright owner are set forth in 17 U.S.C. §§ 107 – 122. These include the defenses of fair use and the first sale doctrine, among others.

2. *Ownership*

The author(s) of a work initially own the copyright. 17 U.S.C. § 201(a). Where the work is a “work for hire” the copyright is owned by the employer or the party that ordered or commissioned the work, not the person who created it. 17 U.S.C. § 201(b). The definition of “work for hire” (17 U.S.C. § 101) includes a work prepared by an employee within the scope of his or her employment. It also include certain types of works if specially ordered or commissioned for certain uses, if the parties agree in a signed writing that the work shall be considered a work made for hire.

3. *Transfers and Nonexclusive Licenses*

The exclusive rights can be transferred separately, including by assignment or exclusive license. Such transfers must be written, but if

initially oral can be confirmed in writing later. 17 U.S.C. § 204(a).
Nonexclusive licenses can be granted orally or implied from conduct.

B. Copyright Infringement Claim

1. Elements of a Claim

- a. Ownership of a valid copyright.
 - i. The plaintiff must prove that the work as a whole is original and that the plaintiff complied with statutory formalities. *CMM Cable Rep, Inc. v. Ocean Coast Props., Inc.*, 97 F.3d 1504, 1513 (1st Cir. 1995).
 - ii. Depending on when it issued, the certificate of copyright registration may be *prima facie* evidence that the work is protected by copyright and of the facts recited in the certificate.
- b. Unauthorized copying of elements of the work that are original, or violation of one of the other of the copyright owner's exclusive rights. Infringement of the exclusive right to make copies of the work requires proof of:
 - i. copying, which can be proven by
 - (a) Direct evidence of copying; or
 - (b) Proof that defendant had access to the copyrighted work, and that the infringing work is so similar to the copyrighted work that the court may infer copying (called "probative similarity"); and
 - ii. substantial similarity -- that the copying was sufficiently extensive to support a finding of infringement.
- c. Substantial Similarity

Different circuits have different tests for proving substantial similarity.

The First Circuit first “dissects” the works (perhaps with the assistance of expert testimony) to separate out any aspects of the copyrighted work that may be mandated by the idea it embodies (or are otherwise not protectable by copyright) to determine whether aspects of the copyrighted work that are protected by copyright have been copied.

Then the Court applies the “ordinary observer” test, to determine whether the accused work is so similar to the plaintiff’s work that an ordinary observer would conclude that the defendant appropriated the plaintiff’s protected expression. *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 607-09 (1st Cir. 1988).

Variations on this test may be used where the work is software. The First Circuit has recognized, in dictum, that in cases involving nonliteral (paraphrasing rather than word-for-word) copying of computer code, the abstraction-filtration-comparison test developed in the Second Circuit (*see Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992)) may provide a useful framework. *See Lotus Development Corp. v. Borland Int’l, Inc.*, 49 F.3d 807, 815 (1st Cir. 1995).

The District of Massachusetts accepted the *Altai* test as appropriate when considering non-literal copying of elements of the software other than the source and object code, but held that the test should be applied verbatim only when the claim concerns copying of the overall structure, or look and feel, of an entire program or sub-program, and should be preceded by a preliminary “aggregate evaluation” of the copyrightability of the program as a whole. *ILOG, Inc. v. Bell Logic, LLC*, 181 F.Supp.2d 3, 10-11 (D. Mass. 2002). Where the allegations concern only elements of the program, the “abstraction” step may be omitted. 181 F.Supp.2d at 11. The *Altai* test has been rejected in this Circuit in

the context of literal copying, at least of elements other than code.
Lotus v. Borland, 49 F.3d at 815.

Exceptions as to Level of Similarity Required:

- Virtual Identicality (rather than substantial similarity)

Copyright can protect the selection, coordination, and arrangement of elements, even if the elements are themselves unprotectable, if the selection, coordination, and arrangement is itself original. However, such selection, coordination, and arrangement is arguably protected only against near or virtually identical copying. *Yankee Candle Co. v. Bridgewater Candle Co.*, 259 F.3d, 25, 35-36 (1st Cir. 2001); *MiTek Holdings, Inc. v. Arce Eng'g Co.*, 89 F.3d 1548, 1558-59 (11th Cir. 1996); *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1446 (9th Cir. 1994) (“virtual identicality” standard applied to copyrighted software which contained “a handful of protected elements”).

- Exact Copy

If the idea and the expression of the idea are nearly inseparable, exact copying may be required for a finding of infringement. *Yankee Candle Co. v. Bridgewater Candle Co.*, 259 F.3d, 25, 34 (1st Cir. 2001).

2. Statute of Limitations

The statute specifies a 3 year limitations period, which runs from the moment the defendant commits the infringement. 17 U.S.C. § 507(b). The period may be tolled if the plaintiff can show s/he was ignorant of the infringing conduct despite exercising due diligence, or if that ignorance was the result of the defendant’s fraudulent concealment. *See Taylor v. Meirick*, 712 F.2d 1112, 1117-18 (7th Cir. 1983).

