

# **EXHIBIT 41**

## Exhibit 41

- A. *Alvarado v. Federal Express Corp.*, No. C 04-0098 SI, 2008 U.S. Dist. LEXIS 21238 (N.D. Cal. Mar. 18, 2008)
- B. *DaimlerChrysler Servs. v. Summit Nat'l*, No. 02-71871, 2006 WL 208787 (E.D. Mich. Jan. 26, 2006)
- C. *Drew v. Equifax Info. Servs., LLC*, No. C 07-00726 SI, 2010 WL 5022466 (N.D. Cal. Dec. 3, 2010)
- D. *Informatica Corp. v. Business Objects Data Integration, Inc.*, No. C 02-03378 EDL, 2007 WL 2344962 (N.D. Cal. Aug. 16, 2007)
- E. *Interplan Architects, Inc. v. C.I. Thomas, Inc.*, No. 4:08-cv-03871, 2010 U.S. Dist. LEXIS 114306 (S.D. Tex. Oct. 27, 2010)
- F. *Jamison Bus. Sys., Inc. v. Unique Software Support Corp.*, No. CV 02-4887 (ETB), 2005 U.S. Dist. LEXIS 45480 (E.D.N.Y. May 26, 2005)
- G. *Leland Med Ctrs., Inc v. Weiss*, No. 4:07cv67, 2007 WL 2900599 (E.D. Tex. Sept. 28, 2007)
- H. *Propet USA, Inc. v. Shugart*, No. C06-0186-MAT, 2007 U.S. Dist. LEXIS 69222 (W.D. Wash. Sept. 19, 2007)
- I. *Smith v. Rush*, No. C04-2280Z, 2006 U.S. Dist. LEXIS 27412 (W.D. Wash. Apr. 7, 2006)
- J. *Uniloc USA, Inc. v. Microsoft Corp.*, 2011 U.S. App. LEXIS 11 (Fed. Cir. Jan. 4, 2011)

A

LEXSEE



Caution

As of: Feb 23, 2011

**EDWARD ALVARADO, et al., Plaintiffs, v. FEDERAL EXPRESS CORPORATION, Defendant.**

**No. C 04-0098 SI**

**UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA**

**2008 U.S. Dist. LEXIS 21238**

**March 18, 2008, Decided**

**March 18, 2008, Filed**

**SUBSEQUENT HISTORY:** Motion for new trial denied by, Motion denied by [Alvarado v. Fed. Express Corp., 2008 U.S. Dist. LEXIS 21269 \(N.D. Cal., Mar. 18, 2008\)](#)

Affirmed by [Alvarado v. Fed. Express Corp., 2010 U.S. App. LEXIS 12306 \(9th Cir. Cal., June 16, 2010\)](#)

**PRIOR HISTORY:** [Alvarado v. Fed. Express Corp., 2008 U.S. Dist. LEXIS 11345 \(N.D. Cal., Feb. 4, 2008\)](#)

**CASE SUMMARY:**

**PROCEDURAL POSTURE:** Plaintiff employee sued defendant employer alleging racial discrimination and retaliation. A jury returned a verdict against the employee on the discrimination claim but found in favor of the employee on the retaliation claim and awarded damages in the amount of \$ 500,000. The employer renewed its motion for judgment as a matter of law and moved for a new trial, or alternatively, moved for amendment of the judgment.

**OVERVIEW:** The employer contends that the retaliation claim should be dismissed a matter of law because the employee did not show that he was subjected to any materially adverse employment action or that the alleged illegal employment actions were causally related to

protected activity. The court found that schedule changes and job assignments could be "materially adverse" depending on the context. The evidence showed that the employee repeatedly complained about discrimination, and that soon after his complaints, he was subjected to various adverse employment actions such as discipline, unfavorable changes in shift and job assignments, and receiving a low performance score. The jury's award of \$ 500,000 in emotional distress damages was excessive and unsupported by the evidence, and it should be reduced to \$ 300,000. Notably, there was no testimony that the employee suffered from depression or anxiety, or that the employee was unable to perform his job. The employee did not prevail on his discrimination claim, and there was no evidence of any loss of salary or benefits as a result of the retaliation. There were no errors with regard to the jury instructions.

**OUTCOME:** The renewed motion for judgment was a matter of law was denied. The motion for a new trial was granted unless the employee accepted the court's order of remittitur.

**CORE TERMS:** new trial, retaliation, remittitur, punitive damages, matter of law, top-side, protected activity, damages award, materially, excessive, assigned, similarly-situated, supervisor, disability, discovery,

renewed, discrimination claim, prevailing party, unsupported, retaliated, quotation, accepting, admitting, punitive, time limitation, class members, similarly situated, opening statement, closing argument, termination

#### **LexisNexis(R) Headnotes**

##### ***Civil Procedure > Trials > Judgment as Matter of Law > Postverdict Judgments***

[HN1]In reviewing a defendant's motion for judgment as a matter of law, the court must view the evidence in the light most favorable to the plaintiff and draw all reasonable inferences in his favor. The test applied is whether the evidence permits only one reasonable conclusion, and that conclusion is contrary to the jury's verdict.

##### ***Labor & Employment Law > Discrimination > Retaliation > Elements > Adverse Employment Actions***

[HN2]A plaintiff alleging retaliation must show that a reasonable employee would have found the challenged action materially adverse, which in this context means it well might have dissuaded a reasonable worker from making or supporting a charge of discrimination.

##### ***Labor & Employment Law > Discrimination > Retaliation > Elements > Adverse Employment Actions***

[HN3]With regard to a claim of retaliation, schedule changes and job assignments could be "materially adverse" depending on the context.

##### ***Civil Procedure > Remedies > Damages > Punitive Damages***

##### ***Labor & Employment Law > Discrimination > Actionable Discrimination***

[HN4]An employer may be liable for punitive damages in any case where it discriminates in the face of a perceived risk that its actions will violate federal law.

##### ***Civil Procedure > Judgments > Relief From Judgment > Motions for New Trials***

[HN5][Fed. R. Civ. P. 59\(a\)](#) states that a new trial may be granted in an action in which there has been a trial by jury, for any of the reasons for which new trials have

heretofore been granted in actions at law in the courts of the United States. [Fed. R. Civ. P. 59\(a\)\(1\)](#). The United States Court of Appeals for the Ninth Circuit has noted that [Rule 59](#) does not specify the grounds on which a motion for a new trial may be granted. Instead, the court is bound by those grounds that have been historically recognized. Historically recognized grounds include, but are not limited to, claims that the verdict is against the weight of the evidence, that the damages are excessive, or that, for other reasons, the trial was not fair to the party moving. The Ninth Circuit holds that the trial court may grant a new trial only if the verdict is contrary to the clear weight of the evidence, is based upon false or perjurious evidence, or to prevent a miscarriage of justice.

##### ***Civil Procedure > Judgments > Relief From Judgment > Motions for New Trials***

[HN6]In reviewing a [Fed. R. Civ. P. 59](#) motion based on insufficiency of the evidence, a court must evaluate the evidence and assess for itself the credibility of witnesses. However, the court may not grant a [Rule 59](#) motion merely because it might have come to a different result from that reached by the jury.

##### ***Civil Procedure > Judgments > Relief From Judgment > Additurs & Remittiturs > Remittiturs***

[HN7]The United States Court of Appeals for the Ninth Circuit holds that a jury's finding on the amount of damages should be reversed only if the amount is "grossly excessive or monstrous", or if the amount is "clearly unsupported by the evidence" or "shocking to the conscience." In making this determination, the court must focus on evidence of the qualitative harm suffered by the plaintiff. The severity or pervasiveness of the conduct is relevant insofar as it provides probative evidence from which a jury may infer the nature and degree of emotional injury suffered, but direct evidence of the injury is still the primary proof.

##### ***Civil Procedure > Judgments > Relief From Judgment > Additurs & Remittiturs > Remittiturs***

[HN8]When the court, after viewing the evidence concerning damages in a light most favorable to the prevailing party, determines that the damages award is excessive, it has two alternatives. It may grant a defendant's motion for a new trial or deny the motion conditional upon the prevailing party accepting a remittitur. The prevailing party is given the option of

either submitting to a new trial or of accepting a reduced amount of damage which the court considers justified.

***Labor & Employment Law > Discrimination > Racial Discrimination > Proof > General Overview***

[HN9]Evidence of the employer's discriminatory attitude in general is relevant and admissible to prove race discrimination.

***Labor & Employment Law > Discrimination > Disparate Treatment > General Overview***

[HN10]With regard to a claim for employment discrimination, individuals are similarly situated when they have similar jobs and display similar conduct.

***Civil Procedure > Trials > General Overview***

[HN11]It is within a court's discretion to set reasonable time limits on a trial. Rigid and inflexible hour limits on trials are generally disfavored.

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For Fedex Corporation, a Delaware Corporation, doing business as Fedex Express, Defendant: Cynthia J.

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For Young, Carlene, Miscellaneous: Bruce C. Funk, LEAD ATTORNEY, Law Office [\*3] of Bruce C. Funk, San Jose, CA.

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For Derrick Satchell, Intervenor: Guy Burton Wallace, Schneider & Wallace, San Francisco, Ca.

**JUDGES:** SUSAN ILLSTON, United States District Judge.

**OPINION BY:** SUSAN ILLSTON

**OPINION**

**ORDER DENYING DEFENDANT'S MOTION FOR**

**RENEWED JUDGMENT AS A MATTER OF LAW;  
GRANTING DEFENDANT'S MOTION FOR NEW  
TRIAL UNLESS PLAINTIFF ALVARADO  
ACCEPTS REMITTITUR**

**RE: EDWARD ALVARADO**

A jury trial was held from August 28, 2006 to September 6, 2006. The jury found against plaintiff Edward Alvarado on his discrimination claim, in favor of plaintiff Alvarado on his retaliation claim, and awarded damages in the amount of \$ 500,000. The Court entered final judgment on February 28, 2007. Defendant has now filed a renewed motion for judgment as a matter of law, as well as a motion for a new trial, or alternatively a motion for amendment of the judgment. Defendant also alternatively requests remittitur of the damages award.

**I. Renewed motion for judgment as a matter of law**

[HN1]In reviewing defendant's motion for judgment as a matter of law, the Court must view the evidence in the light most [\*4] favorable to plaintiff and draw all reasonable inferences in his favor. See *Josephs v. Pacific Bell*, 443 F.3d 1050, 1062 (9th Cir. 2006). "The test applied is whether the evidence permits only one reasonable conclusion, and that conclusion is contrary to the jury's verdict." *Id.*

Defendant contends that plaintiff Alvarado's retaliation claim should be dismissed a matter of law because Alvarado did not show that he was subjected to any materially adverse employment action or that the alleged illegal employment actions were causally related to protected activity. Defendant relies on *Burlington Northern & Santa Fe Railway Company v. White*, 548 U.S. 53, 126 S. Ct. 2405, 165 L. Ed. 2d 345 (2006), which held that [HN2]a plaintiff alleging retaliation must "show that a reasonable employee would have found the challenged action materially adverse, which in this context means it well might have dissuaded a reasonable worker from making or supporting a charge of discrimination." *Id.* at 2415 (internal quotations and citations omitted). Defendant argues that the adverse employment actions at issue here -- such as Alvarado's job assignments -- were not "materially adverse" or objectively unreasonable. However, as the *Burlington Northern* [\*5] court noted,[HN3] schedule changes and job assignments could be "materially adverse" depending on the context. See *id.* at 2415-16. The Court finds that, applying the relevant standard, a jury could reasonably

conclude that Alvarado suffered materially adverse employment actions.

Defendant also argues that it is entitled to judgment as a matter of law because plaintiff Alvarado failed to establish a causal connection between his protected activity and the adverse employment actions. The Court disagrees, finding that Alvarado put on evidence "sufficient for a reasonable trier of fact to infer that the defendant was aware that the plaintiff had engaged in protected activity." *Raad v. Fairbanks N. Star Borough Sch. Dist.*, 323 F.3d 1185, 1197 (9th Cir. 2003). Alvarado's evidence showed that he repeatedly complained about discrimination, and that soon after his complaints, he was subjected to various adverse employment actions such as discipline, unfavorable changes in shift and job assignments, and receiving a low performance score.<sup>1</sup>

1 The Court also rejects defendant's contention that the Court improperly allowed evidence regarding Alvarado's dismissed age and disability claims. The Court allowed [\*6] such evidence insofar as Alvarado's complaints about alleged age and disability discrimination constituted protected activities giving rise to his retaliation claim.

Defendant also contends that plaintiff Alvarado's retaliation claim fails because Alvarado did not show that he was treated less favorably than employees who did not complain of discrimination. Specifically, FedEx argues that Lou Cuneau -- who shared the Mountain View route with Alvarado -- testified that he also did not receive assistance with his route, and Cuneau also testified that he witnessed Alvarado receiving help. However, Alvarado's testimony on this point contradicted Cuneau's, and the jury was entitled to credit Alvarado's testimony over Cuneau's. Defendant also argues that Alvarado's retaliation claim fails because other employees testified that they too were assigned "top-side" and that they did not receive assistance downloading freight. Here also, however, the evidence at trial was disputed; Alvarado and other employees testified that they were assigned top-side after they made complaints. Moreover, even accepting defendant's characterization of the evidence, there were additional bases for Alvarado's retaliation [\*7] claim upon which the jury could have found for Alvarado. Alvarado also introduced evidence that FedEx retaliated against him by, *inter alia*, cutting his hours and issuing

him a disciplinary performance reminder as well as a low performance score.

Finally, defendant contends that plaintiff Alvarado's punitive damages claim should be dismissed as a matter of law because there was no evidence of intentional discrimination. This contention lacks merit. As an initial matter, the jury did not award punitive damages; the jury awarded \$ 500,000 in the compensatory damages phase, and \$ 0 in the punitive damages phase. Defendant asserts that the jury must have included punitive damages in the compensatory damages award. However, even if that is true, the jury found that defendant retaliated against Alvarado for engaging in protected activity; such intentional conduct could support a punitive damages award. See *Kolstad v. American Dental Ass'n*, 527 U.S. 526, 536, 119 S. Ct. 2118, 144 L. Ed. 2d 494 (1999) (holding [HN4]an employer may be liable for punitive damages in any case where it "discriminate[s] in the face of a perceived risk that its actions will violate federal law.").

## II. [\*8] Motion for new trial, or alternatively for amended judgment

Defendant moves for a new trial, or in the alternative for an order amending the judgment and dismissing all claims against FedEx. Defendant also argues for remittitur of the damages award. Defendant argues that the verdict is contrary to the clear weight of the evidence. Defendant also argues that the Court erred by admitting certain testimony, allowing Alvarado to exceed his time limitation, improperly instructing the jury, and by preventing defendant from interviewing *Satchell* class members as part of its trial preparation.

[HN5][Federal Rule of Civil Procedure 59\(a\)](#) states, "A new trial may be granted . . . in an action in which there has been a trial by jury, for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States." [Fed. R. Civ. P. 59\(a\)\(1\)](#). The Ninth Circuit has noted, "[Rule 59](#) does not specify the grounds on which a motion for a new trial may be granted." *Zhang v. Am. Gem Seafoods, Inc.*, 339 F.3d 1020, 1035 (9th Cir. 2003). Instead, the court is "bound by those grounds that have been historically recognized." *Id.* "Historically recognized grounds include, [\*9] but are not limited to, claims 'that the verdict is against the weight of the evidence, that the damages are excessive, or that, for other reasons, the trial was not fair to the party moving.'" [Molski v. M.J. Cable,](#)

[Inc.](#), 481 F.3d 724, 728 (9th Cir. 2007) (quoting *Montgomery Ward & Co. v. Duncan*, 311 U.S. 243, 251, 61 S. Ct. 189, 85 L. Ed. 147 (1940)). The Ninth Circuit has held that "[t]he trial court may grant a new trial only if the verdict is contrary to the clear weight of the evidence, is based upon false or perjurious evidence, or to prevent a miscarriage of justice." [Passantino v. Johnson & Johnson Consumer Prods.](#), 212 F.3d 493, 510 n. 15 (9th Cir. 2000).

