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Recent Development

SELECTED RECENT DEVELOPMENTS IN COPYRIGHT LAW

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I. Introduction

The last few months have seen two landmark Supreme Court copyright decisions and a number of interesting decisions in the lower courts. In the first Supreme Court decision, handed down in March, the Supreme Court resolved a conflict among the circuits in ruling that for purposes of awarding costs (including a reasonable attorney's fee) under Section 505 of the Copyright Act in infringement actions, prevailing plaintiffs and prevailing defendants are to be treated evenly. In the second Supreme Court decision, decided in June, the Supreme Court gave us additional insight into the fair use calculus in holding that 2 Live Crew's parody of the lyrics from Roy Orbison's song "Oh Pretty Woman" was a fair use.

Reported below by topic are selected copyright decisions reported in volumes 29 through 31 of the United States Patent Quarterly.

*58 II. Case Reviews

A. Fair Use

1. Parodies--The Pretty Woman Case.

In a widely publicized and dissected decision, the Supreme Court held that 2 Live Crew's rap parody of Roy Orbison's song "Oh, Pretty Woman" was a fair use of the lyrics of the song.¹ In so holding, the Supreme Court stated that determining whether the fair use doctrine applies "is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis."

Under the first fair use factor--the purpose and character of the use--the Court noted that "transformative" uses of a work, e.g., uses which add something new to the parodied work, are more likely to be considered fair uses as they serve "the goal of copyright, to promote science and the arts. . . ." The Court also placed importance on the fact that 2 Live Crew's work in fact "commented" on Roy Orbison's work, noting that satire which does not comment on the work used may not enjoy fair use status. Finally, the Court also undercut the often-cited proposition from its decision in *Sony Corp. of America v. Universal City Studios, Inc.*² that every commercial use of copyrighted material is presumptively unfair. Instead, the Court held that the commercial nature of the defendant's use is simply one factor to consider.

The second fair use factor--the nature of the copyrighted work--was essentially dismissed as not being helpful in parody cases. In assessing the third factor--the amount and substantiality of the taking--the Court noted that the parodist must be given the liberty to "conjure up" the parodied work so as to "make the object of its critical wit recognizable." Finally, the Court held that in assessing the fourth factor--the effect on the market or value of the work--any suggestion in the *Sony* case that market harm is to be presumed is not applicable "to a case involving something beyond mere duplication for commercial purposes."

The *Pretty Woman* decision will obviously substantially impact the analysis of fair use in parody cases. Its broader application by the lower courts to the fair use calculus in other types of fair use cases, although likely to be significant, remains to be seen.

2. Other Fair Use Cases.

In a pitched battle between two organizations on opposite ends of the gun control issue, the Sixth Circuit ruled that the copying of a list of legislators from a newsletter was fair use.³ In the case, the National Rifle Association of America ("NRA") sued the Handgun Control Federation of Ohio ("HCF") for infringement of the NRA's copyrights in a newsletter sent to NRA members urging opposition to gun control bills pending in the Ohio legislature. The NRA attached to each *59 newsletter a three-page listing of Ohio state legislators. Shortly after the NRA sent out its newsletter, HCF sent out a ten-page newsletter in support of the same Ohio bills. The last two pages of the HCF newsletter contained a list of Ohio State legislators, which HCF admits was a photocopy of the NRA mailings.

The Sixth Circuit affirmed the grant of summary judgment and agreed that analysis of the four fair use factors led to the conclusion that HCF's copying was a "fair use." The appellate court's examination focused primarily upon the effect HCF's use might have upon the market for the original work. After determining that the use would not damage the market for the NRA's work, the Court found that analysis of the other § 107 factors also militated for a finding of fair use (the underlying work was factual in nature, HCF used only a portion of the entire NRA newsletter, and HCF's newsletter served an educational purpose).

B. Infringement

1. Agency Defense

In a welcome decision, the Eighth Circuit overturned a district court decision which had seemingly placed difficult restrictions upon infringement investigations conducted by copyright owners.⁴ The case involved Olan Mills, which operates a nationwide chain of photography studios. Linn Photo Company reproduces photographs. Olan Mills hired a private investigator to surreptitiously submit four copyrighted Olan Mills photographs to Linn Photo for reproduction. In several instances, Linn Photo required the private investigator to sign a standard "hold-harmless" agreement which required Linn Photo's customer to represent that the customer was the "owner" of the photograph submitted for reproduction, that the customer had not given any other party permission to copyright the photograph, and that the customer agreed to hold Linn Photo harmless from any liability for copying the photograph.