3. *Copyright Damages*

- a. Actual Damages and Infringer’s Profits

Copyright damages include the copyright owner's actual damages and the infringer's profits. 17 U.S.C. § 504.

b. Actual Damages

The plaintiff's primary damage is the loss of the fair market value of the copyrighted work. This is often measured by profits lost as a result of the infringement. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1170 (1st Cir. 1994).

i. Burden of Proof and Level of Certainty

The plaintiff must prove that the infringement caused the loss of revenue. The plaintiff must show with reasonable probability that, but for the defendant's infringement, the plaintiff would not have suffered the loss. The plaintiff must also demonstrate that the existence and amount of the loss was a natural and probable consequence of the infringement. The plaintiff may recover direct and indirect losses, if the losses are not unduly speculative. Mathematical precision is not required. *Data Gen. Corp.*, 36 F.3d at 1170-71.

ii. Lost Sales

If the parties occupy the same market, damages can be based on lost sales. This measure of damages is based on the number of sales made by the infringer. Because the parties' prices may differ, this measure usually requires economic analysis. The measure may also be complicated where the infringer has made sales to persons who had never been the plaintiff's customers. The plaintiff's market share may need to be considered. Once the number of lost sales has been determined, that number should be multiplied by the profit copyright owner would have made on each lost sale. See II Paul Goldstein, *Copyright* § 12.1.1.1.a (Aspen Publishers 2nd ed. Supp. 2005) [hereinafter "Goldstein"].

iii. Reasonable Royalty or Market Value

If the parties occupy different markets, damages can be based on a reasonable royalty or market value measure. If the copyright owner has licensed the work, the negotiated license fee may be used as the measure of a reasonable royalty. See Goldstein § 12.1.1.1.b. Alternatively, the market value measure is an objective measure, based on “what a willing buyer would have been reasonably required to pay to a willing seller for plaintiff[’s]work.” *Id.*, quoting *Sid & Marty Krofft Television Prods., Inc. v. McDonald’s Corp.*, 562 F.2d 1157, 1174 (9th Cir. 1977).

iv. Value of Use

Where there are no out-of-pocket losses to the plaintiff, no profits to infringer, and statutory damages are not available, courts have created a measure of actual damages based on “value of use” to the infringer, which is essentially the saved acquisition cost. See *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357 (7th Cir. 1985); 4 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright*, § 14.02[B][1] (Matthew Bender 2004) [hereinafter “Nimmer”]. A few cases have followed *Deltak*, including *Steven Greenberg Photography v. Matt Garrett’s of Brockton, Inc.*, 816 F.Supp. 46, 49 (D.Mass. 1992).

v. Indirect Losses

In the exceptional case, the plaintiff may be able to prove that infringement caused the plaintiff to lose sales of noninfringed items, such as where the noninfringed items were marketed as part of a line of merchandise that included the infringed work. One case called the proof of causation “difficult” though “not inconceivable.” *Sunset Lamp Corp. v. Alsy Corp.*, 749 F.Supp. 520, 522, 524 (S.D.N.Y. 1990) (noting that no reported cases allowed, as actual damages, lost sales on non-infringed items, but none forbade such recovery as a matter of law); 4 Nimmer § 14.02[B][2].

vi. Additional Damages

Examples of additional damages:

- Cost of making changes in the software due to prior appearance of the infringing work;
- Costs of software development expenses;
- Loss of business good will.

c. Infringer's Profits

i. No Duplicative Awards

Any profits of the infringer that are attributable to the infringement and that are not taken into account in the computation of actual damages may be awarded. 17 U.S.C. § 504(b). If actual damages includes the plaintiff's lost profits, the plaintiff's lost profits must be deducted from the infringer's profits, to avoid a duplicative award. 4 Nimmer § 14.01[A]. If the infringer's profits flow from noncompetitive sales, the plaintiff may be able to recover those profits in addition to the plaintiff's lost profits. *Manufacturers Techs., Inc. v. Cams, Inc.*, 728 F.Supp. 75, 84 (D. Conn. 1989); *U.S. Payphone, Inc. v. Executives Unlimited of Durham, Inc.*, 781 F.Supp. 412, 414 & n. 1 (M.D.N.C. 1991). Also, if the infringer's profits exceed the plaintiff's lost profits, the excess may be awarded. 4 Nimmer § 14.01[A].

ii. Burden of Proof and Level of Certainty

The copyright owner need prove only the infringer's gross revenue. The infringer must prove deductible expenses and elements of profit attributable to factors other than the infringement (e.g., marketing efforts, sales force). 17 U.S.C. § 504(b).

The plaintiff needn't prove the infringer's profits with "mathematical certainty," but neither "can his proffer be 'unduly

speculative.”” *Bruce v. Weekly World News, Inc.*, 310 F.3d 25, 31 (1st Cir. 2002), citing *Data Gen. Corp.*, 36 F.3d at 1171.

The defendant can attempt to prove consumers would have purchased the product even without the infringing element. *Data Gen. Corp.*, 36 F.3d at 1175. If the defendant’s work was profitable for reasons that had nothing to do with the infringement of the plaintiff’s work, then the plaintiff is not entitled to recover the infringer’s profits, because they did not result from the infringement.

iii. Indirect Profits

The plaintiff may also recover the infringer’s profits in noninfringing goods and services, if the plaintiff can prove those profits resulted from the infringement. 4 Nimmer § 14.03[B][2][a].

iv. Apportionment

(a) When Appropriate

The plaintiff is not necessarily entitled to all of the defendant’s profits, but only to the part of the defendant’s profits which is due to the infringement. The defendant can attempt to show that “the existence and amount of its profits are not the natural and probable consequences of the infringement alone, but are also the result of other factors which either add intrinsic value to the product or have independent promotional value.” *Data Gen. Corp.*, 36 F.3d at 1175.