### A. Insufficiency of evidence/remittitur

[HN6]In reviewing a [Rule 59](#) motion based on insufficiency of the evidence, the Court must evaluate the evidence and assess for itself the credibility of witnesses. See [Murphy v. City of Long Beach](#), 914 F.2d 183, 187 (9th Cir. 1990). However, the Court may not grant a [Rule 59](#) motion "merely because it might have come to a different result from that reached by the jury." [Wilhelm v. Assoc. Container Transp. \(Australia\) Ltd.](#), 648 F.2d 1197, 1198 (9th Cir. 1981).

Here, for the reasons set forth above in Section I *supra*, the Court [\*10] finds that the jury's finding that defendant retaliated against Alvarado is not contrary to the clear weight of the evidence. The Court also notes that the jury had the opportunity to hear all of the parties' testimony and assess the credibility of Alvarado and defendants' witnesses. The jury found against defendant on Alvarado's retaliation claim, and in doing so, implicitly found at least some of defendant's witnesses incredible. The Court cannot fault that assessment. Further, the Court finds that Alvarado was articulate, possessed a forthright demeanor, and that his testimony was persuasive.

Defendant alternatively seeks remittitur of the damages awarded by the jury. Defendant contends that the \$ 500,000 award is grossly excessive and unsupported by the evidence. [HN7]The Ninth Circuit has held that a jury's finding on the amount of damages should be reversed only if the amount is "grossly excessive or monstrous," [Zhang](#), 339 F.3d at 1040 (internal quotation marks omitted), or if the amount is "clearly unsupported by the evidence" or "shocking to the conscience." [Brady v. Gebbie](#), 859 F.2d 1543, 1557 (9th Cir. 1988) (internal quotation marks omitted). In making this determination, the [\*11] Court must focus on evidence of the qualitative harm suffered by Alvarado. "The severity or pervasiveness of the conduct is relevant insofar as it provides probative evidence from which a jury may infer

the nature and degree of emotional injury suffered, but direct evidence of the injury is still the primary proof." [Velez v. Roche](#), 335 F. Supp. 2d 1022, 1038 (N.D. Cal. 2004); see also [Passantino v. Johnson & Johnson Consumer Prods., Inc.](#), 212 F.3d 493, 513-14 (9th Cir. 2000) (focusing on evidence of harm suffered by plaintiff, such as anxiety and rashes).

The Court concludes that the jury's award of \$ 500,000 in emotional distress damages is excessive and unsupported by the evidence, and that it should be reduced to \$ 300,000. Notably, there was no testimony that Alvarado suffered from depression or anxiety, or that Alvarado was unable to perform his job. Alvarado did not prevail on his discrimination claim, and there was no evidence of any loss of salary or benefits as a result of the retaliation.

[HN8]"When the court, after viewing the evidence concerning damages in a light most favorable to the prevailing party, determines that the damages award is excessive, it has two alternatives. It [\*12] may grant defendant's motion for a new trial or deny the motion conditional upon the prevailing party accepting a remittitur. The prevailing party is given the option of either submitting to a new trial or of accepting a reduced amount of damage which the court considers justified." [Fenner v. Dependable Trucking Co.](#), 716 F.2d 598, 603 (9th Cir. 1983). Accordingly, the Court GRANTS defendant's motion for a new trial unless plaintiff Alvarado accepts the Court's order of remittitur. **By March 31, 2008, Alvarado shall file and serve a statement regarding whether he accepts the remittitur or opts for a new trial.**

## B. Evidentiary objections

Defendant also contends that a new trial is warranted because the Court erred by admitting testimony by Al Ferguson, Gary White and Devon Butler regarding their assignments to "top-side." Defendant argues that this testimony was irrelevant and prejudicial. The Court disagrees, finding that such testimony was relevant to Alvarado's showing of pretext. At trial, defendant argued that Alvarado's assignment to "top-side" was not retaliatory; the testimony of Ferguson, White and Butler rebutted that explanation because all three individuals testified that they [\*13] too were assigned to "top-side" after engaging in protected activities, and thus the jury could draw the inference that defendant assigned employees to "top-side" as a form of punishment.

Defendant also argues that the Court erred by admitting hearsay testimony by Andy Cuneo that Aaron Holstein referred to a Latino employee as a "lazy wetback." However, such testimony was not hearsay because the significance of the "lazy wetback" statement was that it was made, and not because of the truth of the matter asserted. The testimony at issue was relevant to Alvarado's unsuccessful discrimination claim. See [Heyne v. Caruso](#), 69 F.3d 1475, 1479-80 (9th Cir. 1995) ("[HN9]Evidence of the employer's discriminatory attitude in general is relevant and admissible to prove race discrimination.") (citing [United States Postal Serv. Bd. of Governors v. Aikens](#), 460 U.S. 711, 713-14 n.2, 103 S. Ct. 1478, 75 L. Ed. 2d 403 (1983)).

Finally, defendant contends that the Court abused its discretion by allowing testimony regarding Alvarado's dismissed age and disability claims. However, as the Court previously held, testimony regarding Alvarado's dismissed age and disability claims was relevant insofar as those issues were predicates for Alvarado's [\*14] retaliation claim.

## C. Jury instructions

Defendant contends that the Court erred by failing to give three instructions proposed by defendant concerning "similarly situated employees," the "business judgment rule," and punitive damages under FEHA.

### (1) Similarly-Situated Employee

Defendant proposed the following instruction:

Similarly-situated employees are those who have dealt with the same supervisor, have been subject to the same standards and have engaged in the same conduct without such differentiating or mitigating circumstances that would distinguish their conduct or the employer's treatment of them for it. The Plaintiff must show that the employees he compares himself to are similarly situated in all respects. Employees are not similarly situated if they do not hold the same job title, perform the same job duties, and have the same responsibilities. For purposes of determining whether the Plaintiff share the same supervisor as the other employees, it must be the same supervisor who made the

adverse employment action at issue.

Docket No. 498. Defendant argues that the Court erred in refusing to give this instruction because in a discrimination case, a showing that the employer treated [\*15] similarly-situated employees more favorably than the plaintiff is probative of the employer's discriminatory motivation. Defendant also asserts that this instruction was particularly important because the Court allowed Alvarado to put on testimony from other employees, such as the testimony from other employees regarding their assignments to top-side.

The Court finds no error in the decision not to give the proffered instruction. As Alvarado notes, defendant's proposed instruction is not contained in the Ninth Circuit Model Civil Jury Instructions. Indeed, much of the language from defendant's instruction -- such as the requirements that similarly-situated employees have the same job title, same job duties, and same supervisor -- does not appear to be based on Ninth Circuit case law. [\*Vasquez v. County of Los Angeles\*, 349 F.3d 634, 641 \(9th Cir. 2003\)](#), which defendant cites as authority for the proposed instruction, held that [HN10]"individuals are similarly situated when they have *similar* jobs and display *similar* conduct." *Id.* at 641 (emphasis added). Instead, defendant's language appears to be drawn from a Sixth Circuit case, which was cited in a footnote in *Vasquez*. See *id.* at 641 n.17. [\*16] Under these circumstances, the Court believes it would have been error to give the proffered instruction.

## (2) Business Judgment

Defendant proposed the following instruction:

Pretext cannot be shown by attacking the soundness of the decision itself. Defendant may base its employment decisions on a good reason, a bad reason, a reason based on erroneous facts, or no reason at all, as long as the reason was not because Plaintiff engaged in protected activity or because of unlawful discrimination. Title VII does not authorize the jury to determine the appropriateness or fairness of an employer's termination decisions, to second-guess an employer's good faith determination decisions or to sit as a personnel department to re-examine an

employer's termination or promotion decisions. An employer is free to set whatever performance standards it wants, provided they are not a pretext for unlawful discrimination. Even the fact that Defendant may have made a mistake or showed poor judgment is irrelevant as long as the decision was not the result of an unlawful motivation.

You should keep in mind that under the law, Plaintiff's claims and Defendant's defenses are directed only toward whether Defendant [\*17] violated applicable law. There are, of course, many ways in which an employer might treat an employee unfairly, but the law does not require fair treatment of all employees. The Plaintiff is entitled to relief under applicable law only if the unfairness takes the form of illegal treatment motivated by discrimination.

Docket No. 498.

The Court finds no error in its refusal to give this instruction. As with the previous instruction, this instruction is not found in the Ninth Circuit Model Civil Jury Instructions. This instruction was unnecessary because the jury was instructed on the elements of the discrimination and retaliation claims. In addition, the Court believes this instruction may have been potentially confusing to the jury, as the instruction discusses termination and promotion decisions, neither of which were present in this case.

## (3) Punitive damages

Defendant contends that the Court erred by failing to instruct the jury that plaintiff needed to prove punitive damages by clear and convincing evidence. The Court provided one instruction on punitive damages, which required proof by a preponderance of the evidence. Defendant argues that while the instruction correctly stated the [\*18] standard for awarding punitive damages under Title VII, such damages are only available under FEHA if plaintiff shows culpable conduct by clear and convincing evidence. Defendant also argues that a separate instruction was necessary if the Court did not intend to cap plaintiff's damages at the Title VII \$ 300,000 cap.

As an initial matter, the Court notes that the jury did not award punitive damages, and thus defendant's argument is moot. However, even if the jury's award included punitive damages, any error was harmless in light of the Court's order of remittitur reducing Alvarado's damages to \$ 300,000.

#### D. Other arguments

Defendant argues it is entitled to a new trial because the Court denied defendant's request to interview class members in the *Satchell* case. After the close of discovery in this action, defendant sought to conduct "confidential interviews" of 14 FedEx employees who were also class members in *Satchell et al. v. FedEx Express*, C 03-2659 SI. The Court denied defendant's request on the ground that fact discovery had closed. The Court finds no error in this ruling. Defendant was well aware of the 14 individuals' identities prior to the close of discovery, and could have [\*19] deposed these individuals within the discovery period.

Defendant also asserts that the Court abused its discretion by allowing plaintiff to exceed the 6.5 hour limitation set forth in the pretrial order.<sup>2</sup> Defendant states that if it had known that the Court would allow plaintiff to exceed this time limitation, defendant would have planned for trial differently by conducting longer examinations of witnesses.

2 Defendant simply asserts that plaintiff exceeded the time limitation, but does not provide any calculation of how much time plaintiff actually used during trial.

The Court finds these arguments lack merit for a number of reasons. [HN11]It is within the Court's discretion to set reasonable time limits on a trial. *See Amarel v. Connell*, 102 F.3d 1494, 1513 (9th Cir. 1996). The Court imposed time limits on the parties in order to provide structure to the trial, and also to give the jury notice of the trial's expected duration so the jury could plan accordingly. As the Ninth Circuit has instructed, "[r]igid and inflexible hour limits on trials, however, are generally disfavored." *See id.* Here, the Court exercised its discretion and allowed both parties to exceed their

time as was appropriate [\*20] under the circumstances.

Finally, defendant contends that plaintiff's counsel committed misconduct by referring to the testimony of Lisa McCoy during opening statement and closing argument. According to defendant, plaintiff's counsel stated that Ms. McCoy's testimony would concern the fact that she was assigned to top-side after she filed DFEH complaints; Ms. McCoy did not in fact testify at trial.<sup>3</sup> The Court finds that plaintiff's counsel did not engage in misconduct, and that any reference to Ms. McCoy was harmless. The jury was instructed that the lawyers' opening statements and closing arguments were not evidence. In addition, to the extent that defendant objects to the references to Ms. McCoy because the subject matter of her proposed testimony was irrelevant, the Court disagrees for the reasons set forth above.

3 Defendant did not submit any trial transcripts in connection with its motion, and it appears from the Court's docket that no transcripts were ordered. Plaintiff does not dispute defendant's account of plaintiff's opening statement and closing argument.

#### CONCLUSION

For the foregoing reasons, the Court DENIES defendant's renewed motion for judgment as a matter of law (Docket [\*21] No. 717), and GRANTS defendant's motion for a new trial unless plaintiff Alvarado accepts the Court's order of remittitur. (Docket No. 720). By **March 31, 2008**, plaintiff Alvarado shall file and serve a statement regarding whether he accepts the remittitur or opts for a new trial.

#### IT IS SO ORDERED.

Dated: March 18, 2008

/s/ Susan Illston

SUSAN ILLSTON

United States District Judge

**B**

Not Reported in F.Supp.2d, 2006 WL 208787 (E.D.Mich.)  
(Cite as: 2006 WL 208787 (E.D.Mich.))

## H

Only the Westlaw citation is currently available.

United States District Court,  
E.D. Michigan, Southern Division.  
DAIMLERCHRYSLER SERVICES, Plaintiff,  
v.  
SUMMIT NATIONAL, Defendant.

No. 02-71871.  
Jan. 26, 2006.

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### SUPPLEMENTAL OPINION REGARDING DAMAGES PROOFS

EDMUNDS, J.

\*1 In this Court's April 8, 2004, Order Denying DCS's <sup>FN1</sup> Motion for Summary Judgment, the Court discussed the potential damages in this case. The Court noted that if Summit proves a copyright infringement, it can recover "either actual damages plus any non-duplicative profits made by the infringer, or statutory damages." (Doc. 213.) These theories of damages are provided by 17 U.S.C. § 504(b) and § 504(c), respectively. The Court went on briefly to discuss Section 504(b) damages, and concluded by finding that summary judgment in favor of DCS was inappropriate. This Supplemental Opinion is intended to provide guidance for the parties as they prepare for trial. It addresses the two areas of damages under Section 504(b)-actual damages and profits. While it does not address any one particular motion, the discussion below supplements the Court's rulings on the parties' motions in limine, many of which touch upon or depend upon the following issues.

FN1. As in previous Court documents, Plaintiff DaimlerChrysler Services is referred to here as "DCS." Defendant Summit National, Inc., is referred to as "SNI."

#### I. Actual Damages

If successful in its copyright infringement action, SNI is entitled to recover from DCS "actual damages suffered by him or her as a result of the infringement..." 17 U.S.C. § 504(b). Professor Nimmer's copyright treatise points out an important limitation of this section of the Copyright Act, however: "[N]either its text nor the Committee Reports attempt to define the nature of those actual damages." Nimmer on Copyright § 14.02.

In the present case, DCS has admitted that ALAS was so critical to its business that without ALAS (or some suitable substitute), it would have had to shut down. SNI points out the obvious fact that ALAS was worth more to SNI than it was worth on the open market. Thus, SNI argues, actual damages should not be measured by the market value of ALAS, but should rather be measured by the value of ALAS to DCS.

DCS frames the issue differently. It contends that the actual damages computation should have nothing to do with the unique facts of this case, and that SNI's actual damages should be limited to what it reasonably would have charged for ALAS-in other words, fair market value. In DCS's words, SNI "is arguing that it had DaimlerChrysler over a barrel, and that this subjective factor should be taken into account in calculating its 'reasonable royalty.'" (Doc. 296 at 27.)

The Court is satisfied that DCS's description of actual damages is most consistent with the purposes of the Copyright Act and the case law interpreting it. In one leading case, the Second Circuit stated, "The question is not what the owner would have charged, but rather what is the fair market value." *Davis v. The Gap, Inc.*, 246 F.3d 152, 166 (2d

Cir.2001). In another, the Seventh Circuit described the appropriate inquiry as “the amount a willing buyer would have been reasonably required to pay a willing seller at the time of the infringement for the use....” *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 569 (7th Cir.2003).

\*2 Neither of these formulations permit the sort of actual damages recovery SNI now seeks. The Court holds that SNI may not rely on its own subjective estimate as to the price it would have charged DCS given DCS's predicament. To recover actual damages, SNI must introduce evidence of the fair market value of ALAS at the time of the infringement. In other words, “the amount a willing buyer would have been reasonably required to pay....” *McRoberts Software*, 329 F.3d at 569 (emphasis added).

## II. Profits

In addition to actual damages, Section 504(b) provides that SNI may recover “any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.” 17 U.S.C. § 504(b). The Copyright Act goes on to describe a burden-shifting analysis:

In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

*Id.*

SNI relies on this language for the proposition that it needs only to allege DCS's gross revenue, and that the burden then shifts to DCS to show what portions of revenue are not attributable to the alleged copyright infringement. SNI fails to recognize, however, that what sets this case apart from most typical Section 504(b) damages questions is that DCS is not alleged to have sold the infringing product. Rather, DCS is only alleged to have used ALAS to make money through other means-

namely, automobile financing. In other words, any profits attributable to DCS's alleged infringement are *indirect* profits.