The trial court granted summary judgment to Linn Photo on the ground that the investigator who submitted the photograph to Linn Photo was an agent for Olan Mills and had therefore licensed the copying. The trial court further awarded Linn Photo its attorney fees on the basis of the "hold-harmless" form signed by Olan Mills' private investigator.⁵

In reversing the trial court, the Eighth Circuit held that the technique employed by Olan Mills to catch Linn Photo was similar to other "investigative schemes" upheld in other infringement actions. The Court noted that the private investigator was only empowered by Olan Mills to act as a customer who owned a copy of a copyrighted work. Since Linn Photo failed to inquire as to whether the copyright owner waived its right of reproduction, the court opined that the authority given the investigator by Olan Mills was irrelevant. The Court also held that the "hold-harmless" agreement was ineffective and Linn Photo remained liable for copyright infringement as Linn Photo copied photographs clearly marked with a copyright notice, had received prior notice from Olan Mills that its activities constituted infringement, and had concocted the agreement "in an effort to circumvent liability for its infringing conduct."

***60 2. Computer Programs**

The Fifth Circuit has relied in part on the "abstraction-filtration-comparison" test articulated in *Computer Assocs. Int'l., Inc. v. Altai, Inc.*,⁶ in resolving a copyright dispute involving computer software.⁷ In the case, Professors Vroom and Yetton developed a management decision support model (the V-Y model) to help managers choose the most appropriate decision-making process to use in a given situation. Kepner-Tregoe Inc. ("K-T") acquired ownership of the copyright in materials relating to the V-Y model for use in its management training seminars. Professors Vroom and Jago created a software program based upon the V-Y model for their company, Leadership Software, Inc. (LSI). K-T filed suit after learning that LSI had been marketing this software. The trial court held that LSI's software program infringed K-T's copyrights and awarded damages as well as a permanent injunction barring distribution of: (1) the original LSI program; (2) a modified version of the program that LSI developed in an effort to expunge infringing materials; and (3) all future modifications and revisions of the program.

On appeal, the Fifth Circuit affirmed the injunction against the existing versions of the software program but modified the scope of the injunction as to future programs. In determining that LSI infringed K-T's copyrights, the Court found that K-T owned a valid copyright in the seminar materials and that LSI copied portions of those materials. Then, paying homage to the *Altai* "abstraction-filtration-comparison" test, the Fifth Circuit held that the structure, sequence, and organization of K-T's materials did constitute "protectable expression." The Court also sought to dispel any notion that this holding was inconsistent with its 1987 decision in *Plains Cotton Coop. Assoc. v. Goodpasture Computer Servs., Inc.*,⁸ maintaining that *Plains Cotton* did not purport to stand for any general proposition that copyright protection should extend only to the literal text of copyrighted works, but should be viewed as a fact-specific decision.

3. Computer Programs--In Memory

In a controversial decision last year, the Ninth Circuit ruled that “copying” for purposes of copyright law occurs when a computer program is transferred from a permanent storage device to a computer’s random access memory (“RAM”).⁹ Based upon that determination, the Court found when a third-party maintenance firm loaded a computer program into the RAM of a computer owned by its customer, the maintenance firm created an infringing copy since only the customer (and not the maintenance firm) was licensed to use the program.

The decision cast doubt on the viability of the independent service organization (ISO) industry, but was much criticized for failing to answer the question of whether the ISO’s activities constituted “fair use.” Two subsequent decisions have addressed this issue. In one case, *Advance Computer Servs., Inc. v. MAI Sys.*,¹⁰ the court upon a motion for summary judgment concluded that an evaluation *61 of the four fair use factors “points convincingly against a finding of fair use” by the ISO. In the other case, *Triad Systems Corp. v. Southeastern Express Co.*,¹¹ also considered in a summary judgment context, the court concluded that while the ISO could not prevail on its summary judgment defense of fair use, it had raised sufficient genuine issues of material fact to preclude summary judgment for the copyright owner on the issue of infringement.

4. Foreign Infringement

The Ninth Circuit, in an *en banc* rehearing, held that a party cannot be liable under United States copyright law for authorizing an act that itself does not constitute an infringement of rights secured by those laws, and that wholly extraterritorial acts of infringement are not cognizable under the Copyright Act.¹² In so holding, the court reversed its prior holding in *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*,¹³ insofar as that opinion held that allegations of an authorization within the United States of infringing acts that take place entirely abroad state a claim for infringement under the Copyright Act.