Examples:

- If infringing software is sold with hardware, a portion of the profits could be due to the noninfringing hardware.
- In *Data General*, the infringer, Grumman, infringed Data General’s copyrights in MV/Advanced Diagnostic

Executive System (“ADEX”) software, which Grumman used to diagnose problems in Data General’s MV computers. Data General argued that without its software, Grumman could not have been in the national market for service of MV equipment. Grumman argued that factors other than its use of the ADEX software accounted for its profits, including the value its customers attached to the price and quality of Grumman’s services, and Grumman’s ability to service non-DG equipment. The district court did not give an explicit apportionment instruction. The First Circuit held that Grumman was entitled to some apportionment as a matter of law, and remanded with a suggestion that the district court employ remittitur to remedy the error.

- “[A]pportionment is almost always available in the context of infringing derivative works, perhaps in part because original expression added by the infringer is itself entitled to copyright protection.” *Data Gen. Corp.*, 36 F.3d at 1176.

(b) Calculation

Courts will use the relative proportions of the two sets of elements (infringing and non-infringing) as a starting point to calculate the apportionment of profits. However, the apportionment may need to be adjusted to reflect the qualitative impact of the two sets of elements. II Goldstein § 12.1.2.2.

(c) Burden of Proof and Level of Certainty

The burden is on the defendant to prove apportionment.

“The division of profits between those portions attributable to the infringement and those attributable to other sources does not require ‘mathematical exactness.’” *John G. Danielson, Inc. v. Winchester-Conant Props., Inc.*, 322 F.3d 26, 47 (1st Cir. 2003) (citation omitted). A “reasonable approximation” is enough if it allows “a rational separation of the net profits so

that neither party may have what rightfully belongs to the other.” *Id.*, quoting *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 404 (1940).

(d) Equitable Considerations

“[E]quity is concerned with making a *fair* apportionment so that neither party will have what justly belongs to the other.” *Data Gen. Corp.*, 36 F.3d at 1176 (citations omitted). “Equitable factors may also affect the substance of the apportionment analysis. For example, where the plaintiff cannot prove actual damages, and the defendant’s profits are only from the sale of a noninfringing product, the only way to prevent unjust enrichment may be to place more weight on the profit-generating effect of an infringing sales tool used to promote that product.” *Id.*

d. Statutory Damages

The plaintiff can elect statutory damages instead of actual damages.

i. Amount

\$750 - \$30,000 per work infringed. 17 U.S.C. § 504(c)(1).

If the infringement was innocent (infringer was not aware and had no reason to believe that his/her act constituted copyright infringement), the court has discretion to reduce the award to not less than \$200 per work infringed. 17 U.S.C. § 504(c)(2).

If the infringement was willful, the award may be increased up to \$150,000 per work infringed. *Id.* Willful infringement: where the defendant has actual or constructive knowledge that its actions constitute infringement or recklessly disregards a copyright holder’s rights.

ii. Factors in determining amount of statutory damages:

- (a) Expenses saved and profits reaped by defendant;
- (b) Revenues lost by the plaintiffs;
- (c) Deterrent value of the reward;
- (d) Whether infringement was willful or innocent.

Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc., 855 F.Supp. 1314, 1320 (D. Mass. 1994).

e. Prejudgment Interest

Whether to award prejudgment interest is within the court's discretion. The Circuits are split as to whether prejudgment interest is available under the current version of the Copyright Act. Compare *Robert R. Jones Assocs., Inc. v. Nino Homes*, 858 F.2d 274, 282 (6th Cir. 1988) (vacating award of prejudgment interest) and *U.S. Payphone, Inc. v. Executives Unlimited of Durham, Inc.*, 931 F.2d 888, 1991 WL 64957 at * 4 & n.6 (4th Cir. 1991) (unpublished) (reversing award of interest) with *Kleier Advertising, Inc. v. Premier Pontiac, Inc.*, 921 F.2d 1036, 1040-42 & n. 4 (10th Cir. 1990) (holding that "prejudgment interest is available to plaintiffs under the Copyright Act," reversing denial of interest and remanding for addition of prejudgment interest, at a rate left to the trial court's discretion, such as the prime rate or fifty-two week Treasury bill rate). The trend may be in the direction of awarding prejudgment interest. 4 Nimmer § 14.02[C][1].

In the First Circuit, prejudgment interest has been denied where the damages award consisted only of the infringer's profits. *John G. Danielson, Inc. v. Winchester-Conant Props., Inc.*, 322 F.3d 26, 51 (1st Cir. 2003) (finding no abuse of discretion in denial of prejudgment interest on the grounds that, unlike actual damages, the plaintiff never would had had the infringer's profits had the defendant done no wrong, and so deserved no compensation for the lost use of the money).

f. Costs and Attorneys' Fees

Costs: The court may award costs in its discretion. 17 U.S.C. § 505.

Attorneys' fees: The court may award attorneys' fees to the prevailing party. 17 U.S.C. § 505. Defendants are treated on an "even-handed" basis with plaintiffs. *Invessys, Inc. v. McGraw-Hill Cos.*, 369 F.3d 16, 19 (1st Cir. 2004).