SNI relies largely on *McRoberts Software*, in which the court upheld a large damages award against the defendant, applying the straightforward burden-shifting analysis for profits damages. 329 F.3d at 568-69. But while SNI describes *McRoberts* as a “recent decision in the computer software area” (Doc. 297 at 19), it fails to mention that the defendant in that case had sold the infringed software itself. *Id.* at 562-63. *McRoberts* does not address the precise issue of indirect profits.

SNI also relies on *Stenograph L.L.C. v. Bossard Associates, Inc.*, 144 F.3d 96 (D.C.Cir.1998), a case in which the defendant had used the plaintiff's transcription software without license. *Id.* at 97. On appeal, the court held that the profits awarded were appropriate, based on the following discussion: “The amount ... presumably represents Bossard Associates' total revenues ... minus an estimation of expenses related to the use of [different, non-infringing] software.... [A]fter Stenograph introduced the statement containing Bossard Associates' gross revenues for the relevant time period ..., the burden shifted to Bossard under 17 U.S.C. § 504(b)....” *Id.* at 103.

Indeed, *Stenograph* supports SNI's position. But the court makes no mention of the precise issue now facing this Court: Whether *all* of the defendant's profits are “attributable to the infringement,” 17 U.S.C. § 504(b), merely because the plaintiff's software was an essential component of a larger profit-generating process. The reasoning as to indirect profits in *Stenograph* is unpersuasive.

\*3 The most persuasive case that SNI cites is *Andreas v. Volkswagen of America*, 336 F.3d 789 (8th Cir.2003), in which the defendant wrongfully used the plaintiff's artwork in a television commercial for the Audi TT coupe. The court recognized that the profits generated by sales of the TT coupe were not entirely attributable to the commercial

alone, much less role played by the plaintiff's artwork. *Id.* at 797. Nevertheless, the court held that whether profits are "indirect" as opposed to "direct" is beyond the concern of Section 504(b):

Although cases distinguish between direct and indirect profits, the statute does not. We agree that in an indirect profits case the profits "attributable" to the infringement are more difficult to quantify. But that difficulty does not change the burden of proof established by the statute. The burden of establishing that profits are attributable to the infringed work often gets confused with the burden of apportioning profits between various factors contributing to the profits.... The nexus requirement exists in both direct and indirect profits cases.... Once that nexus is established in either a direct or indirect profits case, if "an infringer's profits are attributable to factors in addition to use of plaintiff's work, an apportionment of profits is proper. The burden of proving apportionment (i.e., the contribution to profits of elements other than the infringed property), is the defendant's."

*Id.* at 796 (internal citations omitted).

DCS urges the Court to take a different approach, arguing that although it could not likely have carried on business without ALAS (or some suitable substitute), it does not follow that every cent of profit DCS generated was attributable to ALAS. Its analogy is helpful in this respect: DCS could not operate without its toilets either, but that does not mean that all of its profits are attributable to commodes.

DCS cites (among other cases) *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 271 F.Supp.2d 737 (D.Md.2003), a factually analogous case. There, the defendant had wrongfully used the plaintiff's stock reports to give advice to its own customers. *Id.* at 751. The court reasoned,

In the case of "direct profits," such as result from the sale or performance of copyrighted material,

the nexus is obvious. In the case of "indirect profits," the nexus may be too attenuated. The court "must conduct a threshold inquiry into whether there is a legally sufficient causal link between the infringement and the subsequent indirect profits." It may deny recovery if the profits "are only remotely or speculatively attributable to the infringement."

*Id.* Applying the facts before it, the court denied the plaintiff's claim for profits as too speculative:

Although it seems that some of [the defendant's] profits "should" relate to its infringing use of [the plaintiff's] Reports, the appearance defies reason.... [The plaintiff] has articulated no more than a speculative correlation. It is utterly implausible that all of [the defendant's] profits resulted from its infringing use of the Reports.

\*4 *Id.* at 752.

The same analysis was followed in what appears to be the only case out of this Court to address the issue of indirect profits. In *Rainey v. Wayne State University*, 26 F.Supp.2d 963 (E.D.Mich.1998), the defendant wrongfully used plaintiff's design in its advertising brochures. The Court pointed out that profits damages "must be based on credible evidence, not speculation," and that "in cases where profits cannot be traced only to the infringing work but rather to a complex income stream, courts have required that plaintiff introduce detailed evidence linking gross revenues to the infringement." *Id.* at 971-72. The court held that because the plaintiff "failed to submit any credible evidence from which the fact finder could apportion profits attributable to the infringement," an award of the defendant's profits was inappropriate. *Id.* at 972.

The Court recognizes the difficulty with reconciling the above approaches. The Court also recognizes that the text of Section 405(b) offers limited guidance. But while the statute does not explicitly mention "indirect profits," it very clearly requires

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(Cite as: 2006 WL 208787 (E.D.Mich.))

that recoverable profits be “attributable to the infringement.” 17 U.S.C. § 405(b). In the absence of direct mandatory authority, the Court is persuaded by those cases placing a heightened initial burden on the copyright holder where profits are indirect.

To recover DCS's profits as provided by Section 504(b), SNI must do more than merely point to DCS's balance sheet. To meet its initial burden, SNI must “establish[ ] a causal nexus between the infringing conduct and the infringer's gross revenue.” *Lowry's Reports*, 271 F.Supp.2d at 751 (citing *Walker v. Forbes, Inc.*, 28 F.3d 409, 412 (4th Cir.1994); *Mackie v. Rieser*, 296 F.3d 909, 915 (9th Cir.2002); *On Davis v. The Gap, Inc.*, 246 F.3d 152, 160 (2d Cir.2001)). Clearly, DCS's entire gross revenue is not attributable to ALAS source code. It is therefore incumbent upon SNI to make a threshold showing of the nexus between DCS and those profits generated by the infringement of ALAS.

HEMEYER, J.

I hereby certify that a copy of the foregoing document was served upon counsel of record on January 26, 2006, by electronic and/or ordinary mail.

E.D.Mich.,2006.

DaimlerChrysler Services v. Summit Nat.

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## H

Only the Westlaw citation is currently available.

United States District Court,  
N.D. California.  
Eric R. DREW, Plaintiff,  
v.  
EQUIFAX INFORMATION SERVICES, LLC, De-  
fendant.  
  
No. C 07-00726 SI.  
Dec. 3, 2010.

John Bradford Keating, Attorney at Law, Wood-  
side, CA, for Plaintiff.

John Anthony Love, Andrew Valli, Keasha Ann  
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Spalding LLP, Atlanta, GA, Thomas P. Quinn,  
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**ORDER DENYING DEFENDANT'S RE-  
NEWED MOTION FOR JUDGMENT AS A  
MATTER OF LAW AND ALTERNATIVE MO-  
TION FOR A NEW TRIAL**

SUSAN ILLSTON, District Judge.

\*1 On November 12, 2010, the Court heard ar-  
gument on defendant Equifax Information Services  
LLC's renewed motion for judgment as a matter of  
law or, in the alternative, motion for new trial. Hav-  
ing considered the arguments of counsel and the pa-  
pers submitted, the Court hereby DENIES defend-  
ant's motion.

### BACKGROUND

Plaintiff Eric Drew is a cancer survivor whose  
identity was stolen while he was undergoing treat-  
ment in Seattle in late 2003. The instant case arises  
from fraudulent credit accounts opened by the iden-  
tity thief. In his initial complaint, plaintiff named as  
defendants three banks and three credit reporting  
agencies. The only defendant remaining in the case  
is Equifax Information Services, LLC ("Equifax"),  
one of the credit reporting agencies.

After going through eight months of intense  
cancer treatment at Stanford University, plaintiff  
was told that "that there wasn't anything else that  
they could do but refer [him] to hospice care." TR  
168:6-24. Plaintiff found and enrolled in an experi-  
mental bone-marrow transplant program in Seattle  
in September 2003. TR 170:19-171:12. In "late Oc-  
tober, early November" plaintiff "started receiving  
letters from financial institutions thanking [him] for  
credit applications that [he] had submitted." TR  
176:1-176:3. He had not submitted any. TR  
176:3-176:4.

In December, before going through the bone-  
marrow transplant, plaintiff called the police de-  
partment in his hometown, Los Gatos, California,  
to file a report. TR 182:20-182:23. In early January,  
after completing treatment, plaintiff asked a friend  
to order a credit report for him. TR 185:6-185:22.  
Plaintiff discovered that multiple fraudulent ac-  
counts had been opened in his name, with thou-  
sands of dollars of balances, at an address in Seattle  
that was not his. TR 186:6-186:10. (The parties  
agree that three banks issued fraudulent credit cards  
to the identity thief in plaintiff's name. Citibank is-  
sued a Citibank card. Chase issued a Chase card  
and a Bank One/First USA card. And FIA issued a  
Fleet/Bank of America card. See Doc. 327 at 1-2.)

Plaintiff was convinced that a hospital employ-  
ee had stolen his identity, and he feared for his life.  
TR 188:4-188:7; TR 196:20-196:21. He called  
news agencies, newspapers, the FBI, police, and  
even the Mayor to ask for help. TR 195:19-195:25.  
Eventually a local television station picked up the  
story, and the publicity from the story helped  
plaintiff track down the identity thief, Richard Gib-  
son, a phlebotomist at the Cancer Center treating  
plaintiff. TR 196:6-196:14, TR 201:6-203:5. At  
plaintiff's urging, Mr. Gibson was eventually  
charged with and convicted of criminal violation of  
the Health Insurance Portability and Accountability  
Act ("HIPAA"). TR 222:11-223:22; TR  
223:11-223:14. It was the first HIPAA conviction

in the country. TR 223:13-223:14.

Plaintiff's cancer treatment in Seattle was also unsuccessful, and he was told that he needed to go to hospice. Again, however, plaintiff found and enrolled in an experimental program, this time one in Minnesota that would save his life. TR 204:16-204:19; 214:21-217:2.

\*2 In addition to tracking down the identity thief and moving to a new hospital for a new treatment, plaintiff contacted the banks that had issued the credit cards in his name and the credit reporting agencies that reported the fraudulent accounts and incorrect address as belonging to plaintiff. The dispute in this case relates to plaintiff's contentions that for the next two years he was largely thwarted in his attempts to convince (1) the banks to stop reporting and making inquiries about the fraudulent accounts and (2) the credit reporting agencies to stop including the fraudulent accounts and incorrect address on plaintiff's credit reports. Plaintiff filed this action in San Francisco County Superior Court on December 18, 2006, alleging a number of state and federal claims against the banks and credit reporting agencies. The defendants removed to this Court on February 5, 2007.

By the time of trial, one defendant and one claim remained. Plaintiff alleged that defendant Equifax, one of the credit reporting agencies, willfully violated the Fair Credit Reporting Act ("FCRA"). Plaintiff argued that defendant failed properly to reinvestigate and thereafter accurately report the status of the disputed Bank of America card and disputed Seattle address in the manner required by FCRA, and failed to maintain reasonable procedures to do so.

At trial, Plaintiff testified about his attempts to contact defendant to report the identity theft and request a reinvestigation in 2004 and 2005, and the results of his requests. He called as supporting witnesses his mother Cynthia Kay Drew, his former wife Nicole Floor Drew, and his friend and former colleague Fred Kotrozo. Plaintiff's expert witness,

Evan Hendricks, testified not only as to the unreasonableness of defendant's reinvestigation procedures, but also as to the foreseeability of the problems that arose in this case. As part of his testimony, and over defendant's objection, Mr. Hendricks discussed a 1995 consent order between defendant and the Federal Trade Commission and a 1992 "Agreement of Assurances" between defendant and a number of states. Plaintiff also testified about significant psychological stress that he suffered due in part to defendant's FCRA violation, and he called two of his treating doctors, Drs. Spiegel and Gore-Felton, to testify as well. Plaintiff requested economic damages for money he spent on therapy and money he spent hiring an outside firm to pursue his reinvestigation requests with defendant. He also requested damages for emotional distress and punitive damages.

During the course of the trial it became clear that plaintiff was arguing that defendant had violated not only a number of FCRA requirements contained in subsections of 15 U.S.C. § 1681i, but also one contained in a subsection of 15 U.S.C. § 1681c-2. Although Section 1681c-2 was not specifically listed in the complaint, the Court determined in a written order that the operative facts in the complaint encompassed a claim under Section 1681c-2. The Court therefore permitted plaintiff to pursue its FCRA claim based on both sections of the statute. *See* Doc. 436.

\*3 Throughout the trial, the Court permitted plaintiff to present evidence that he suffered economic losses as a result of defendant's actions in relation to two investment properties in Chico that plaintiff had considered buying. Ultimately, the Court determined that defendant had presented insufficient evidence of economic loss related to the Chico properties and instructed the jury that it could not award economic damages in connection with them. TR 1283:19-1283:21.

After a nine day trial, the jury returned a verdict finding defendant liable for willfully violating FCRA. Doc. 446 at 1. The jury awarded plaintiff

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 (Cite as: 2010 WL 5022466 (N.D.Cal.))

\$6,326.69 in economic damages, \$315,000 in non-economic compensatory damages, and \$700,000 in punitive damages.

Currently before the Court is defendant's renewed motion for judgment as a matter of law ("JMOL") or, in the alternative, motion for new trial.

## LEGAL STANDARD

### I. Renewed Motion for Judgment as a Matter of Law

Federal Rule of Civil Procedure 50(b) provides:

If the court does not grant a motion for judgment as a matter of law made under Rule 50(a), the court is considered to have submitted the action to the jury subject to the court's later deciding the legal questions raised by the motion. No later than 10 days after the entry of judgment ... the movant may file a renewed motion for judgment as a matter of law and may include an alternative or joint request for a new trial under Rule 59. In ruling on the renewed motion, the court may: (1) allow judgment on the verdict, if the jury returned a verdict; (2) order a new trial; or (3) direct the entry of judgment as a matter of law.

Fed. R. Civ. Pro. 50(b). The party moving for judgment as a matter of law bears a heavy burden. Granting a renewed motion for judgment as a matter of law is proper when the evidence construed in the light most favorable to the non-moving party permits only one reasonable conclusion as to the verdict and that conclusion is contrary to the jury's verdict. *Air-Sea Forwarders, Inc. v. Air Asia Co.*, 880 F.2d 176, 181 (9th Cir.1989).

The question in a motion for judgment as a matter of law is whether there is substantial evidence to support the jury finding for the non-moving party. See *Johnson v. Paradise Valley Unified School Dist.*, 251 F.3d 1222, 1227 (9th Cir.2001); *Autohaus Brugger, Inc. v. Saab Motors, Inc.*, 567 F.2d 901, 909 (9th Cir.1978). In ruling on such a

motion, the trial court may not weigh the evidence or assess the credibility of witnesses in determining whether substantial evidence exists to support the verdict. See *Mosesian v. Peat, Marwick, Mitchell*, 727 F.2d 873, 877 (9th Cir.1984). Substantial evidence is more than a "mere scintilla." See *Consol. Edison Co. v. NLRB*, 305 U.S. 197, 229, 59 S.Ct. 206, 83 L.Ed. 126 (1938); *Chisholm Bris. Farm Equip. Co. v. Int'l Harvester Co.*, 498 F.2d 1137, 1140 (9th Cir.1974). Rather, it is defined as "such relevant evidence as reasonable minds might accept as adequate to support a conclusion even if it is possible to draw two inconsistent conclusions from the evidence." *Landes Constr. Co. v. Royal Bank of Canada*, 833 F.2d 1365, 1371 (9th Cir.1987).