C. Ownership

1. Statute of Frauds

In a case with a peculiar set of facts, the Ninth Circuit held that a letter which confirmed an alleged exclusive copyright license that was signed after the expiration of the term of the alleged license is not sufficient to satisfy the writing requirement of § 204(a) of the Copyright Act.¹⁴

2. Works Made for Hire

Following section 228 of the Restatement of Agency,¹⁵ the Fourth Circuit held that, for purposes of the Copyright Act, a work is created by an employee within the scope of his or her employment only if the work is of the kind the employee is employed to create, is created substantially within the authorized time and space limits, and is created, at least in part, for a purpose that serves the employer.¹⁶

If an employee creates a work “of a kind” he is employed to create, the fact that the employee creates the work at home during off-hours, without direction or extra compensation from his employer, does not generally negate the employer’s ownership of the work, provided that the employee is “at least appreciably motivated by a desire to further” his employer’s goals. The district court erred in concluding that the use to which an employer was going to put software created by an employee, e.g., for demonstration purposes rather than as a commercial product, was relevant in determining whether the software was a work made for hire under the Copyright Act.

***62 D. Procedure**

1. 1909 Act Copyright Rules

The Sixth Circuit held that § 503(a) does not authorize the *ex parte* seizure of business records that do not qualify as infringing copies or articles used to make infringing copies. Absent a showing that defendants were likely to conceal evidence or disregard court orders, Fed. R. Civ. P. 65(b) does not justify *ex parte* seizure of such evidence.¹⁷ While the plaintiff in the case had complied with the Copyright Rules promulgated by the Supreme Court pursuant to its rule-making power under § 25(e) of the 1909 Copyright Act (“Copyright Rules”), the Court held that the “*ex parte* order issued by the district court was too broad to fall within the authorization of 17 U.S.C. § 503(a) and the Copyright Rules.”¹⁸ Section 503(a)

and the Copyright Rules permit only the seizure of infringing goods and articles used to produce infringing goods. Here, the business records seized did not fall into either category, but were “no more than possible evidence of an alleged infringement.”¹⁹ Further, § 503(a) allows a plaintiff only to “maintain the feasibility of the eventual destruction of [infringing] items”;²⁰ it does not give a copyright holder “a means to preserve evidence generally.”²¹ For a case discussing the constitutionality of the Copyright Rules, see *Paramount Pictures Corp. v. Doe*.²²

2. Personal Jurisdiction

The Fifth Circuit recently decided an interesting battle over personal jurisdiction in a copyright case involving ZZ Top’s famous song, “La Grange.”²³ In the case, Ham, who owns the copyright in “La Grange,” was sued by Besman and his company, La Cienega Music, on the grounds that “La Grange” infringed their copyright in the song “Boogie Chillen.” Ham’s subsequent declaratory judgment action was dismissed the action for lack of personal jurisdiction.

On appeal, the Fifth Circuit held that the exercise of personal jurisdiction in this case would offend due process. The Court rejected Ham’s argument that Besman, a non-resident defendant, was subject to personal jurisdiction because (i) he exploited the song nationwide (through the sale of recordings and a performance rights licensing arrangement with BMI), and (ii) he mailed a demand letter to Ham in Texas. The Fifth Circuit acknowledged that Besman’s activities connect him with Texas in the sense required by the Court’s “stream of commerce” cases. However, Ham “demonstrated at best a highly attenuated relationship between the subject matter of the instant declaratory judgment action and distribution of music in Texas by Besman.” The Court also noted that Ham’s complaint did not allege any injury flowing from that distribution; rather, “resolution of this action depends solely upon whether ‘La Grange’ infringed copyrights owned by Besman,” and *63 none of Besman’s contacts with Texas related to the merits of that issue. Finally, the Court observed that its constitutional analysis might have led to a different result in an action asserting that “Boogie Chillen” infringed the copyright in another work.

E. Remedies

1. Attorney Fees--The Supreme Court’s View

In a very important decision, the Supreme Court announced a rule concerning awards of attorney fees in copyright cases which will may give pause to copyright owners who wish to enforce their rights in marginal cases or in cases involving disputed issues in copyright law.²⁴ The case before the Supreme Court involved singer/songwriter John Fogerty, who was sued for copyright infringement by Fantasy upon a claim that one of Fogerty’s recent hit songs infringed the copyright in a previous Fogerty composition owned by Fantasy. After the jury found for Fogerty, Fogerty mounted an unsuccessful claim for attorney’s fees, based upon § 505 of the Copyright Act (which allows a court in its discretion to award “a reasonable attorney fee to the prevailing party as part of the costs”).