4. ***Injunctive Relief***

a. Impoundment/destruction

While a case is pending, a court may order impoundment of potentially infringing items, and, as part of a final judgment, may order the destruction or reasonable disposition of infringing items. *See* 17 U.S.C. § 503.

b. Temporary Restraining Order

A TRO can last up to 20 days (10 days, plus a 10 day extension), or longer with the consent of the party against whom the order is directed. Fed.R.Civ.P. 65(b).

c. Preliminary and Permanent Injunctions

Permitted under 17 U.S.C. § 502.

5. ***Right to Jury Trial***

The right to a jury trial includes the right to have the jury determine the amount of statutory damages. *See Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 355 (1998) (holding that the Seventh Amendment provides a right to a jury trial on all issues pertinent to an award of statutory damages under § 504(c) of the Copyright Act, including the amount itself).

C. Defenses

The defendant can attack the copyrightability of work as a whole, or portions of the work.

1. *Ideas, Procedures, Processes, Systems, Methods of Operation, Concepts, Principles, and Discoveries are Not Protectable*

17 U.S.C. § 102(b). Example: “Menu command hierarchy” is an uncopyrightable method of operation. *Lotus*, 49 F.3d at 815-19.

2. *Merger Doctrine*

“Some ideas admit only a limited number of expressions. When there is essentially only one way to express an idea, the idea and its expression are inseparable and copyright is no bar to copying that expression.” *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 606 (1st Cir. 1988); see *Yankee Candle Co. v. Bridgewater Candle Co.*, 259 F.3d 25, 36 (1st Cir. 2001). Merger also occurs where there are multiple ways of expressing something, but logic and efficiency limit the acceptable range of choices. *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693, 708 (2d Cir. 1992); *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 535 (6th Cir. 2004).

3. *Words and Short Phrases are Not Protectable*

Singular words and short phrases not protectable. *CMM Cable Rep, Inc. v. Ocean Coast Props., Inc.*, 97 F.3d 1504, 1519-20 (1st Cir. 1995); *Lotus*, 49 F.3d at 815-17; *Apple Computer, Inc. v. Microsoft Corp.*, 799 F. Supp. 1006, 1036, 1038 (N.D. Cal. 1992) (short phrase might have some relevance in determining copyright in a literary work, but in an unprotectable aspect of a visual work), *aff’d*, 35 F.3d 1435, 1439, 1446 (9th Cir. 1994); 37 C.F.R. § 202.1(a) (words and short phrases such as names, titles, and slogans not copyrightable).

4. *Scènes à Faire Doctrine*

Elements of a work are not entitled to copyright protection if they are standard, stock, or common to a particular topic, or necessarily follow from a common theme or setting. *CMM Cable Rep Inc. v. Ocean Coast Props., Inc.*, 97 F.3d 1504, 1522 & n. 25 (1st Cir. 1996).

Examples:

- Material dictated by industry standards;
- Material dictated by a computer's hardware standards or mechanical specifications. *See Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 839 (Fed. Cir. 1992).;
- Material dictated by compatibility requirements. *See Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 535-36 (6th Cir. 2004);
- Material following standard computer programming practices. *Id.*

5. *Expression in the Public Domain is Not Protectable*

Expression that has been used in the public domain prior to the author's creation is not protectable. *See Atari Games*, 975 F.2d at 839.

6. *Copyrighted Work Lacks Independent Creation*

A work is not protectable if it was copied from other works, and therefore is not original. (A work may be protectable despite lack of novelty (that is, even though it is similar to prior works by another author), if it was independently created.)

7. *Selection, Coordination, Arrangement Lacks Minimal Creativity*

Data or other unprotectable elements that are not selected, coordinated, or arranged in an original way are not protectable. *Feist Pubs., Inc. v. Rural Tele. Serv.*, 499 U.S. 340 (1991). Though the "requisite level of creativity is extremely low" (*Feist*, 499 U.S. at 345), it is not

nonexistent. The white pages at issue in *Feist* lacked the necessary modicum of creativity. Selection, coordination, and arrangement will be deemed unprotectable if it is:

- Mechanical, routine;
- Dictated by external factors (in *Feist*, selection was arguably required by state law); or
- Routed in tradition; common place (e.g., alphabetical arrangement in *Feist*).

8. *Lack of Sufficient Similarity*

The defendant can defend on the grounds that the plaintiff has failed to carry its burden of proving that the accused work is substantially similar to the copyrighted work, or, where the claim is based on selection/coordination/arrangement, that the works are virtually identical, or, where the idea and expression of the idea are sufficiently intertwined, that the works are exact copies.

9. *Fair Use*

See 17 U.S.C. § 107. Fair use is an affirmative defense. It is a limitation on the exclusive rights of the copyright owner. Fair use includes use for purposes such as criticism, comment, news reporting, teaching, scholarship, and research. Factors to consider in determining whether use of a work is fair use include:

- a. the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- b. the nature of the copyrighted work;
- c. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

- d. the effect of the use upon the potential market for or value of the copyrighted work.

Reverse engineering computer software to understand its ideas, processes and methods of operation has been held to be a fair use. *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 842-43 (Fed. Cir. 1992). But beware of authority supporting breach of license claim for reverse engineering. *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1323-26 (Fed. Cir. 2003) (holding, under First Circuit law, that parties are free to contractually waive fair use defense); *accord, Davidson & Assocs. v. Internet Gateway*, 334 F.Supp.2d 1164, 1180-81 (E.D. Mo. 2004).