### II. Remittance

\*4 The Ninth Circuit has held that a jury's finding on the amount of damages should be reversed only if the amount is "grossly excessive or monstrous," *Zhang v. American Gem Seafoods, Inc.*, 339 F.3d 1020, 1040 (9th Cir.2003), or if the amount is "clearly unsupported by the evidence" or "shocking to the conscience," *Brady v. Gebbie*, 859 F.2d 1543, 1557 (9th Cir.1988). In making this determination, the Court must focus on evidence of the qualitative harm suffered by plaintiff. The same consideration applies to emotional distress damages. "The severity or pervasiveness of the conduct is relevant insofar as it provides probative evidence from which a jury may infer the nature and degree of emotional injury suffered, but direct evidence of the injury is still the primary proof." *Velez v. Roche*, 335 F.Supp.2d 1022, 1038 (N.D.Cal.2004); see also *Passantino v. Johnson & Johnson Consumer Prods., Inc.*, 212 F.3d 493, 513-14 (9th Cir.2000) (focusing on evidence of harm suffered by the plaintiff, such as anxiety and rashes).

### III. Motion for a New Trial

Federal Rule of Civil Procedure 59(a) states, "A new trial may be granted ... in an action in which there has been a trial by jury, for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United

States.” *Fed.R.Civ.P. 59(a)(1)*. As the Ninth Circuit has noted, “Rule 59 does not specify the grounds on which a motion for a new trial may be granted.” *Zhang*, 339 F.3d at 1035. Instead, the court is “bound by those grounds that have been historically recognized.” *Id.* “Historically recognized grounds include, but are not limited to, claims ‘that the verdict is against the weight of the evidence, that the damages are excessive, or that, for other reasons, the trial was not fair to the party moving.’ ” *Molski v. M.J. Cable, Inc.*, 481 F.3d 724, 728 (9th Cir.2007) (quoting *Montgomery Ward & Co. v. Duncan*, 311 U.S. 243, 251, 61 S.Ct. 189, 85 L.Ed. 147 (1940)). The Ninth Circuit has held that “[t]he trial court may grant a new trial only if the verdict is contrary to the clear weight of the evidence, is based upon false or perjurious evidence, or to prevent a miscarriage of justice.” *Passantino*, 212 F.3d at 510 n. 15.

## DISCUSSION

### I. JMOL regarding liability

Defendant argues that JMOL should be entered in its favor with respect to three different aspects of plaintiff’s claim. First, it argues that JMOL should be entered regarding three of the four fraudulently issued credit cards: the First USA/Bank One card; the Chase card; and the Citibank card. Second, it argues that JMOL should be entered on plaintiff’s FCRA claims made under three subsections of FCRA: 1681i(a)(5)(B), 1681i(a)(5)(c), and 1681(a)(6). Third, it argues that JMOL should be entered on the willfulness question, which would mean that plaintiff would not be entitled to punitive damages. See 15 U.S.C. § 1681n(a)(1)(2).

#### A. The three cards and the three claims

\*5 Plaintiff argues, correctly, that JMOL is inappropriate where any bases for liability remain. This case proceeded to trial on a single FCRA claim. Although the Court instructed the jury regarding a variety of FCRA provisions that could give rise to liability, plaintiff made a single FCRA claim and the verdict form asked for a single finding as to whether defendant violated FCRA will-

fully, negligently, or not at all. See Doc. 446. Defendant concedes that plaintiffs presented sufficient evidence at trial to support the jury’s verdict, at least with regard to negligent violation of FCRA. Therefore, defendant is not entitled to the entry of a verdict in its favor. <sup>FN1</sup>

FN1. To the extent that defendant believes that it is entitled to a new trial, the three cards and three claims are discussed in more detail below.

#### B. Willful violation of FCRA and punitive damages

Defendant argues more narrowly that it is entitled to JMOL on the question of willfulness and, therefore, punitive damages.

“Any person who willfully fails to comply with any requirement imposed [by FCRA] with respect to any consumer is liable to that consumer [for] ... punitive damages.” 15 U.S.C. § 1681n(a)(1) (2). “[R]eckless disregard of a requirement of FCRA would qualify as a willful violation within the meaning of § 1681n(a).” *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 71, 127 S.Ct. 2201, 167 L.Ed.2d 1045 (2007).

Defendant argues that it did not act recklessly. Defendant acknowledges, for example, that its response to plaintiff’s April 2005 dispute of the Bank of America card was erroneously to show that the account had been closed with zero balance. But it argues that this error posed little risk of damage to plaintiff or his credit rating, and in fact did not result in any denial of credit. Defendant argues that the risk of harm was decreased further when it removed the card entirely from the report two months after receiving a police report from plaintiff.

Defendant’s position seems to arise out of the *Safeco* Court’s discussion of recklessness. The *Safeco* Court explained that recklessness generally is an “action entailing an unjustifiably high risk of harm that is either known or so obvious that it should be known.” *Id.* at 68 (internal quotation

marks omitted). Defendant reads this to require that a plaintiff consumer show that a credit reporting agency risked harming the plaintiff consumer economically before being entitled to punitive damages. As the rest of *Safeco* makes clear, however, FCRA is concerned with whether the defendant ran an unjustifiably high risk of *violating the law*. See *id.* at 69 (“Thus, a company subject to FCRA does not act in reckless disregard of it unless the action is not only a violation under a reasonable reading of the statute’s terms, but shows that the company ran a risk of violating the law substantially greater than the risk associated with a reading that was merely careless.”).

Plaintiff presented sufficient evidence for a reasonable jury to find that defendant ran an unjustifiably high risk of violating FCRA. Plaintiff’s expert, Evan Hendricks, testified regarding the reasonableness of defendant’s reinvestigation procedures. He testified that defendant’s violation of FCRA was foreseeable. See TR 620:18-624:20. In particular, he testified that defendant had long had a policy of deferring to the reporting bank rather than performing independent investigations of consumer disputes. TR 593:11-593:22.<sup>FN2</sup> He testified that defendant was on notice regarding the possible problems with this method of reinvestigation, particularly where the consumer dispute stems from confusion over the identity of the person utilizing credit rather than confusion over the fact of or timing of payments. TR 621:5-621:15 (discussing defendant’s earlier problems preventing mixed files—“when information on Consumer B was mixed into the file of Consumer A”—and problems reaching “timely resolution” through the “reinvestigation process”).

<sup>FN2</sup>. Defendant argues in its reply that it presented evidence demonstrating that its investigative procedures go beyond the mere “parroting” described by Mr. Hendricks. Defendant’s evidence regarding what other procedures it may utilize to combat identity theft does not compel the

Court to conclude that the jury’s verdict is wrong.

\*6 Moreover, Mr. Hendricks testified that defendant long ago acknowledged these problems when it entered into agreements with the FTC and several states about reinvestigation of mixed files. TR 620:20-621:4, 621:16-621:24. And while Mr. Hendricks agreed that identity theft was not a problem at the time of the FTC order and the Agreement of Assurances, he also testified that defendant faces the same general problems with reinvestigating mixed files and identity theft because in both instances the reporting banks are confused about identity. Mr. Hendricks concluded his direct examination by saying the following:

Everything in my experience, including other cases I’ve worked and the history I’ve talked about and what we see here, leads me to the inescapable opinion that Equifax is very satisfied with the way its system works. It’s made a calculation that it’s the right thing for it to do. And it has no intention of making the changes that I think are necessary to avoid the kind of problems that happened to Mr. Drew.

TR 624:14-624:20.

Defendant objects to the admissibility of the FTC and state Agreement of Assurances documents, and to Mr. Hendricks’s testimony regarding them. Defendant argues that the documents are irrelevant, since they relate to mixed files and not identity theft, and because they predate any serious problems with identity theft. As discussed above, however, Mr. Hendricks’s testimony explained why mixed files and identity theft present problems that are similarly difficult to resolve for a credit reporting agency. See TR 621:5-621:15. This shows that the documents are, in fact, relevant to the question of foreseeability and thus the question of willfulness.<sup>FN3</sup>

<sup>FN3</sup>. In its reply brief, defendant argues that the documents are inadmissible under

[Federal Rule of Evidence 408](#). Defendant did not raise this objection in its motion in limine, in its oral objection at trial, or in its opening brief, and the Court considers it waived. *See* Doc. 395 at 12-13; TR 618:1-620:5.

Even if the agreements themselves (and Mr. Hendricks's testimony regarding them) were not admissible, the logic of Mr. Hendricks's conclusion would be supported by his expertise and the record. A reasonable jury could determine that a credit reporting agency runs an unjustifiable risk of violating FCRA's reinvestigation requirement when it asks a bank to reconfirm the existence of a challenged account simply by asking the bank to reconfirm the account, without even indicating that the consumer has reported that his identity was stolen. Such a conclusion would be particularly reasonable in this case, where fraud alerts were placed on the account and other credit cards had been deleted. [FN4](#)

[FN4](#). Defendant also argues that evidence regarding its handling of the other three cards should not have been admitted, and had it not been admitted, no reasonable jury would have found its handling of the Bank of America card to be a willful FCRA violation. The Court disagrees. Assuming that defendant objected to the mention of the three cards at trial, and assuming that the any discussion of the cards was improper, defendant still was not prejudiced. Defendant relied on its arguably proper handling problems with the three cards as evidence that its complaint system and reinvestigation process are reasonable and effective. *E.g.* TR 1334:21-1335:2 (“It worked exactly the way it's supposed to work.”).

Defendant is not entitled to JMOL on the question of willfulness.

## II. Challenges to damages

### A. Due process and punitive damages amount

Defendant argues that even if it is not entitled to JMOL on the questions of liability or willfulness, the actual amount of punitive damages in this case is so excessive as to violate defendant's right to due process.

“The Constitution imposes certain limits, in respect both to procedures for awarding punitive damages and to amounts forbidden as ‘grossly excessive.’ ” *Philip Morris USA v. Williams*, 549 U.S. 346, 353, 127 S.Ct. 1057, 166 L.Ed.2d 940 (2007). No “simple mathematical formula” exists in this area. *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 582, 116 S.Ct. 1589, 134 L.Ed.2d 809 (1996). Nevertheless, the Supreme Court has pointed to three guideposts: “(1) the degree of reprehensibility of the defendant's misconduct; (2) the disparity between the actual or potential harm suffered by the plaintiff and the punitive damages award; and (3) the difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases.” *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 418, 123 S.Ct. 1513, 155 L.Ed.2d 585 (2003). “In considering them,” the Ninth Circuit has explained, a court's “goal is to determine whether the punitive damages achieved their ultimate objectives of deterrence and punishment, without being unreasonable or disproportionate.” *Southern Union Co. v. Irvin*, 563 F.3d 788, 791 (9th Cir.2009).

\*7 Defendant argues that its conduct was not reprehensible, because it did not threaten or cause physical harm to plaintiff or others, or otherwise act with intentional malice, trickery, or deceit. It argues that the punitive damages are excessive in light of the compensatory damages, because the compensatory damages provided plaintiff with complete compensation, especially considering the brief period of time of any FCRA violation. Finally, it argues that the award far exceeds civil penalties that would be available if the Federal Trade Commissioner brought suit against defendant for engaging in unfair or deceptive practices under the Federal Trade

Commission Act.

calculating punitive damages.

### 1. Reprehensibility

Courts are “to determine the reprehensibility of a defendant by considering whether:

the harm caused was physical as opposed to economic; the tortious conduct evinced an indifference to or a reckless disregard of the health or safety of others; the target of the conduct had financial vulnerability; the conduct involved repeated actions or was an isolated incident; and the harm was the result of intentional malice, trickery, or deceit, or mere accident.

*Campbell*, 538 U.S. at 419. “[R]epeated misconduct is more reprehensible than an individual instance of malfeasance.” *Gore*, 517 U.S. at 577.

Mr. Hendricks testified that defendant's violation of FCRA was the result of a policy chosen after a careful cost benefit analysis, with full knowledge of the risks to those seeking credit. TR 624:14-624:20.<sup>FN5</sup> Plaintiff and Drs. Spiegel and Gore-Felton all testified that plaintiff suffered serious psychological harm from the credit reporting issues. TR 375:22-377:17; TR 392:22; TR 427:17-427:25; TR 454:8-454:12; TR 233:18-235:10. Although “targeted” might be too strong a word to use, plaintiff does fall squarely within the class of individual consumers that defendant knowingly puts at risk with its reinvestigation policies.

<sup>FN5</sup>. Defendant argues that it is being punished for earlier, dissimilar acts that were the subject of the FTC order and the Agreement of Assurances about which Mr. Hendricks testified. Any danger that defendant was punished for the actions that were subject to the FTC order and the Agreement of Assurances is outweighed by the relevance of the documents and Mr. Hendricks's testimony to the question of foreseeability and thus willfulness, which are properly considered by a jury when

The evidence strongly supports a finding that the harm plaintiff suffered was not the result of mere accident. Plaintiff testified that, while he was away from home being treated for near fatal cancer, he singlehandedly caught the individual who had stolen his identity even though the police and hospital personnel had not believed him or wanted to help him. TR 180:7-180:10; 182:14-193:1; 195:19-197:8; 201:15-202:8; 203:16-203:22; 917:19-919:5. When he was told to go to hospice for the second time, he instead found a hospital to provide him with an experimental treatment that saved his life. TR 204:16-204:19; 214:21-217:2. When he finally recovered from his cancer and discovered that the state prosecution of the identity thief had not proceeded, he convinced the federal authorities to commence an unprecedented criminal HIPAA prosecution. TR 222:6-223:14. But he couldn't navigate the system that defendant had set up to correct his credit report.<sup>FN6</sup>

<sup>FN6</sup>. Additionally, as the Third Circuit has explained, there is “nothing wrong with a jury focusing on a defendant's seeming insensitivity in deciding how much to award as punitive damages.” *Cortez v. Trans Union, LLC*, 617 F.3d 688, 718 n. 37 (3d Cir.2010) (internal quotation marks omitted). Defendant argued to the jury that its system generally “worked perfectly.” TR 1335:8-1335:9. It blamed Bank of America for providing them with incorrect information. *E.g.* TR 1341:24-1342:3. It also blamed plaintiff for failing to communicate the exact details of the problems. *E.g.* TR 1338:8-1338:17. This last defense was perhaps the most difficult for a jury to accept.

### 2. Actual or potential harm suffered versus punitive damages

\*8 The second guidepost as to whether a punitive damages award violates a defendant's due process rights is whether the award is disproportionate to the actual or potential harm suffered by the

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plaintiff. One way that courts address this question is by comparing punitive and compensatory damage awards. Although the Supreme Court has hesitated to lay down any bright line rules, it has hinted that a single-digit ratio between punitive and compensatory damages is most likely to satisfy due process. See *Campbell*, 538 U.S. at 424-25.

Defendant argues that the compensatory damages compensated plaintiff completely, and therefore that the punitive damages award should have been at or near the amount of compensatory damages, rather slightly more than double the amount. Defendant's argument takes a quote from *Campbell* out of context. After considering *all* of the guideposts, not merely this second guidepost, the *Campbell* Court concluded that the facts of the case "likely would justify a punitive damages award at or near the amount of compensatory damages." *Id.* at 429. Moreover, the phrase "at or near" was intended to contrast with the overturned punitive damages award, which was 145 times higher than the compensatory damages award. See *id.* at 426. In this case, the ratio of punitive damages to compensatory damages is close to 2:1, which falls well within the case's single-digit rule of thumb. Although the *Campbell* Court noted that the compensatory damages in that case had compensated plaintiff in full, there is no reason to think that *Campbell* stands for the proposition that anytime a compensatory damages award fully compensates a plaintiff then the punitive damages cannot exceed the compensatory damages.

### 3. Difference between punitive damages and available civil remedies

"Comparing the punitive damages award and the civil or criminal penalties that could be imposed for comparable misconduct provides a third indicium of excessiveness." *Gore*, 517 U.S. at 583. Defendant argues that the Federal Trade Commissioner can obtain \$10,000 per FCRA violation by suing under the Federal Trade Commission Act, and that the punitive damages award in this case is clearly excessive in light of that small number.

Plaintiff points to Third, Fourth, and Sixth Circuit opinions that have all held that this factor is not particularly useful to the due process analysis in a FCRA case. See *Cortez*, 617 F.3d at 724 (explaining that "there is no 'truly comparable' civil penalty to a FCRA punitive damages award"); *Saunders v. Branch Banking & Tr. Co. of VA*, 526 F.3d 142, 152 (4th Cir.2008) (concluding that Congress specifically chose not to limit punitive damages); *Bach v. First Union Nat'l Bank*, 486 F.3d 150, 154 n. 1 (6th Cir.2007) (noting that FCRA does not limit compensatory damage awards in suits brought by private citizens). The Ninth Circuit has not considered the question.