This case presented an opportunity for the Supreme Court to resolve a conflict among the circuits regarding the standards for awarding attorney fees to prevailing defendants. The Second, Seventh, Ninth and D.C. Circuits observed the “dual rule,” which provides that a prevailing copyright plaintiff would be awarded fees as a matter of course, while a prevailing defendant would not receive attorney fees unless the defendant could demonstrate that the infringement action was either frivolous or was brought and prosecuted in bad faith. By contrast, the Fourth and Eleventh Circuits used the so-called “evenhanded” approach, which requires no such showing of bad faith or frivolity.

The Supreme Court ruled that no justification for treating prevailing plaintiffs differently than prevailing defendants can be found in the objectives of the Copyright Act, its legislative history or the plain language of § 505. The Court stated that, while rewarding the labor of authors is an objective of the Copyright Act, the primary objective is to encourage the production of literary, artistic and musical expression for the good of the public. It also noted that “entities which sue for copyright infringement can run the gamut from corporate behemoths to starving artists; the same is true of prospective copyright defendants,”²⁵ and that defendants are as likely to be copyright holders as are plaintiffs (as was indeed the situation in this case). In short, since the purpose of the Act is to enrich the general public through access to creative works, the public interest is served by encouraging meritorious claims, regardless of who mounts them. Finally, the Court rejected Fogerty’s argument that fees should be awarded as a matter of course to the winning party (the “British Rule”), observing that the statutory language, which is clearly discretionary, shows that there was no Congressional intent to adopt a mechanical rule..

***64 2. Attorney Fees--Post-Fogerty Decisions**

Professor Laycock noted that “*Fogerty* may not turn out to be a very important decision in fee shifting cases since the Supreme Court is so vague at the end of the opinion. The Court does not give clear instructions on remand.”²⁶ However, *Fogerty* may turn out to be significant since “[F]or the first time the court explicitly says that a key variable in attorneys fees policy is the relative wealth of the parties.”²⁷

In the copyright context, the *Fogerty* decision retained a potential pro-defendant bias. Since the Senate did not pass the Copyright Reform Act, S. 373 (DeConcini),²⁸ which would have abolished timely registration as a prerequisite for a copyright owner to obtain attorney’s fees and statutory damages, the existing pro-defendant bias for fee shifting in copyright cases remains. Currently prevailing defendants may potentially recover their attorney’s fees in any case, but under § 412, prevailing plaintiffs may only recover attorney’s fees if they registered their copyright in a timely manner. At least one court, however, has interpreted the *Fogerty* decision in a manner which still imposes roadblocks on a prevailing defendant’s ability to recover attorney’s fees. In *Diamond Star Building Corp. v. Freed*,²⁹ the Fourth Circuit acknowledged the *Fogerty* mandate that prevailing plaintiffs and prevailing defendants be treated equally. The Court used four factors, presumably to be applied in gauging a fee request submitted by any prevailing party, which were distilled from its prior decision in *Rosciszewski v. Arete Assocs., Inc.*,³⁰: “(1) the motivation of the parties, (2) the objective reasonableness of the legal and factual positions advanced, (3) the need in particular circumstances to advance considerations of compensation and deterrence, and (4) any other relevant factor presented.”³¹

3. Infringer’s Profits

The Second Circuit ruled that income tax paid on profits may be deductible in cases of non-willful infringement,³² noting that “when a claim is made for infringing profits, ‘this means profits actually made. . . .’”³³ The Court noted that “a book profit of a dollar is not a profit actually made when from the dollar the government takes twenty cents as the price for the right to make any profit at all”³⁴ Therefore, the Court concluded that, in appropriate cases, income tax expenses may be included in deductible overhead in determining a defendant’s net profit.

*65 4. Wrongful Injunctions

In a case of first impression in the Ninth Circuit, the Ninth Circuit Court of Appeals held that a party is wrongfully enjoined “when it turns out the party enjoined had the right all along to do what it was enjoined from doing.” The good faith of the party seeking the injunction is not a defense to a claim of wrongful injunction. When a party is wrongfully enjoined, a rebuttable presumption arises that such party is entitled to execute upon the bond posted for the injunction pursuant to Fed. R. Civ. P. 65(c) and to recover such party’s damages up to the amount of that bond.³⁵

Footnotes

^{a1} Conley, Rose & Tayon, P.C. Mr. McDaniel is a shareholder of the firm resident in its Austin office. He gratefully acknowledges the contributions to this article made by Shannon T. Vale of the law firm of Arnold, White & Durkee, his friend and colleague.