Numerous other potential defenses, such as limitations on exclusive rights (first sale doctrine, etc.), copyright misuse, and so on may also be available.

III. PRELITIGATION TIPS

A. Federal Copyright Registration

1. Benefits

- a. Prerequisite for Infringement Action

Copyright law protects an original, copyrightable work as soon as it is “fixed” in a tangible medium. However, federal copyright registration (or rejection of an application by the Copyright Office) is a prerequisite for an infringement suit, with limited exceptions. 17 U.S.C. § 411(a). Expedited handling (called “special handling”) is available when litigation is imminent.

- b. Timely Registration Necessary for Statutory damages.

Statutory damages and attorneys fees (provided under 17 U.S.C. §§ 504 and 505) will not be available in an infringement action unless the copyright was registered either:

- Before the infringement began; or
- Within three months after publication, if the infringement began after publication.

17 U.S.C. § 412.

c. Presumption of Copyright Validity

A certificate of registration issued before publication or within five years after the first publication of the work constitutes *prima facie* evidence of the validity of the copyright and of the facts stated in the copyright registration. 17 U.S.C. § 410(c).

d. Provides Negotiating Leverage

During negotiations before filing suit, providing the accused with a copy of the registration certificate will demonstrate that the owner can file suit immediately, and may demonstrate that the registrant will have the benefit of the presumption of validity listed above, thus strengthening the owner's bargaining position.

e. Protection Against Importation of Infringing Copies

A copyright owner can record the registration with the U.S. Customs Service for protection against the importation of infringing works.

f. Creates a Searchable Public Record of the Copyright

Adding a work to the Copyright Office's searchable database provides notice to the public regarding the copyright, and allows potential licensees to identify the copyright owner.

g. For Business Purposes

A registration certificate may be required in licensing and other commercial transactions. Copyright registrations may be considered an asset that increases the value of the registrant.

2. *Registration of Derivative Works*

New versions of a work that include new copyrightable elements can be registered as “derivative” works. Includes editorial revisions, translations, etc.

3. *Where the Work Contains Confidential Information*

The applicant must submit deposit copy(ies) of the work with the copyright application. Special provisions permit redacting confidential source code for software, under certain conditions. 37 C.F.R. § 202.20(c)(2)(vii). Applicants can also submit object code, but in that case the registration is made under the “rule of doubt,” meaning that no determination has been made concerning the existence of copyrightable authorship. 37 C.F.R. § 202.20(c)(2)(vii)(B). In other cases, the applicant may either redact confidential material and request special relief, or forego confidentiality. 37 C.F.R. § 202.20(d).

B. Copyright Notice

1. For works published before March 1, 1989: Publication of a work without a copyright notice caused the work to fall into the public domain, with certain exceptions. 17 U.S.C. §§ 405(a).
2. For works published after March 1, 1989:
 - a. Copyright notice is not required.
 - b. Benefits of copyright notice:
 - i. Undermines defense of innocent infringement in mitigation of actual or statutory damages. 17 U.S.C. §§ 401(d), 504(c)(2).

- ii. Informs public that the work is protected by copyright. May discourage potential infringers. Identifies copyright owner, so anyone interested in licensing or acquiring the copyright will know who to contact.

C. Record Transfers with the Copyright Office.

If a copyright owner transfers its copyright to two different entities, the transfer executed first will prevail if it is recorded properly within a month after execution within the U.S. or within 2 months after execution outside the U.S., or at any time before recordation of the second transfer. Otherwise the later transfer prevails, if it was recorded first in a timely manner, and if the transferee paid valuable consideration or on the basis of a binding promise to pay royalties, and acted in good faith without notice of the earlier transfer. 17 U.S.C. § 205(d).

III. COPYRIGHT LITIGATION: STRATEGIC OPPORTUNITIES FOR SETTLEMENT

A. Each Procedural Phase Provides Unique Settlement Opportunities

Goal: Identify key strategic opportunities for settlement.

Parties often settle when they focus on the risks of negative outcomes.

Every procedural step in the case offers its own unique opportunity for settlement. Each opportunity differs because:

- more information is available as the case proceeds, allowing the parties to better evaluate the strength of their positions and the value of the case;
- the procedural dynamic changes in that risks of negative outcomes arise (*e.g.* loss of crucial issues by rulings on motions concerning the scope of discovery, motions for summary judgment, motions in limine, or by jury charge); and

- legal fees and the costs in time expended by the parties' employees increase as the case progresses.

Because certain crucial issues in copyright litigation may be determined as a matter of law by the Court, each party may be in a position to assess how the Court is likely to decide such issues at certain procedural stages in the litigation. With such an assessment, each party is in a better position to make a rational valuation of the case. Below, we will discuss these critical issues as they arise for decision at different points in the proceedings. At these procedural junctures, the parties have an increased incentive to settle because they may be in a position to more accurately value the case and the risks of negative outcomes. In addition, the costs of continued litigation become clearer as the case proceeds through these procedural stages, providing additional incentive for settlement.

Below, the procedural stages when there are strategic opportunities for settlement are identified, and those that are particularly important are highlighted as "key" strategic opportunities.

B. Pre-litigation Case Evaluation

Key Strategic Opportunity: After preliminary investigation and evaluation but before inception of litigation

1. Initial Case Investigation and Evaluation

Plaintiff: when the client first comes to you with a potential claim.

Defendant: when the client comes to you with a demand letter (or other information indicating the existence of a potential claim), or a complaint.