The Court agrees with plaintiff and the appellate courts. As the Fourth Circuit explained, "Although FCRA does place limits on civil penalties when suit is brought by the government, Congress specifically chose not to limit punitive damages in suits brought by private parties. *Saunders*, 526 F.3d at 152 (internal citations omitted).

\*9 The \$700,000 punitive damages award in this case does not violate defendant's due process rights.

### B. Remittance of damages awards

Defendant also argues that the compensatory and punitive damages awards are excessive and should be remitted to \$200,000 and \$50,000 respectively.<sup>FN7</sup>

<sup>FN7</sup>. In the heading of its argument regarding compensatory damages, defendant states that a new trial should be granted. Defendant states that a new punitive damages trial should be granted as well. But the defendant's substantive arguments all focus on remittitur. To the extent that defendant does, in fact, seek a new trial on damages and not merely a new trial nisi remittitur, the Court denies defendant's request for the same reasons that it denies remittitur.

## 1. Remittance of compensatory damages

### a. Non-economic damages

Defendant argues that the weight of the evidence does not support a large award of emotional distress damages because defendant's role in any of plaintiff's suffering was minimal and there was only a short amount of time during which defendant could be found to have been neglectful. In support of its argument, defendant cites *Sloane v. Equifax Info. Servs. LLC*, 510 F.3d 495 (4th Cir.2007).

The defendant in *Sloane*, who is notably the defendant in this case as well, was chastised for taking a remittitur number "out of the air." *Id.* at 503. The *Sloane* court explained that "Not only is such an unprincipled approach intrinsically unsound, but it also directly contravenes the Seventh Amendment, which precludes an appellate court from replacing an award of compensatory damages with one of the court's own choosing." *Id.* Ultimately, in reliance on Fourth Circuit precedent that does not appear to have a corollary line of cases in the Ninth Circuit, the court remitted the emotional distress award slightly. *Id.* 506-07; *see also id.* (explaining that the Fourth Circuit reviews emotional distress awards by looking at a variety of very specific factors).

Here, defendant leaves the Court to speculate where its \$200,000 figure comes from. It does not explain why \$315,000 is shocking to the conscience or unsupported by the evidence while \$200,000 is a proper number.

More importantly, plaintiff has presented significant evidence of emotional distress that he suffered as the result of his unique circumstances. Plaintiff testified regarding his own anxiety, fear, sleeplessness, nightmares, and depression. TR 233:18-235:10. Dr. Spiegel, a specialist in psychological treatment of [cancer](#) patients at Stanford, testified that plaintiff was diagnosed with an adjustment disorder with [anxious mood](#), and he confirmed a causal connection to defendant's FCRA vi-

olation. TR 375:22-377:17; TR 392:22; TR 427:17-427:25. Dr. Gore-Felton also related the psychological circumstances to the credit reporting problems. TR 454:8-454:12. Of particular relevance to the questions of causation and of the severity of the emotional distress damages is the following testimony from Dr. Spiegel:

Well, what happened in his case, and happens in many cases, is that if a ... problem you think was resolved is not, and it comes up again, or you face another threat, it does a couple of things. It triggers all of your network of memories and associations, as it did with Eric, to what happened the first time.

So it's like ... somebody who comes back from combat and has [post-traumatic stress disorder](#), and then gets in a minor car accident, just a little fender-bender, and all the memories and feelings of the combat trauma start to come back.

\*10 So in his case, the second frustration started to trigger his memories of what happened when his identity was fi[r]st stolen and what he had to do about it.

Secondly, the essence of stress like this is helplessness, that you don't feel you can do anything about it. Something is happening to your identity or your credit or something else, and there's nothing you can do about it. Things aren't going the way you want them to.

So he then did something rather out of the ordinary to do something about it. And that, I think, for a while made him feel more in control of his life and his future. And then you find out that it didn't work, that there's more trouble, you hadn't resolved it. So it tends to make you feel helpless. And that's when Eric thought he got it figured out, he did something unusual, and then he finds out that it didn't work.

So it adds to the sense of helplessness, which makes you anxious, instead of feeling that you

have mastered the stressor. And that's what happened to him.

TR 386:3-387:6.

The non-economic portion of the compensatory damages award is supported by the evidence and is not grossly excessive, monstrous, or shocking to the conscience.

#### **b. Economic damages**

Defendant also argues that the economic damages award is unsupported because of a problem with plaintiff's evidence. Defendant argues that plaintiff should not have been permitted to introduce medical bills and expenses from Dr. Saito-Perry, since Dr. Saito-Perry did not testify at trial and evidence of his treatment was hearsay. Without this evidence, defendant argues, plaintiff could not have proven that he was entitled to nearly \$6,000 in economic damages.

Defendant states that the bills themselves were admitted into evidence and should not have been. Plaintiff states that they were stipulated to, and that in any event plaintiff authenticated the bills and testified as to the relationship between the bills and the FCRA violations.<sup>FN8</sup> On this record, the Court does not find that the economic damages award were "clearly unsupported by the evidence." *Brady*, 859 F.2d at 1557.

**FN8.** With respect to this claim, neither side cites to the record to demonstrate what evidence was admitted, where, how, over whose objection, and why.

#### **2. Remittance of punitive damages**

Defendant argues that the punitive damages award should be reduced to \$50,000. As with defendant's JMOL and due process arguments regarding the punitive damages award, defendant's remittance argument is based on the premise that the evidence, at most, shows a careless oversight for a single account during a short time period. For the reasons explained above, the Court disagrees with

defendant's characterization of the evidence and finds that the punitive damages award is supported by the evidence and is not grossly excessive, monstrous, or shocking to the conscience.

Defendant is not entitled to remittance of any of the damages awards.

### **III. Motion for a new trial**

Defendant argues in the alternative that it is entitled to a new trial because the first trial was manifestly unfair for several reasons. The Court addresses each contention in turn.

#### **A. Unsupported claims**

**\*11** Defendant argues that it was prejudiced by the Court's failure to grant JMOL with respect to claims related to the First USA, Chase, and Citibank cards, and claims made under subsections 1681i(a)(5) (B), 1681i(a)(5)(c), and 1681i(a)(6) of FCRA.

##### **1. The three cards**

Defendant has pointed to no place where plaintiff argued to the jury that liability should be premised on actions relating to the First USA, Chase, and Citibank cards. In fact, plaintiff made clear in his opening statement that his claims related to the Bank of America card, *e.g.* TR 123:8-123:21, and plaintiff's case focused on his attempts to get defendant to reinvestigate the Bank of America report. To the extent that the other cards were mentioned during the course of the case, defendant clarified in its closing statement that they did not form the basis of plaintiff's liability argument. *See, e.g.* TR 1331:23-1331:24 (Bank One); TR 1335:5-1335:8 (Citibank); TR 1339:6 (Chase). Defendant was not prejudiced by the alleged presence of these claims in this case after defendant's JMOL motion was filed.

##### **2. The three subsections**

Subsection 1681i(a) (5)(B) states a variety of requirements relating to the reinsertion of previously deleted material. Subsection 1681i(a)(5)(c) requires a credit reporting agency to maintain reas-

onable procedures designed to prevent the re-appearance of deleted information in a consumer's file. Subsection 1681i(a)(6) requires a credit reporting agency to provide notice of the results of its re-investigation, and includes content and timing requirements.

Defendant argues that plaintiff presented no evidence that defendant violated any of these subsections, and that it was prejudiced because the jury was permitted to consider them even after defendant filed a JMOL motion. Plaintiff argues that defendant reinserted a previously deleted address without proper certification and then failed to notify plaintiff within five business days, as required by 15 U.S.C. § 1681i(a)(5)(B)(ii). Plaintiff argues that defendant's notice of the results of its reinvestigation contained false information, in violation of 15 U.S.C. § 1681i(a) (6).

Plaintiff cites to evidence that defendant deleted and then reinserted derogatory information regarding the Bank of America card and a notation that the Bank of America card was an open account, and that it deleted and reinserted the false Seattle address, without proper notice or certification. Defendant does not reply to plaintiff's argument to show how this is not sufficient evidence of a violation of 15 U.S.C. § 1681i(a)(5)(B)(ii) (and thus circumstantial evidence of a violation of subsection 1681i(a)(5) (C)'s requirement that defendant maintain reasonable procedures). Plaintiff cites to evidence that defendant misrepresented that it had deleted the fake address when in fact it had made the fake address into a former address, and that later it again misrepresented that it had deleted the fake address when it had not. Defendant does not reply to plaintiff's argument to show how this is not sufficient evidence of a violation of subsection 1681i(a) (6)'s notice requirement.

\*12 In any event, even if these theories of liability were not properly before the jury after defendant filed its JMOL motion, defendant was not prejudiced. Had the motion been granted, it would have been too late to impact the presentation of evidence

in the case, and plaintiff did not focus on these subsections during closing argument. These were not independent, stand alone claims, but rather theories of liability. And the jury was instructed as to six other theories of liability, some of which were supported by fairly strong evidence of violation.

### B. Chico properties

Defendant argues that the Court should have instructed the jury not to award any emotional distress damages in connections with plaintiff's attempt to buy investment properties in Chico.

At the close of evidence, the Court determined that plaintiff had not presented sufficient evidence that he suffered economic damages in relation to the Chico properties. Therefore, the Court instructed the jury that "Plaintiff is not making a claim for, and you should not award, monetary-loss damages related to the Chico real estate properties." TR 1283:19-1283:21. Defendant acknowledges that the Court instructed the jury not to award economic damages in relation to the Chico properties, but argues that the Court did not go far enough. Defendant argues that the Court should have instructed the jury that it could not award non-economic damages either.<sup>FN9</sup> Defendant believes that it cannot be liable for emotional damages stemming from any denial of credit if it was not responsible for any denial of credit.

FN9. Defendant did make this argument at trial, TR 1049:1, though defendant did not object to the final instruction or ask that it be augmented, and in fact defendant highlighted it in its closing argument. TR 1345:7-1345:9 ("And as the Judge told you, and as Mr. Keating told you, Mr. Drew is not seeking any money related to those Chico properties or any aspect of those mortgages.").

Although economic damages can only be substantiated by evidence of actual economic harm, such as a denial of credit, non-economic damages need only be substantiated by evidence of emotion-

al distress suffered because of a violation of FCRA. No actual denial of credit is necessary. In this case, plaintiff testified about his anger and frustration at having to deal with continuing errors on his credit report when attempting to invest in real estate in Chico, which plaintiff said impacted his relationship with his then-fiancée, now former wife. TR 254:21-259:23. To the extent that any portion of the jury award was based on non-economic damages related to the Chico properties, plaintiff's testimony that he was angry and frustrated and that his romantic relationship was suffering because of his credit problems is sufficient to support the award, even if he never applied for a loan. <sup>FN10</sup>

<sup>FN10</sup>. Defendant also argues that the only evidence that could possibly support an award are tri-merge documents, which are hearsay and cannot be used to prove the contents of plaintiff's Equifax file. But other evidence—such as plaintiff's testimony—shows that plaintiff's Equifax file contained erroneous information both before and after plaintiff considered investing in the Chico properties. The jury was free to deduce from that evidence and from plaintiff's testimony that his emotional distress damages were caused by defendant's FCRA violation.

### C. FTC Consent Decree and Agreement of Assurances

Defendant again argues that Mr. Hendricks should not have been permitted to testify about the FTC consent decree or the Agreement of Assurances, because they did not support plaintiff's claim in any way. Defendant argues that it was prejudiced even at the liability stage by the introduction of this evidence and testimony. The Court addressed this argument above in the context of defendant's punitive damages argument, and it rejects defendant's liability argument for the same reasons.

### D. Trans Union and Experian

\*13 In the introduction to its request for a new trial, defendant argues that the Court admitted evi-

ence relating to Trans Union and Experian in order to prove defendant's liability in this case, contrary to the Court's own ruling on defendant's motion in limine. Defendant does not identify any such evidence. In the body of the motion, defendant argues generally that plaintiff testified regarding the results of the reinvestigations undertaken by Trans Union and Experian, although it does not identify any specific testimony. Defendant does not claim that it objected to the evidence or testimony; rather, it states simply that the jury should not have been allowed to use the results of Trans Union and Experian's reinvestigations as a yardstick for the reasonableness of defendant's reinvestigation. <sup>FN11</sup>

<sup>FN11</sup>. As to this point, defendants provided no citations to the record.

The Court notes that defendant tried to deflect responsibility for plaintiff's emotional distress onto the banks and other credit reporting agencies. TR 428:25-429:9. In any event, to the extent that plaintiff testified that the other credit reporting agencies had resolved his complaints properly and timely, plaintiff's testimony was relevant to the question of damages.

### E. Doctor Christopher Saito-Perry

Defendant argues that it was prejudiced by plaintiff's introduction of medical bills and expenses from Dr. Saito-Perry. As explained above, the Court does not find that defendant was prejudiced by this evidence.

### F. Section 1681c-2 claim

Finally, defendant argues that the Court permitted plaintiff to amend his complaint mid-trial to state a claim under Section 1681c-2 of FCRA, and that this was improper. Defendant argues that the sole claim remaining in the case at the beginning of the trial was brought under Section 1681i (which relates to reinvestigation generally), and that plaintiff should not have been permitted to make a claim under Section 1681c-2 (which relates to identity theft in particular).

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[Section 1681c-2\(a\)](#) requires credit reporting agencies to “block the reporting of any information in the file of a consumer that the consumer identifies as information that resulted from an alleged identity theft, not later than 4 business days after the date of receipt by such agency of” certain documents from the consumer. By way of comparison, [Section 1681i](#) requires credit reporting agencies to take certain actions within 30 days of the receipt of a consumer dispute, and pertains to disputes that do not expressly arise from identity theft. Thus, a consumer dispute will trigger duties under either [Section 1681c-2\(a\)](#) or [Section 1681i](#), depending on whether it includes notice of identity theft.

The Court has already issued a written order explaining that the operative version of the complaint *already* encompassed a claim under [Section 1681c-2](#). Doc. 436. Plaintiff alleged in the complaint that he gave notice to defendant that certain information in his credit file was the result of identity theft and that defendant “failed to block” the fraudulent information. Am. Comp. ¶¶ 202-06. This is sufficient to state a claim under [Section 1681c-2\(a\)](#) even though plaintiff did not specifically name that section in the complaint. Thus, contrary to defendant’s argument at this juncture, the Court did not permit plaintiff to amend his complaint midtrial.

\*14 Even if the Court technically did permit plaintiff to amend his complaint midtrial, such amendment was proper and non-prejudicial. [Federal Rule of Civil Procedure 15\(b\)\(1\)](#) provides that:

[i]f, at trial, a party objects that evidence is not within the issues raised in the pleadings, the court may permit the pleadings to be amended. The court should freely permit an amendment when doing so will aid in presenting the merits and the objecting party fails to satisfy the court that the evidence would prejudice that party’s action or defense on the merits. The court may grant a continuance to enable the objecting party to meet the evidence.

The Court has discovered practically no case law discussing [Rule 15\(b\)\(1\)](#) specifically. <sup>FN12</sup> In one case discussing [Rule 15\(a\)](#), which concerns amendments before trial, the Fourth Circuit explained that amendment shortly before trial would be improper if “[t]he proof required to defend against this new claim would be of an entirely different character than the proof which the defendant had been led to believe would be necessary” or if the “[b]elated claims ... change the character of [the] litigation.” *Deasy v. Hill*, 833 F.2d 38, 42 (4th Cir.1987). In an unpublished opinion, the Fourth Circuit applied this reasoning to a 15(b)(1) ruling. See *Dank v. Shinseki*, 374 Fed.Appx. 396, \*4 (4th Cir.2010). The Ninth Circuit held, in a slightly different context, that even a post-trial amendment is non-prejudicial where the objecting party “clearly understood that the issue ... was before the court.” *Galindo v. Stoodly Co.*, 793 F.2d 1502, 1513 (9th Cir.1986). And, in another slightly different context, the Ninth Circuit explained that granting a request for a continuance has the potential to cure any prejudice from what it called a “surprise pleading amendment.” See *Consolidated Data Terminals v. Applied Digital Data Systems, Inc.*, 708 F.2d 385, 396 (9th Cir.1983). Similarly, the Second Circuit has explained, while discussing [Rule 15](#)’s provisions about post-trial amendment, that “[g]enerally, introducing new claims for liability on the last day of trial will prejudice the defendant.” *Gussack Realty Co. v. Xerox Corp.*, 224 F.3d 85, 94 (2d Cir.2000).