¹ Campbell v. Acuff-Rose Music, Inc. 114 S.Ct 1164, 29 U.S.P.Q.2d (BNA) 1961 (1994).

² 464 U.S. 417 (1984).

³ National Rifle Assoc. of America v. Handgun Control Fed’n of Ohio, 15 R.3d 559, 29 U.S.P.Q.2d (BNA) 1634 (6th Cir. 1994).

⁴ Olan Mills, Inc. v. Linn Photo Co., 23 F.3d 1345, 30 U.S.P.Q.2d (BNA) 1798 (8th Cir. 1994).

⁵ Olan Mills, Inc. v. Linn Photo Co., 795 F. Supp. 1423 (N.D. Iowa 1991).

⁶ 982 F.2d 693 (2d Cir. 1992).

7 Kepner-Tregoe, Inc. v. Leadership Software, Inc., 12 F.3d 527 29 U.S.P.Q.2d (BNA) 1747 (5th Cir. 1994).

8 807 F.2d 1256, 1 U.S.P.Q.2d (BNA) (5th Cir. 1987), *re'h in banc denied* (1987) *cert. denied*, 484 U.S. 821 (1987),

9 MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 26 U.S.P.Q.2d (BNA) 1458 (9th Cir. 1993), *cert dismissed* 114 S.Ct. 671 (1994).

10 845 F. Supp. 356, 30 U.S.P.Q.2d (BNA) 1443 (E.D. Va. 1994).

11 31 U.S.P.Q.2d (BNA) 1239 (N.D. Ca. 1994).

12 Subafilms, Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088, 30 U.S.P.Q.2d (BNA) 1746 (9th Cir. 1994).

13 783 F.2d 1440, 229 U.S.P.Q. (BNA) 127 (9th Cir. 1986).

14 Konigsberg Int'l, Inc. v. Rice, 15F.3d 355, 29 U.S.P.Q.2d (BNA) 1789 (9th Cir. 1994).

15 RESTATEMENT (SECOND) OF AGENCY § 228 (1958).

16 Avtec Sys., Inc. v. Peiffer, 21 F.3d 568, 30 U.S.P.Q.2d (BNA) 1365 (4th Cir. 1994).

17 First Technology Safety Sys., Inc. v. Depinet, 11 F.3d 641, 29 U.S.P.Q.2d (BNA) 1269 (6th Cir. 1993).

18 11 F.3d at 649.

19 *Id.*

20 *Id.* (citing *Midway Mfg. Co. v. Omni Video Games, Inc.*, 668 F.2d 70, 72 (1st Cir. 1981)).

21 *Id.*

22 821 F. Supp. 82 (E.D.N.Y. 1993).

23 *Ham v. La Cienega Music Co.*, 4 F.3d 413 (5th Cir. 1993).

24 *Fogerty v. Fantasy Inc.*, 114 S. Ct. 1023, 29 U.S.P.Q.2d (BNA) 1881 (1994).

25 114 S.Ct 1023, 1027 (quoting *Cohen v. Virginia Elec. & Power Co.*, 617 F. Supp. 619, 622-23 (E.D. Va. 1985)).

26 Interview with Professor Douglas Laycock, Alice McKean Young Regents Chair in Law, Associate Dean for Research, The University of Texas at Austin, in Austin, Tex. (Dec. 6, 1994).

27 *Id.*

28 S. 373 103 Cong., 1st Sess. (1993).

29 30 F.3d 503, 30 U.S.P.Q.2D 1491 (4th Cir. 1994).

30 1 F.3d 225 (4th Cir. 1993).

31 *Id.* at 233-34.

32 In Design v. K-Mart Apparel Corp., Selective Knitwear, Inc., 13 F.3d 559, 29 U.S.P.Q.2d (BNA) 1356 (2d Cir. 1994).

33 13 F.3d 559 at 567 (citing Macbeth-Evans Glass Co. v. L.E. Smith Glass Co., 23 F.2d 459, 463 (3d Cir. 1927)).

34 *Id.*

35 Nintendo of America, Inc. v. Lewis Galoob Toys, Inc., 16 F.3d 1032, 29 U.S.P.Q.2d (BNA) 1857 (9th Cir. 1994).