Evaluate the strength of the case (claims, affirmative defenses, and counterclaims) and assess potential damages and other remedies, based on the available information, such as:

- The copyrighted work;

- Whether the work bears a copyright notice (not required since March 1989, but absence of notice may affect statutory damages);
- Comparison of the copyrighted work with the accused work;
- Certificate of registration, copy of deposit,
- Other Copyright Office records, including any recorded assignments, registrations of prior versions of the work;
- Information/documentation concerning the creation and publication of the copyrighted work, the validity of the registration (and whether it issued within 5 years of first publication), ownership of the copyright, and whether the work is protectable;
- Information concerning infringer (confirm not assignee or valid licensee; determine access to the copyrighted work);
- Evidence of the date of the first infringement, and sales by the infringer;
- Client's knowledge of the marketplace, prior licenses of the work;
- Is a design-around feasible?

Merits: Analyze the strength of claims, potential defenses (including affirmative defenses) and potential counterclaims and likelihood of success of TRO or PI.

Estimate actual damages; infringer's profits (if information available); determine whether statutory damages/attorneys fees are available. Consider whether litigation could be avenue for licensing the copyright.

2. Consult Experts

As soon as possible, determine whether case is appropriate for consultation with experts.

If experts are to be employed, it is best to employ them early, because they greatly enhance the knowledge base from which rational settlement negotiations may flow.

Experts can be used to evaluate both the merits of the case and damages.

Later: Experts can be used to help craft discovery, experts may be present during some depositions, and expert witness testimony at trial may be necessary. In the First Circuit, expert testimony may be used to prove probative similarity (to prove copying) and may aid in the “dissection” of the work (determining “whether there are sufficient articulable similarities to justify a finding that the defendant has copied from the protected work”), but it has been excluded in connection with the second step required to prove substantial similarity, as that relies on the “ordinary observer.” See *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 608 (1st Cir. 1988); *Segrets, Inc. v. Gillman Knitwear Co.*, 207 F.3d 56, 66 n.11 (1st Cir. 2000). When using the abstraction-filtration-comparison test in connection with software, however, expert testimony may be permitted with all three steps. See, e.g., *Baystate Techs., Inc. v. Bentley Sys., Inc.*, 946 F.Supp. 1079, 1090 (D.Mass.1996) (expert testimony concerned comparison prong); *ILOG, Inc. v. Bell Logic, LLC*, 181 F.Supp.2d 3, 11 n.4 (D. Mass. 2002) (expert testimony ordinarily helpful concerning abstraction step).

Experts are often used in connection with copyright infringement damages. See, e.g., *Bruce v. Weekly World News, Inc.*, 310 F.3d 25, 29-30 (1st Cir. 2002) (expert testimony concerned prevailing industry practice regarding rarity of practice of per-use licensing fee).

Chose the appropriate expert depending on the nature of the case. Example: If the work is software, a computer scientist will likely be helpful regarding issues such as copyrightability. An economist or someone familiar with industry may also be needed regarding damages.

3. *Develop Litigation Budget and Consider Impact of Litigation.*

Note that the budget may need to be front loaded to some extent, to deal with the costs of a TRO and PI.

Consideration: Can both parties afford to fund the litigation to completion?

In addition to attorneys fees and costs, and the potential recovery and non-monetary remedies, the parties must consider the indirect impact of litigation, such as:

- Impact on customers (client's and adversary's)

The defendant's customers may not be able to obtain support or updates in the future, or may themselves be exposed to damages claims.

If the copyright owner fails to sue the accused, the owner's customers may refuse to pay a higher price than that charged by the accused, and the copyright owner's customers may refuse to pay royalties not paid by the accused.

- Public relations and impact on potential customers, suppliers, and (potential) investors.
- Impact of suit on market for parties' stock
- Client's time (discovery and case preparation)

Consider availability of employees for depositions; availability of staff and IT department to locate and copy files and select electronic files. Determine the availability of former employees and whether they will cooperate. Consider the demands on in-house counsel.

- Potential loss of confidentiality of trade secret information.

Protective orders often do not preclude disclosure of confidential information during trial.

- Will the cost of litigation, or a damages award, remove the accused as a competitor from the market? Does the accused have insurance? Will an injunction preventing the accused from selling its product remove the accused from the market?

4. Demand Letter (Sent/Received) - Optional

a. Copyright Owner's Considerations in Determining Whether to Send a Demand Letter

i. Pros

- (a) A demand letter will make any continued infringement willful, thus increasing damages;
- (b) The accused's response may reveal a valid defense or hole in element of client's claim;
- (c) May convince infringer to stop, or result in settlement.

ii. Cons

- (a) If plaintiff fails to sue promptly, the letter may set up a potential laches or estoppel defense;
- (b) If delays suit, the delay can:
 - Decrease chances of obtaining injunction;
 - Increase harm, as infringement continues during delay;
 - Give the infringer more time to prepare its defense.
- (c) Risk of accused filing a declaratory judgment action

iii. If sending a demand:

- (a) Make time period for response short, and be prepared to file suit.
- (b) Consider phrasing the letter so as to decrease the risk of a declaratory judgment action. A letter offering a license is least risky. Explicit threats of legal activity and blunt demands to cease and desist may satisfy the Declaratory Judgment Act. See *PHC, Inc. v. Pioneer Healthcare, Inc.*, 75 F.3d 75, 77, 79 (1st Cir. 1996) (threatening letters that created reasonable fear of Lanham Act claim created subject matter jurisdiction for declaratory judgment action in a trademark case); *GSI Lumonics, Inc. v. Biodiscovery, Inc.*, 112 F.Supp.2d 99, 101, 109 n. 12 (D. Mass. 2000) (letter informing plaintiff that defendant deemed plaintiff's software to infringe defendant's copyright demonstrated an actual and substantial controversy, supporting declaratory judgment action).

b. Potential Responses to Demand Letter

- i. Always check for insurance.
- ii. Investigate.
- iii. Optional: Respond to the letter by the deadline. Ask for more time to investigate facts, if appropriate, and consider asking for proof.
- iv. Optional: Response setting forth defenses may promote a business resolution.
- v. Optional (depending on how demand is worded): File a declaratory judgment action.
 - (a) Pros

- (1) Accused can select the forum.
- (2) Puts copyright owner on the defensive.
- (3) Gives client more control over timing, ends uncertainty.

(b) Con: The copyright owner might never have sued, but might vigorously “defend” the DJ action, i.e. press the infringement counterclaims.

C. Filing Suit/Responding to Complaint

Key strategic opportunities: following inception of suit including Complaint and Answer and motion for TRO or PI, if any, and defendant’s response to motions.

1. Complaint

The complaint may be accompanied by motions for TRO and/or for a seizure order (by U.S. Marshal).

Temporary Restraining Order: Lasts up to 20 days (10 days, plus a 10 day extension). Fed.R.Civ.P 65(b). If a TRO issues, it may, practically speaking, end the case. Ex. If product has a short shelf-life, and can’t be introduced at a trade show, the TRO may sound the death knell.

2. Defendant’s Options After Receipt of Complaint

- a. Conduct investigation.
- b. Make a settlement offer (if case is weak, and/or if client can’t afford or otherwise wishes to avoid litigation).
- c. Inform plaintiff’s counsel of defense or hole in plaintiff’s case, demand voluntary dismissal.

- d. File answer, with applicable affirmative defenses.
- e. File motion to dismiss if appropriate.
- f. Initiate scheduling of Rule 16 conference, or seek ADR.

3. *Answer*

Defendant: Consideration: whether to file counterclaims (if available).

Plaintiff: Default judgment is no longer an option. Affirmative defenses may provide useful information allowing better evaluation of the case. Any counterclaims may change the posture of the case.

4. *Preliminary Injunction Hearing*

The hearing may be held within a few weeks after the TRO ruling. The plaintiff may also seek a PI at any time pre-trial. Rule 65 requires an evidentiary hearing. The parties may be required to submit to expedited discovery, file proposed findings of fact and conclusions of law, and a trial brief. If a PI issues, it may, like a TRO, decide the case for practical purposes.

Strategic opportunities for settlement surrounding PI:

- After the PI papers are filed;
- After the hearing;
- If a magistrate judge conducts the PI hearing, during the time between the report and recommendation issues, and the district court judge's ruling;
- After the ruling. The ruling can then be appealed.

5. *Rule-Mandated Settlement Negotiations*

Rule 26(f), LR 16.1(B): Parties must confer to consider, *inter alia*, the possibilities for a prompt settlement or resolution of the case.

Under LR 16.1(C), unless otherwise ordered by the judge, the plaintiff must present written settlement proposals to all defendants no later than 10 days before the date for the scheduling conference. Defense counsel must confer with their clients regarding settlement before the conference.

LR 16.4: The judicial officer shall encourage the resolution of disputes by settlement or other alternative dispute resolution programs. At every case management and other conference, the judicial officer shall inquire as to the utility of the parties' conducting settlement negotiations, explore means of facilitating those negotiations, and offer whatever assistance may be appropriate in the circumstances. The judicial officer may refer appropriate cases to alternative dispute resolution programs, such as:

- Mini-trial;
- Summary jury trial;
- Mediation.

ADR may offer a better opportunity for settlement than the parties may have anticipated. Parties who are initially dubious as to the usefulness of ADR have been pleasantly surprised, sometimes learning that the other side is actually more flexible than they had previously believed.

D. Discovery

Key strategic opportunity: After the parties have received crucial discovery responses from their adversaries.

Discovery in software copyright infringement cases involves interrogatories, requests for admission, requests for production of documents and things (including electronic discovery), depositions of witnesses, expert witness depositions, and expert witness reports. The cost

of expert witness discovery can be considerable. Discovery concerning the creation of the infringed work and the allegedly infringing works, and concerning damages may involve highly sensitive, confidential information.

Information may be disclosed during discovery that may determine or strongly influence the determination of the ultimate issues in the case. Responses may reveal a smoking gun, a gap or weakness, or unexpected strength in one or the other side's case. Key information that may be disclosed in software cases includes: the defendant's source code (e.g., it contains copied code); information concerning the creation of the plaintiff's software (e.g., elements were included because they were required by industry standards, or choices were otherwise dictated by function, or elements were copied from other works); financial information in relation to sales and profits, including indirect profits and losses from noninfringing goods; information concerning reasons for the infringer's profits other than the infringement.