FN12. [Rule 15\(b\)\(1\)](#) is the appropriate subsection to apply given the unique facts of this case. At trial on July 22, 2010, plaintiff attempted to introduce certain evidence in support of a claim under [15 U.S.C. § 1681c-2\(a\)](#). Equifax objected on the ground that this trial solely concerns a claim under [15 U.S.C. § 1681i](#). Plaintiff then moved to amend his complaint to add a claim under [§ 1681c-2\(a\)](#) in order to conform to the proof at trial, or alternatively to clarify that his existing complaint already

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includes a claim under § 1681c-2(a).

Defendant argues generally that it was prejudiced because it was not on notice of this claim, did not have the opportunity to conduct discovery on the claim, and did not have the opportunity to prepare its witnesses to defend against the claim. As the Court's previous order has explained, defendant was long on notice of the factual basis of plaintiff's claims. Defendant is familiar with the different requirements of FCRA. Moreover, the evidence developed and presented at trial with respect to the Section 1681c-2 claim was largely the same as that presented for the Section 1681i claim. Liability under each statute arises from the same dispute, with the only factual question as to which statute is triggered being whether the dispute resulted from an alleged identity theft. The issue arose on the fourth day of a nine day trial, and just before a three day break. Defendant did not request a continuance or ask for permission to call any new witnesses. The Court finds that defendant was not prejudiced by any midtrial amendment that may have occurred.

\*15 Defendant also argues that FCRA's two year statute of limitations prevented plaintiff from asserting a Section 1681c-2 claim in 2010. Defendant's argument rests of the assumption that plaintiff was amending him complaint in 2010 rather than asserting the claim in his original complaint. Even if defendant's view of what happened is correct, the amendment does not violate the statute of limitations. The Section 1681c-2 claim undeniably arises from the same "conduct, transaction, or occurrence set out ... in the original pleading," and therefore any amendment adding a Section 1681c-2 claim relates back to the date of the original pleading. *See Fed.R.Civ.P. 15(c)(1)(B)*. Defendant identifies the alleged violation as occurring in the fall of 2005. This suit was filed in December 2006. There is no statute of limitations problem.<sup>FN13</sup>

FN13. Defendant argues in the introduction to the section of its motion arguing for a new trial that it was prejudiced by the ad-

mission of certain other unspecified evidence over its objections. The defendant does not develop or even mention this argument in the body of the motion, and the Court considers it waived.

Defendant is not entitled to a new trial.

### CONCLUSION

For the foregoing reasons and for good cause shown, the Court hereby DENIES defendant's renewed motion for JMOL and alternative motion for a new trial. (Doc. 464.)

### IT IS SO ORDERED.

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Not Reported in F.Supp.2d, 2007 WL 2344962 (N.D.Cal.)  
(Cite as: 2007 WL 2344962 (N.D.Cal.))



Only the Westlaw citation is currently available.

United States District Court,  
N.D. California.  
INFORMATICA CORPORATION, Plaintiff,  
v.  
BUSINESS OBJECTS DATA INTEGRATION,  
INC., Defendant.  
  
No. C 02-03378 EDL.  
Aug. 16, 2007.

Albert L. Sieber, David M. Lacy Kusters, David Douglas Schumann, Fenwick & West LLP, Kenneth Brian Wilson, Stefani Elise Shanberg, Perkins Coie LLP, San Francisco, CA, Carolyn Chang, Darren E. Donnelly, J. David Hadden, Lynn Harold Pasahow, Ryan Aftel Tyz, Fenwick & West LLP, Mountain View, CA, Lynne A. Maher, Fenwick & West LLP, Palo Alto, CA, for Plaintiff.

Theodore T. Herhold, Daniel J. Furniss, Joseph A. Greco, Robert D. Tadlock, Townsend and Townsend and Crew LLP, Palo Alto, CA, Ian L. Saffer, Townsend and Townsend and Crew LLP, Denver, CO, Leonard Joseph Augustine, Jr., Peter H. Goldsmith, Townsend and Townsend and Crew LLP, San Francisco, CA, for Defendant.

**ORDER DENYING DEFENDANT'S RE-  
NEWED MOTION FOR JUDGMENT AS A  
MATTER OF LAW AND GRANTING DE-  
FENDANT'S MOTION FOR A NEW TRIAL  
UNLESS PLAINTIFF ACCEPTS REMITTITUR**

ELIZABETH D. LAPORTE, United States Magistrate Judge.

\*1 Jury trial in this patent infringement case commenced on March 12, 2007 and concluded with a verdict in favor of Plaintiff in the amount of \$25,240,000 on April 2, 2007. After post-trial motions for attorney's fees and for a permanent injunction, a bench trial on inequitable conduct, and fur-

ther briefing on the impact of *Microsoft v. AT & T*, --- U.S. ---, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007), judgment was entered on May 16, 2007. On May 31, 2007, Defendant filed a motion for new trial and renewed motion for judgment as a matter of law, arguing that the jury's verdict was excessive and urging the Court to grant a new trial on damages. The Court held a hearing on July 11, 2007, and supplemental briefs were filed on July 20, 2007. Having carefully considered the papers submitted and the arguments at the hearing, the Court hereby denies Defendant's renewed motion for judgment as a matter of law and grants Defendant's motion for new trial unless Plaintiff accepts the Court's order of remittitur.

**Defendant's Renewed Motion for Judgment as a Matter of Law**

In reviewing Defendant's motion for judgment as a matter of law, the Court must view the evidence in the light most favorable to Plaintiff and draw all reasonable inferences in its favor. *See Josephs v. Pacific Bell*, 443 F.3d 1050, 1062 (9th Cir.2006); *see also Bell v. Clackamas County*, 341 F.3d 858, 865 (9th Cir.2003) (citing Fed.R.Civ.P. 50(a)). "The test applied is whether the evidence permits only one reasonable conclusion, and that conclusion is contrary to the jury's verdict." *Josephs*, 443 F.3d at 1062. Here, although reasonable minds could differ, viewing the evidence as required, the Court cannot conclude that the evidence only supports a verdict in Defendant's favor.

Specifically, viewed in the light most favorable to Plaintiff, the evidence at trial showed that Defendant included the infringing EDF capability in its Data Integrator product as a valuable feature necessary to compete against Plaintiff and others in the marketplace and promoted this feature to customers. For example, Defendant's key customers and OEM distributor told Defendant that the feature was "needed." *See, e.g.,* Trial Tr. 362:7-364:3; Trial Ex. 489. Defendant's chief technology officer gave the EDF feature an A+ importance rating. *See*

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Trial Ex. 495. In subsequent versions of its product, Defendant enhanced its EDF feature to better provide object reusability desired by its customers. *See, e.g.* Trial Ex. 489; Trial Tr. 1613:23-1615:7. Defendant also highlighted the EDF feature and its benefits in some of its marketing of the Data Integrator product. *See, e.g.*, Trial Tr. 443:6-444:4; 1613:23-1615:7; Trial Ex. 279. Plaintiff's expert testified that the EDF feature was important for customers purchasing the Data Integrator. *See* Trial Tr. 850:6-851:20. Defendant emphasized the EDF feature in competing with other products. *See, e.g.*, Trial Tr. 1215:18-1220:12. Defendant also instructed its customers on using and creating the infringing EDF feature. *See, e.g.*, Trial Ex. 270. Defendant offered training to its customers on creating ETL jobs using EDFs. *See, e.g.*, 1610:12-1611:21; Trial Ex. 476. In addition, Defendant co-sponsored a comprehensive customer survey conducted by leading industry analysts that found that the best ETL tools had "content-independent reusable objects" or EDFs. *See* Trial Ex. 325; Trial Tr. 1226:16-1228:23; 1616:11-12. Because the survey shaped customer demand, Defendant took it seriously. *See* Trial Tr. 1618:25-1619:10. Moreover, Mr. McGoveran testified regarding direct infringement by two of Defendant's customers. *See* Trial Tr. 641:1-647:25.

\*2 Accordingly, Defendant's motion for renewed judgment as a matter of law is denied.

#### **Defendants' Motion for New Trial**

In anticipation of the then-forthcoming decision in *Microsoft v. AT & T*, --- U.S. ---, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007),<sup>FNI</sup> in which certiorari had been granted but no decision yet issued, the verdict form in this case asked not only the total amount of damages but also the breakdown between domestic and foreign damages. Specifically, question 10 stated:

FNI. In *Microsoft v. AT & T*, --- U.S. ---, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007), the Supreme Court held that software, uncoupled from a medium, did not constitute

a component supplied from the U.S. for combination with the patented invention, a speech-processing computer, under Section 271(f). *Microsoft*, 127 S.Ct. at 1755. Specifically, the Supreme Court found that the master disk or electronic transmission that Microsoft sent from the United States was never installed on any of the foreign-made computers in question, but rather that copies made abroad were used for installation. *Id.* at 1751. The Supreme Court held that "[b]ecause Microsoft does not export from the United States the copies actually installed, it does not 'supply from the United States' 'components' of the relevant computers, and therefore is not liable under § 271(f) as currently written." *Id.*

#### ***DAMAGES ATTRIBUTABLE TO INFRINGEMENT UNDER 35 U.S.C. § 271(f)***

If you awarded damages in response to Question No. 9, what amount of damages indicated above do you attribute to BODI's act of supplying or causing to be supplied in or from the United States all or a substantial portion of the components of a patented invention, in such a manner as to actively induce the combination of such components outside of the United States in a manner that would infringe any of claims 1, 8, 12, 15, or 18 of the '670 patent or claims 5, 7, or 11 of the '775 patent if such combination had occurred within the United States?

In response to Question 10, the jury allocated \$2,524,000, or 10%, of total damages to infringement under 35 U.S.C. § 271(f). In seeking a new trial on damages, Defendant argues that the jury's verdict was excessive, and that the ten percent allocation to § 271(f) damages was not supported by the evidence.

A jury's finding on the amount of damages should be reversed only if the amount is "grossly excessive or monstrous," *Zhang v. American Gem Seafoods, Inc.*, 339 F.3d 1020, 1040 (9th Cir.2003)

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(internal quotations marked omitted), or if the amount is “clearly unsupported by the evidence” or “shocking to the conscience.” *Brady v. Gebbie*, 859 F.2d 1543, 1557 (9th Cir.1988) (internal quotation marks omitted). The focus is on whether, “after giving full respect to the jury’s findings, the judge ‘is left with the definite and firm conviction that a mistake has been committed by the jury.’” “*Landes Const. Co., Inc. v. Royal Bank of Canada*, 833 F.2d 1365, 1371-72 (9th Cir.1987). Moreover, a partial new trial is appropriate where “it clearly appears that the issue to be retried is so distinct and separable from the others that a trial of it alone may be had without injustice.” *Gasoline Prods. Co. v. Champlain Refining Co.*, 283 U.S. 494, 500, 51 S.Ct. 513, 75 L.Ed. 1188 (1931); see also 12 *Moore’s Federal Practice*, § 59.14[1] at 59-91 to 59-92 (where the court is satisfied that liability has been properly determined, the new trial may be granted as to damages or “may be limited to a single element of damages, if that element is distinct and separable from questions related to other elements of damages.”).

The jury’s overall verdict of \$25,240,000 was not grossly excessive or shocking to the conscience; the Court is not convinced that a mistake was made in reaching this amount. Although reasonable minds could differ, the record contains evidence to support the total verdict. Specifically, Plaintiff’s damages expert, Dr. O’Brien, testified to a \$25,000 royalty for each copy of Data Integrator that Defendant sold. See Trial Tr. 982:9-20; 986:1-990:3. He opined that, based on all of the evidence, his use of a \$25,000 per license royalty rate was conservative. Trial Tr. 989:24-990:3; 1000:12-23. Dr. O’Brien also testified that a reasonable royalty on Defendant’s maintenance contracts was fifteen percent, assuming a ninety percent renewal rate. See Trial Tr. 983:2-8; 1009:18-1011:10. In applying these royalty rates and using a conservative number of licenses sold, Dr. O’Brien testified that Plaintiff was entitled to a total of \$42.87 in reasonable royalties. See Trial Tr. 1009:1-11; 1012:4-11. The jury’s verdict was well within Dr. O’Brien’s calculation.

\*3 However, the jury’s allocation of ten percent of the total damages award to § 271(f) damages was unsupported by the evidence. Dr. O’DBrien opined that a reasonable royalty should be based on a flat fee per license plus maintenance royalties and that about \$28.14 million out of total reasonable royalties of \$42.87 million, or 66%, resulted from foreign sales. Trial Tr. at 1011:24-1012:12. Defendant’s expert, Mr. Meyer, calculated damages instead based on a royalty of one percent of domestic and foreign sales, with foreign sales of approximately \$84 million out of \$161 million, or about 52% of total sales. Trial Tr. at 1732:11-1733:16. There was no evidence whatsoever, nor could any reasonable inference be drawn, supporting an allocation of only ten percent of damages to foreign sales. Further, the parties did not introduce any evidence or make any argument that Defendant’s efforts to induce use of infringing EDFs or the actual extent of their use are different in the United States than they are abroad. Accordingly, because the amount allocated to domestic damages is unsupported by any evidence, the Court is left with a firm conviction that the jury made a mistake in calculating the allocation, which warrants a new trial.

The question of the scope of a new trial on damages was briefed by the parties after the July 11, 2007 hearing on Defendant’s motion for new trial. In arguing for a partial new trial on the allocation issue only, Plaintiff argues that the issue is separate and distinct. See, e.g., *Rice v. Community Health Ass’n*, 203 F.3d 283, 285 (4th Cir.2000) (where jury awarded breach of contract damages and future consequential damages, the court ordered a new trial only as to the consequential damages, stating that the two forms of damages required distinct elements of proof and focused on different time frames, and also that a new trial on all damages would endanger the breach of contract damages, which the defendant had forfeited its right to challenge because the defendant failed to preserve its objection to a jury instruction on front pay); *Strickland v. Owens Corning*, 142 F.3d 353, 359 (6th Cir.1998) (where jury’s apportionment of

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fault to defendant was not supported by evidence, a partial new trial on allocation was ordered). Here, however, because the parties' experts calculated the damages in two distinct ways (a flat fee multiplied by the number of licenses plus a maintenance royalty versus a percentage of a dollar sales base), the Court cannot ascertain from the jury's verdict the basis for the jury's aggregate award. Accordingly, it would not be possible to instruct the jury on which approach to use to determine the percentage attributable to foreign damages. Therefore, it is appropriate to conduct a new trial on the entire damages award. See, e.g., *Jamison Co., Inc. v. Westvaco Corp.*, 526 F.2d 922, 934-36 (5th Cir.1976) (denying a partial new trial because the basis for the jury's verdict was unknowable because of the general verdict); *Computer Access Tech. Corp. v. Catalyst Enters., Inc.*, 273 F.Supp.2d 1063, 1076-78 (N.D.Cal.2003) (ordering a new trial as to all claims because there was insufficient evidence to support the jury's finding of the amount of damages for trademark infringement).

\*4 Having concluded that the domestic portion of the damage award is disproportionate in light of the evidence even when viewed in the light most favorable to the prevailing party, the Court must grant a new trial on damages unless Plaintiff accepts a remittitur which the Court considers justified. See *Fenner v. Dependable Trucking Co.*, 716 F.2d 598, 603 (9th Cir.1983) ("The prevailing party is given the option of either submitting to a new trial or of accepting a reduced amount of damage which the court considers justified."). The proper amount of a remittitur is the maximum amount sustainable by the evidence. See *D & S Redi-Mix v. Sierra Redi-Mix & Contracting Co.*, 692 F.2d 1245, 1249 (9th Cir.1982).

Because the Court concludes that the aggregate jury award of \$25,240,000 is not grossly excessive, the remittitur in this case should be calculated by reducing the overall award by an amount attributable to foreign sales that represents the maximum amount sustainable by the evidence. Plaintiff argues

that a fair remittitur is the amount of domestic sales, which its expert put at \$14.7 million, plus nearly all of the remaining \$10.5 million of the \$25.2 million total award, which Plaintiff contends it is entitled to under *Microsoft*. However, the evidence does not support Plaintiff's proposed remittitur. The jury refused to award the total amount of damages advocated by Plaintiff's expert, instead imposing a substantial discount. As the jury had no basis for differentiating the discount between foreign and domestic damages, it must have found the amount of domestic damages prepared by Plaintiff's expert to be excessive. Further, without evidence at trial of the amount of foreign sales attributable to each of the four different methods by which Defendant provided Data Integrator to foreign customers, some of which are actionable under § 271(f) and some of which no longer are after *Microsoft*, the Court cannot reach a reasoned decision on any amount of foreign sales for remittitur. Plaintiff's calculation would require the Court to simply accept Plaintiff's supposition about the amount of Defendant's foreign sales that are actionable under § 271(f) after *Microsoft* without any proof.

Defendant argues for a much smaller remittitur based on new calculations differentiating between different types of license in a way unsupported by the evidence at trial, blended with its expert's lower calculation that the jury rejected in awarding more than he advocated. This proposed calculation also requires assumptions by the Court that are not warranted by the evidence and are less than the maximum amount sustainable by the evidence. Alternatively, in a footnote in their supplemental brief, Defendant urges the Court to reduce the damages by 66%, the percentage that results from adopting Plaintiff's expert's method of calculating damages. This approach also fails because it does not reflect the maximum amount sustainable by the evidence.

\*5 The record, however, does contain evidence from the parties' experts supporting division of damages into foreign and domestic. Dr. O'Brien testified that foreign sales constituted 66% of total

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sales, leaving 34% as domestic, while Mr. Meyer testified that foreign sales constituted 52%, leaving 48% allocated to domestic. The Court adopts the higher percentage because it is sustainable by the evidence. For purposes of remittitur, then, the maximum amount sustainable by the evidence is \$12,115,200, or 48% of the total. Accordingly, the Court grants Defendant's motion for a new trial on the issue of damages under 35 U.S.C. § 271(f) unless Plaintiff accepts a remittitur in the amount of \$12,115,200.

At the hearing on July 11, 2007, when the Court announced its intention to calculate a remittitur, Plaintiff asked the Court to assign an enhancement amount as discussed in the Court's May 16, 2007 Order. The Court declines to determine the specific enhancement at this time. The Court will determine the amount of the enhancement either upon acceptance of the remittitur or upon the results of a new trial. *See* May 16, 2007 Order at 10:16-18 (“In light of the jury's finding of willfulness and examination of the Read factors, the Court concludes that a modest enhancement of damages is appropriate, though not a substantial enhancement.”). In addition, because a new trial is not a certainty at this time, the Court need not reach the question of whether discovery will be reopened.

Accordingly, Defendant's Motion for New Trial is granted unless Plaintiff accepts the Court's order of remittitur. No later than September 10, 2007, Plaintiff shall file and serve a statement regarding whether it accepts the remittitur or opts for a new trial. If Plaintiff chooses a new trial, the Court will schedule a case management conference.

**IT IS SO ORDERED.**

N.D.Cal.,2007.

Informatica Corp. v. Business Objects Data Integration, Inc.

Not Reported in F.Supp.2d, 2007 WL 2344962  
(N.D.Cal.)

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Analysis

As of: Feb 23, 2011

**INTERPLAN ARCHITECTS, INC., Plaintiff, v. C.L. THOMAS, INC., MORRIS & ASSOCIATES ENGINEERS, INC., AND HERMES ARCHITECTS, Defendant.**

**CIVIL ACTION NO. 4:08-cv-03181**

**UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS, HOUSTON DIVISION**

**2010 U.S. Dist. LEXIS 114306**

**October 27, 2010, Decided**

**October 27, 2010, Filed**

**PRIOR HISTORY:** [Interplan Architects, Inc. v. C.L. Thomas, Inc., 2010 U.S. Dist. LEXIS 107941 \(S.D. Tex., Oct. 8, 2010\)](#)

**CORE TERMS:** drawing, architectural, summary judgment, registration, declaration, deposit, certificate, license, affirmative defenses, deposition testimony, infringement, architect--, floor plans, copyrighted, copyright infringement, deposition, ownership, food, Copyright Act, elevation, permission, personal knowledge, copying, block, expert opinion, stricken, actual damages, authorship, genuine, site

**COUNSEL:** [\*1] For Interplan Architects, Inc., Plaintiff: Ira Phillip Domnitz, LEAD ATTORNEY, Khannan Suntharam, Winstead PC, Houston, TX; Louis K Bonham, LEAD ATTORNEY, Osha Liang L.L.P., Houston, TX.

For C.L. Thomas Inc., Defendant, Cross Defendant, Counter Claimant, Cross Claimant: Brock Cordt Akers, LEAD ATTORNEY, Phillips & Akers, Houston, TX.

For Morris and Associates, Engineers, Inc., Defendant, Cross Claimant, Cross Defendant: Jesus David Cabello, LEAD ATTORNEY, Wong Cabello et al, Houston, TX.

For Hermes Architects, Defendant: William T Green, III,

LEAD ATTORNEY, Attorney at Law, Houston, TX.

For Morris & Associates, Engineers, Inc., Cross Claimant: David J Cabello, LEAD ATTORNEY, Houston, Tx.

For Interplan Architects, Inc., Counter Defendant: Ira Phillip Domnitz, LEAD ATTORNEY, Khannan Suntharam, Winstead PC, Houston, TX.

**JUDGES:** KEITH P. ELLISON, UNITED STATES DISTRICT JUDGE.

**OPINION BY:** KEITH P. ELLISON

**OPINION**

**MEMORANDUM AND ORDER**

Pending before the Court are the following motions:

Filed by Interplan Architects, Inc. ("Plaintiff"):

1. Motion for Partial Summary Judgment for Infringement of Technical Drawings Copyrights (Doc. No. 108)
2. Motion for Partial Summary

Judgment (Ownership of Valid Architectural Works Copyrights [\*2] (Doc. No. 110)

3. Motion for Partial Summary Judgment on Defendant's Affirmative Defenses (Doc. No. 111)

4. Objections to and Motion to Strike Defendant's Summary Judgment Evidence (Doc. No. 131)

5. Objections to and Motion to Strike Defendant's Summary Judgment Opposition Evidence (Doc. No. 143)

6. Motion for Discovery Sanctions Against Defendant C.L. Thomas, Inc. (Doc. No. 114)

Filed by C.L. Thomas, Inc. (the "Defendant" or "Defendant Thomas"): <sup>1</sup>

7. Motion for Summary Judgment (Doc. No. 104)

8. Motion to Dismiss for Lack of Subject Matter Jurisdiction All Claims Based on Unregistered Copyrighted Works (Doc. No. 119)

9. Motion to Dismiss for Lack of Standing All Copyrights Registered and Owned by Marcel Meijer, Individually (Doc. No. 119)

10. Motion to Strike Declaration of Marcel Meijer (Doc. No. 119)

11. Motion to Strike Exhibit V to Plaintiff's Opposition to Defendant's Motion for Summary Judgment (Doc. No. 138)

12. Motion to Strike Plaintiff's Motions for Summary Judgment (Doc. No. 155)

13. Motion for Sanctions Pursuant to [Rule 11](#) (Doc. No. 157)

14. Rule 54(d) Motion for Attorneys' Fees and Costs Under the Texas Theft Liability Act (Doc. No. 105)

<sup>1</sup> These motions were originally filed jointly [\*3] by C.L. Thomas, Inc., Morris and Associates Engineers, Inc., and Hermes Architects, since all three were named as defendants in this case. The

Court understands that Morris & Associates Engineers, Inc. and Hermes Architects, Inc. have reached a settlement on the record with Plaintiff. As C.L. Thomas, Inc. still remains as a defendant in this case, the Court will treat these motions as pending and decide them. However, the Court will not decide the following motions filed individually by Morris and Associates Engineers, Inc. and Hermes Architects, and will deny them as moot:

Filed by Morris & Associates Engineers, Inc.:

1. Motion for Partial Summary Judgment on Plaintiff's DMCA Claims (Doc. No. 109)

Filed by Hermes Architects:

2. Motion for Summary Judgment on Plaintiff's Copyright Act Claim (Doc. No. 102)

3. Motion for Partial Summary Judgment (Doc. No. 101)

4. Motion for Order Regarding Joint & Several Liability (Doc. No. 103)

Upon considering the Motions, all responses thereto, and the applicable law, the Court finds that Plaintiff's Motion for Partial Summary Judgment for Infringement of Technical Drawings Copyrights (Doc. No. 108) should be denied, Plaintiff's Motion for Partial Summary Judgment (Ownership of Valid Architectural Works Copyrights (Doc. No. 110) should be denied, Plaintiff's Motion for Partial Summary Judgment on Defendant's Affirmative Defenses (Doc. No. 111) is granted in part and denied in part, Plaintiff's Objections to and Motion to Strike Defendant's Summary Judgment Evidence (Doc. No. 131) is granted in part and denied in part, Plaintiff's Objections to and Motion to Strike Defendant's Summary Judgment Opposition Evidence (Doc. No. 143) is granted in part and denied in part, Plaintiff's Motion for Discovery Sanctions Against Defendant C.L. Thomas, Inc. (Doc. No. 114) is denied, Defendant's Motion for Summary Judgment (Doc. No. 104) is granted in part and denied in part, Defendant's Motion to Dismiss for Lack of

Subject Matter Jurisdiction All Claims Based on Unregistered Copyrighted Works (Doc. No. 119) is denied, Defendant's Motion to Dismiss for Lack of Standing All Copyrights Registered and Owned by Marcel Meijer, Individually (Doc. No. 119) is denied, Defendant's Motion to Strike Declaration of Marcel Meijer (Doc. No. 119) is granted in part and denied in part, Defendant's Motion to Strike Exhibit V to Plaintiff's Opposition to Defendant's [\*5] Motion for Summary Judgment (Doc. No. 138) is granted in part and denied in part, Defendant's Motion to Strike Plaintiff's Motions for Summary Judgment (Doc. No. 155) is denied, Defendant's Motion for Sanctions Pursuant to [Rule 11](#) (Doc. No. 157) is deferred, Defendant's Rule 54(d) Motion for Attorneys' Fees and Costs Under the Texas Theft Liability Act (Doc. No. 105) is deferred, Morris's Motion for Partial Summary Judgment on Plaintiff's DMCA Claims (Doc. No. 109) is denied as moot, Hermes's Motion for Summary Judgment on Plaintiff's Copyright Act Claim (Doc. No. 102) is denied as moot, Hermes's Motion for Partial Summary Judgment (Doc. No. 101) is denied as moot, and Hermes's Motion for Order Regarding Joint & Several Liability (Doc. No. 103) is denied as moot.

## I. FACTUAL BACKGROUND

This case arises from alleged violations by Defendant of the Federal Copyright Act and the Digital Millennium Copyright Act ("DMCA"). Plaintiff is a company whose business involves architectural planning, architectural design, and preparation of architectural and construction documents, including, but not limited to, site plans, floor plans, exterior elevations, interior designs, and construction documents [\*6] ("Architectural Documents"). Architectural Documents contain title blocks, which are areas on the document displaying information identifying the project, the company preparing the Architectural Documents, and information about the scope of the document.

Defendant Thomas designs and constructs convenience stores in south Texas called Speedy Stop. (Deposition of Carlton Labeff ("Labeff Depo.") at 19.) In early 2003, Defendant Thomas hired Plaintiff to design two Speedy Stop stores, No. 59 in Portland, Texas and No. 82 in Columbus, Texas. (Deposition of Marcel Meijer on November 16, 2009 ("Meijer I Depo.") at 33.) Plaintiff submitted proposals to Defendant Thomas describing the services it would provide in connection

with Store Nos. 59 and 82 (the "Design Proposals"). (Meijer I Depo. at 33, 38.) The Design Proposals contained language asserting Plaintiff's ownership of the Architectural Documents it prepared in connection with the projects, and limiting Defendant Thomas's ability to copy or distribute the plans without Plaintiff's permission. (Doc. No. 104, Exh. O at 49, 83.) The Design Proposals were never signed by Defendant Thomas. (Meijer Depo. I at 35, 38, 243)

During the design process [\*7] for Store Nos. 59 and 82, Defendant Thomas provided Plaintiff with certain drawings it had prepared in-house as well as drawings and surveys from third-party consultants and vendors. (Labeff Depo. at 25, 73-74; Meijer I Depo. at 290-91; Deposition of Marcel Meijer on January 15, 2010 ("Meijer III Depo.") at 40-41.) However, the extent and content of Defendant Thomas's contribution to Plaintiff's Architectural Drawings is highly disputed.<sup>2</sup>

<sup>2</sup> Compare Labeff Depo. at 25-26 (stating that Defendant Thomas provided Plaintiff with CAD files of the floor plan and site plan, tear sheets, and photos for the design of Store No. 85); Labeff Depo. at 73-74 (stating that Defendant Thomas provided site plans and floor plans for Store Nos. 82 and 59 and later for Store Nos. 209 and 201); Labeff Depo. at 169 (stating that Defendant Thomas provided Plaintiff with elevation drawings) with Meijer I Depo. at 290-91 (stating that Defendant Thomas provided a "preliminary site plan"); Meijer III Depo. at 40-41 (for Store No. 59, Defendant Thomas provided only a topographic boundary survey, carwash location, gas island location, and store location on the site); Meijer III Depo. at 49-50 (stating that Plaintiff [\*8] received a CAD file from Defendant Thomas that may have consisted of a vicinity map); Meijer III Depo. at 66 (acknowledging that Plaintiff always received boundary layouts from clients in order to know the configuration of the land).

Plaintiff was hired again by Defendant Thomas to provide architectural design services for Speedy Stop Store Nos. 209 and 201 in Austin, Texas. (Deposition of Marcel Meijer on January 4, 2010 ("Meijer II Depo.") at 386-87.) Plaintiff sent Design Proposals to Defendant Thomas dated October 14, 2003 for Store Nos. 209 and 201. (Doc. No. 104, Exh. O at 85-88.) Neither of these Design Proposals contained language asserting Plaintiff's

ownership of its Architectural Documents nor limiting Defendant's ability to use or distribute Plaintiff's drawings. (*Id.*) Only the Design Proposal for Store No. 201 was signed by Defendant Thomas (*Id.* at 86.) Once again, Defendant Thomas provided Plaintiff with certain drawings for inclusion in the design of Store Nos. 201 and 209. (Labeff Depo. at 74.)

Subsequently, in 2003 and 2004, Defendant Thomas hired Plaintiff to design five more Speedy Stop stores, specifically Store Nos. 85 (El Campo, Texas), 70 (Victoria, Texas), 216 [\*9] (Austin, Texas), 206 (Austin, Texas), and 58 (Corpus Christi, Texas). (Meijer II Depo. at 387-89; Doc. No. 104, Exh. O at 68.) Again, Defendant Thomas provided Plaintiff with some drawings during the design process for at least some of these five stores. (Meijer III Depo. at 49.)

During the period in which Plaintiff and Defendant Thomas worked together, Plaintiff sent Defendant Thomas electronic and hard copies of its Architectural Drawings. Plaintiff's Architectural Drawings contained a title block and a "scope of the document" box.<sup>3</sup> (Doc. No. 54 at ¶ 17.) The title block consisted of Plaintiff's name, logo, the project number, the project title, and the name of the client. (*Id.* at Exh. C.) The "scope of the document" box contained the following text:

"This drawing indicates the general scope of the project in terms of architectural design concept, the dimensions of the building, the major architectural elements and the type of structural, mechanical electrical systems [sic]. As scope documents, the drawings do not necessarily indicate or describe all work required for full performance and completion of the requirements of the Contract Documents. On the basis of the general scope indicated [\*10] or described, the contractor shall furnish all items required for the proper execution and completion of the work. These drawings shall not be used for construction unless DATED and noted as ISSUED FOR CONSTRUCTION WORK.