Settlement may be more likely:

- After the judge issues a protective order governing the scope of use and disclosure of the parties' trade secret information. Is adequate protection accorded to either party by the protective order? Is critical trade secret information at risk?
- After the judge issues an order compelling discovery if a party:
 - finds the order burdensome (e.g. millions of documents involved), time consuming, expensive;
 - will be embarrassed to reveal the material;
 - considers matter to be confidential, but is unable to obtain protective order or is not satisfied with its terms.

Rule 26(a) Disclosures:

Settlement opportunity: surrounding disclosures of expert testimony under Rule 26(a)(2), including written reports, made at least 90 days before the pretrial conference under LR 26.4.

Each party should have its expert(s) review the opposing side's expert's reports. Much could turn on the parties' assessments of the strength or weakness of these reports.

E. Summary Judgment Motions

1. Key strategic opportunities surrounding summary judgment motions.

Summary judgment can be a very crucial step in copyright

infringement cases. For instance, where the issue of whether and what aspects of the copyrighted work is protected by copyright law is contested, summary judgment on this issue can be akin to a *Markman* hearing in a patent infringement contest. What's at stake is the extent of the plaintiff's intellectual property.

Issues to be briefed include the issues of merger, scènes à faire, lack of protection of ideas and methods of operation, etc. *See* Section II. C. *supra*. Although copyrightability may present issues of mixed law and fact, note that arguably this issue must be determined by the court, not the jury. *Lotus Development Corp. v. Borland Int'l, Inc.*, 788 F.Supp. 78, 85, 96 (D. Mass. 1992) (tentatively concluding that issues of copyrightability must be decided by the court. Ultimately, copyrightability issues were decided via summary judgment, and the remaining liability issues were tried without a jury. *See* 49 F.3d at 809-12 for a procedural history).

2. Reasons to file summary judgment motion:

- a. Even though unlikely to fully resolve the case, rulings may narrow the issues.
- b. Even if it fails, the work done to prepare the motion will help when it comes to trial.

c. The earlier the judge makes essential determinations, the earlier the parties will have objective considerations upon which to base assessment of settlement positions. Issues could include:

- Determination of the portions of the work that are protectable by copyright, and portions that are not protectable
- ownership
- infringement

Ex. summary judgment re virtual identity.

- affirmative defenses

3. *Reasons not to file summary judgment motion:*

- a. Some issues, such as whether the defendant had access to the copyrighted work, may depend on disputed issues of fact.
- b. If there is summary judgment on liability, the jury deciding damages may not hear extensive testimony concerning liability (and either party may believe that such testimony may be helpful in relation to the damages determination).
- c. Motion may expose weaknesses in case.
- d. Declarations in support of summary judgment may “freeze” a party’s position and provide grounds for impeachment of witnesses at trial.
- e. substantial costs in briefing the issues.

F. Final Pretrial Conference.

- 1. *Key strategic opportunities: surrounding the preparations for the final pretrial conference, and at the conference itself.***

Filings including motions in limine, outlines of facts and law and proposed jury instructions may again focus the parties on the risks of adverse rulings. Especially with respect to issues not previously briefed in the context of summary judgment motions, parties may for the first time be forced to recognize potential weaknesses in proof or in their legal arguments, or that crucial issues may be substantially affected by a decision the judge may not make until the trial (such as pivotal jury instructions). The significant drain on resources imposed on the parties by these substantial pretrial filings also add pressure to find a resolution. The judge may lean heavily on the parties during the conference in an effort to promote settlement.

2. *Prior to Final Pretrial Conference*

Rule 26(a)(3) pretrial disclosures (at least 30 days before the final pretrial conference, under LR 16.5(C)), and objections to the adversary's disclosures, may focus the parties on specific areas of dispute.

Pretrial motions typically include motions in limine, final discovery motions, and motions for a phased trial (such as bifurcating infringement and damages). After rulings on motions in limine, settlement may be more likely if crucial evidence is excluded (or permitted).

3. *Trial Brief*

- Filed 5 days before trial under LR 16.5(F).
- May include proposed findings of fact and conclusions of law; proposed jury instructions and verdict form.

K. Trial

Multiple key strategic opportunities: throughout the trial

During the trial, two key factors affect settlement considerations:

1. How the Evidence Progresses

- Whether witnesses performs well or poorly.
- Whether key documents or key witness testimony is admitted or excluded.
- How well a party has succeeded in presenting its case overall.

2. Rulings Made as a Matter of Law by the Court

The judge may decide certain issues are issues of law for the judge not the jury to decide (e.g. copyrightability of portions of the work in dispute).

- Motions for judgment as a matter of law at the close of the plaintiff's evidence, and at close of defendant's evidence;
- Jury charge issues including protectability (the judge may instruct the jury as to which elements of the work are not protectable - *see* Section IV.E.1. *supra*) and whether virtual identity or exact duplication, rather than substantial similarity, is required for infringement (discussed in Section II B. 1. c. *supra*).

L. APPEAL

Key strategic opportunities surrounding motion to stay injunction and for bond pending appeal and in relation to merits on appeal.

A lot may ride on whether a permanent injunction is stayed. If not, the defendant's continued commercial existence may be at risk. To minimize the disruptive impact of the injunction, the defendant should consider whether a design around/clean room is feasible.

Depending on the size of any monetary award, if the defendant cannot obtain the bond needed to obtain a stay of execution pending appeal, the defendant's financial health may likewise be at risk.

Merits on appeal: The issues may be legal, permitting *de novo* review and carrying a relatively high prospect of success, or factual, with a low prospect of success.