The information, details and drawings shown by this document can not be reproduced, copied or photocopied in a

similar manner without the expressed written consent from the owner INTERPLAN ARCHITECTS, INC."

(*Id.* at Exh. D.) On November 5, 2003, Plaintiff sent Defendant Thomas a set of vellums corresponding to Plaintiff's Architectural Drawings for Store No. 201, unaccompanied by other documents restricting Defendant Thomas's use or distribution of the drawings (Meijer I Depo. at 65-66; Labeff Depo. at 75; Doc. No. 104, Exh. O at 113.)

3 Plaintiff claims in its Opposition to Defendant's Motion for Summary Judgment (Doc. No. 124) that the Architectural Drawings it sent to Defendant Thomas also contained a "copyright reserved" statement near the Interplan logo. However, Plaintiff does not refer to appropriate summary judgment evidence for this factual claim. Exhibits B-J to Doc. No. 110 purport to be copies of deposit material sent to the Copyright Office, not the Architectural [\*11] Drawings sent to Defendant Thomas. Pages 8-9 of Doc. No. 64 and Paragraph 17 of Doc. No. 54 make no mention of the "copyright reserved" statement. Finally, Exhibits C and D to Doc. No. 54 only reproduce the title block and "scope of the document" text and do not reproduce the "copyright reserved" statement. On the basis of this evidence, the Court cannot conclude, in light of the many versions of drawings sent between Plaintiff and Defendant Thomas, that any set of Architectural Drawings sent to Defendant Thomas contained the "copyright reserved" statement.

In December 2003, Carlton Labeff, an employee at Defendant Thomas in charge of construction projects, requested from Marcel Meijer, Plaintiff's President, certain drawings that Plaintiff had prepared in connection with the Speedy Stop stores. (Meijer I Depo. at 309-10.) On December 12, 2003, Plaintiff sent a computer disc containing CAD files for Store No. 201 to Defendant Thomas that similarly lacked any accompanying restrictions on Defendant Thomas's use of the CAD files. (Doc. No. 104, Exh. O at 69.)

In February 2004, Jeff Johanson, Defendant Thomas's President and Chief Operating Officer, requested Plaintiff's Architectural Drawings [\*12] from Mr. Meijer, who agreed to send Defendant Thomas some

of the drawings. (Meijer I Depo. at 310-12.) On February 2, 2004 and on October 1, 2004, Plaintiff sent Defendant Thomas vellum copies of its Architectural Drawings for Speedy Stop Store No. 85. In neither of these transmissions were the vellum copies accompanied by documents restricting Defendant Thomas's ability to use or distribute Plaintiff's Architectural Drawings to other parties. (Meijer I Depo. at 69-70; Labeff Depo. at 75; Doc. No. 104, Exh. O at 116, 118.)

On March 2, 2004, Plaintiff sent Defendant Thomas a computer disk containing a full set of electronic files and a set of vellum prints for Thomas's "use and records in the above referenced project [Store No. 85]." (Labeff Depo. at 76; Doc. No. 104, Exh. O at 70.) Plaintiff acknowledged, however, that this transmission did not contain any restrictions limiting Defendant Thomas's use of the electronic files. (Meijer I Depo. at 178-79.)

On November 9, 2004, Plaintiff again sent Defendant Thomas a computer disk containing CAD files for certain drawings related to Store No. 85. (Labeff Depo. at 76; Doc. No. 104, Exh. O at 59.) Along with computer disk, Plaintiff sent Defendant [\*13] Thomas a confidentiality agreement (the "Confidentiality Agreement") in which it designated the drawings being sent to Thomas as "confidential information" and prohibited Thomas from using or authorizing any other person to use the drawings in connection with any other projects. (Doc. No. 104, Exh. O at 60-61.) However, the Confidentiality Agreement was never signed by Thomas. (*Id.* at 63.)

In November 2004, Defendant Thomas asked Plaintiff to provide architectural services for additional Speedy Stop stores. However, Plaintiff declined to provide these services, for reasons that are in dispute. (Labeff Depo. at 95.)

At some point in 2004, Defendant Thomas engaged Morris and Associates Engineers, Inc. ("Morris") to provide plans for Speedy Stop Store Nos. 301, 303, and 309. (Labeff Depo. at 36, 63-64.) Defendant Thomas's first telephone call with Morris occurred on July 1, 2004, with their first meeting taking place on July 21, 2004, and subsequent meetings on September 10, 2004 and September 16, 2004. (Deposition of William Morris ("Morris Depo.") at 110, 113; Labeff Depo. at 23, 33, 37.) Morris agreed to produce prototype plans for the Speedy Stop stores and gave Defendant Thomas a discount [\*14] for providing "client-supplied drawings." (Morris Depo. at 121-24.)

Morris received electronic copies of certain architectural drawings from Defendant Thomas in AutoCAD file format. (Morris Depo. at 36-43.) The AutoCAD files provided to Morris by Defendant Thomas consisted of the "design criteria, floor plans and site plans" for Speedy Stop Store No. 85, a store that had been designed by Plaintiff, and contained Plaintiff's title block. (Doc. No. 108, Exh. G; Doc. No. 108, Exh. I at 5; Morris Depo. at 50.) Morris copied the electronic files containing Plaintiff's Architectural Drawings on to its computer server, and used them as the basis for its own Architectural Drawings. (Morris Depo. at 43-46, 50.) As it drafted its Architectural Drawings, Morris removed Plaintiff's title block from the AutoCAD files and inserted its own title block on the files. (Morris Depo. at 90.) Morris did not receive permission from Plaintiff to replace Plaintiff's title block on the Architectural Drawings with its own. (Morris Depo. at 90.)

Also in 2004, Defendant Thomas approached Hermes Architects ("Hermes") to design Speedy Stop Store No. 86. <sup>4</sup> (Deposition of William Daren Penewitt ("Penewitt Depo.") at [\*15] 67.) Defendant Thomas also asked Hermes to take over the production of plans for Store No. 301 that were previously handled by Morris. (Labeff Depo. at 36.) Hermes was later hired to provide plans for other Speedy Stop stores and ultimately completed construction drawings for eleven Speedy Stop stores: Store Nos. 14, 86, 87, 91, 95, 102, 301, 302, 305, 306, 311. (Penewitt Depo. at 22.)

4 In 2002, Hermes had designed Speedy Stop Store No. 84 for Defendant Thomas, including the interior floor plan and exterior elevation. (Penewitt Depo. at 56-57, 59-64; Labeff Depo at 72.) After completing the design and production of documents for Store No. 84, Hermes did not design any more stores for Defendant Thomas until being approached again in 2004 for the design of Store No. 86. (Penewitt Depo. at 68.) Hermes completed the design of Store No. 84 in approximately January 2003. (Penewitt Depo. at 146-47.)

For at least some of these stores, Defendant Thomas furnished Hermes with AutoCAD files for a floor plan, an elevation, and a site plan that did not contain any title blocks. (Penewitt Depo. at 35.) On another occasion, Defendant Thomas sent Hermes a set of hard copy drawings containing Plaintiff's [\*16] title block on them.

(Penewitt Depo. at 74; Doc. No. 101, Affidavit of Daren Penewitt ("Penewitt Aff.") at 1; Doc. No. 108, Exh. E at 2.) On yet another occasion, Hermes received from Defendant Thomas AutoCAD files containing Morris's Architectural Drawings in AutoCAD file format. (Penewitt Depo. at 74-75.) Hermes scanned the hard copies of Plaintiff's Architectural Drawings into its computer and saved them as electronic files on its computer server. (Penewitt Aff. at 1-2; Doc. No. 108, Exh. P.)<sup>5</sup> Hermes used Plaintiff's Architectural Drawings in order to establish how Defendant Thomas liked its "sheets laid out." (Penewitt Depo. at 91). During the design process, Defendant Thomas verbally provided Hermes with feedback on the floor plans and elevation drawings, made revisions directly to AutoCAD files, and sent these revised files to Hermes. (Penewitt Depo. at 60-63.)

5 The set of hard copies of Plaintiff's Architectural Drawings that Hermes received from Defendant Thomas consists of four sheets while the set of electronic copies of Plaintiff's Architectural Drawings found on Hermes's computer server consists of eight sheets. (*Compare* Penewitt Aff., Exhs. A-D *with* Doc. No. 108, Exh. [\*17] P.)

Defendant Thomas did not obtain authorization from Plaintiff to distribute copies of Plaintiff's Architectural Drawings to Morris and Hermes. (Labeff Depo. at 115.) Neither Morris nor Hermes received permission from Plaintiff to copy Plaintiff's Architectural Drawings onto their respective computer servers. (Penewitt Depo. at 96; Doc. No. 108, Exh. D at 10-11; Doc. No. 108, Exh. E at 6.)

In March 2006, Plaintiff's president, Marcel Meijer, discovered the existence of Speedy Stop stores that were based upon Plaintiff's Architectural Drawings, but which Plaintiff had not been involved in designing. (Meijer I Depo. at 22-23.) On June 22, 2006, Plaintiff's president, Marcel Meijer, wrote to Defendant Thomas about the potential infringement of Plaintiff's Architectural Works. (Meijer I Depo. at 24; Doc. No. 104, Exh. O at 89.) In his letter, Mr. Meijer sent a copy of Plaintiff's exterior building elevation and Morris's exterior building elevation and claimed that both were exactly alike. (Doc. No. 104, Exh. O at 89.) Mr. Meijer informed Defendant Thomas that it should not release electronic versions of Plaintiff's Architectural Drawings to any architectural

and/or engineering firm or [\*18] any other entity without Plaintiff's permission. (*Id.*) Not long after, in June or July 2006, Mr. Meijer went to the offices of Morris to complain about Morris's use and copying of Plaintiff's Architectural Drawings. (Meijer I Depo. at 79; Morris Depo. at 61.)

Plaintiff subsequently submitted applications for copyright registration of "architectural works" copyrights and "technical drawings" copyrights within 5 years after the first publication of the works. (Doc. No. 108, Exh. H, Declaration of Marcel Meijer ("First Meijer Declaration"), Exhibit A.) The Copyright Office issued certificates of copyright registration for both "architectural works" and "technical drawings" for each of the nine stores on which Plaintiff provided architectural design services for Defendant Thomas: Store Nos. 58, 59, 70, 82, 85, 201, 206, 209, 216.<sup>6</sup> (*Id.*) Thereafter, Plaintiff filed suit against Thomas, Morris, and Hermes, alleging that they infringed upon Plaintiff's copyrights in the nine Speedy Stop stores designed by Plaintiff (Store Nos. 58, 59, 70, 82, 85, 201, 206, 209, 216) by creating drawings and/or constructing thirteen other Speedy Stop stores (Store Nos. 14, 86, 87, 91, 95, 102, 301, 302, 303, [\*19] 305, 306, 309, 311). (Doc. No. 54 at 12-13.) Plaintiff has asserted the following causes of action: (1) copyright infringement of its "architectural works" and "technical drawings" copyrights under [17 U.S.C. § 501\(a\)](#); (2) violation of integrity of copyright management information under the DMCA, specifically [17 U.S.C. § 1202](#); and (3) fraud.<sup>7</sup> Defendant Thomas has asserted various defenses to Plaintiff's claims, including, among others, that it is a joint author of Plaintiff's Architectural Documents, that it was granted an implied nonexclusive license to copy and use Plaintiff's Architectural Documents, and that Plaintiff does not hold a valid copyright for architectural works and technical drawings.

6 Architectural works are protected by copyright law under two distinct provisions of the Copyright Act. First, section [§ 102\(a\)\(5\)](#) protects "pictorial, graphic, and sculptural works," which includes "technical drawings, including architectural plans." Second, in 1990, the Architectural Works Copyright Protection Act ("AWCPA") extended copyright protection to "architectural works" as a distinct new category of authorship. *See* [17 U.S.C. § 102\(a\)\(8\)](#). Architectural works are defined in [section 101](#) [\*20] as the "design of a building as

embodied in any tangible medium of expression, including a building, architectural plans, or drawings. The work includes the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features." [17 U.S.C. § 101](#). In order for a work to be protected as both an "architectural work" and a "technical drawing," it must be registered under both categories. See [37 C.F.R. § 202.11\(c\)\(4\)](#); [Nat'l Med. Care, Inc. v. Espiritu](#), 284 F. Supp. 2d 424, 434 (S.D. W.Va. 2003).

7 Plaintiff's claim of trade secret misappropriation was dismissed with prejudice by the Court by stipulation of Plaintiff and agreement by Defendant. (Doc. No. 71.)

## II. EVIDENTIARY MOTIONS

Plaintiff and Defendant have filed a number of motions seeking to strike evidence submitted in support of each others' motions for summary judgment. Each of these evidentiary motions will be considered in turn below.

### A. Legal Standard

In deciding motions for summary judgment, a court may consider pleadings, affidavits, depositions, motions, answers to interrogatories, stipulations and any other material properly before it. [Munoz v. Int'l Alliance of Theatrical Stage Emp.](#), 563 F.2d 205, 207 n.1 (5th Cir. 1977). [\*21] "The admissibility of summary judgment evidence is subject to the same rules of admissibility applicable to a trial." [Resolution Trust Corp. v. Starkey](#), 41 F.3d 1018, 1024 (5th Cir. 1995) (citing [Munoz](#), 563 F.2d at 207 n.1). Affidavits submitted in support of or opposed to a motion for summary judgment must be made based on personal knowledge, state admissible facts, and show the affiant's competence to testify on the matters stated. [Fed. R. Civ. P. 56\(e\)\(1\)](#). Although "an unsworn affidavit is incompetent to raise a fact issue precluding summary judgment," [28 U.S.C. § 1746](#) provides a statutory exception to this rule by permitting "unsworn declarations to substitute for an affiant's oath if the statement contained therein is made 'under penalty of perjury' and verified as 'true and correct.'" [Nissho-Iwai American Corp. v. Kline](#), 845 F.2d 1300, 1306 (5th Cir. 1988) (quoting [28 U.S.C. § 1746](#)).

If an affidavit refers to any written material, a sworn

or certified copy of that material must be attached to or served with the affidavit. [Fed. R. Civ. P. 56\(e\)\(1\)](#); [Marshall v. Norwood](#), 741 F.2d 761, 764 (5th Cir. 1984). "This means that if written documents are relied upon they actually must be [\*22] authenticated by and attached to an affidavit that meets the requirements of [Rule 56\(e\)](#), and the affiant must be a person through whom the exhibits could be admitted into evidence." [Nolla Morell v. Riefkohl](#), 651 F. Supp. 134, 140 (D.P.R. 1986).

An affidavit may be supplemented or opposed by depositions, interrogatories, or additional affidavits. [Fed. R. Civ. P. 56\(e\)\(1\)](#). "[A] party opposing a motion for summary judgment may proffer an affidavit to show the movant's deponents are not credible, thus raising a genuine issue of fact that must be tried by the jury." [Eisbach v. Jo-Carroll Electric Cooperative, Inc.](#), 440 F.2d 1171, 1174 (7th Cir. 1971).

### B. Motion to Strike Declaration of Marcel Meijer (Doc. 119)

Defendant has moved to strike the declaration of Marcel Meijer, Plaintiff's President, which Plaintiff submitted in support of its motions for summary judgment (Doc. No. 108; Doc. No. 110.) Plaintiff's motions seek summary judgment on, among other things, ownership of valid copyrights in the technical drawings and architectural works at issue. In order to support its motions for summary judgment, Plaintiff submitted Mr. Meijer's declaration (the "First Meijer Declaration"), to which [\*23] were attached: (a) copies of the certificates of registration issued by Copyright Office for the copyrights at issue, and (b) copies of deposit material submitted by Plaintiff to the Copyright Office in connection with the copyrighted works. (Doc. No. 108, Exh. H, First Meijer Decl.; Doc. No. 110, First Meijer Decl.)

Defendant claims that attachments B-J to the First Meijer Declaration do not accurately represent the deposit materials actually submitted by Plaintiff to the Copyright Office.<sup>8</sup> (Doc. No. 119 at 9-10; Doc. No. 123 at 8-9.) Rather, Defendant argues that the deposit materials Plaintiff submitted to the Copyright Office actually consist of a smaller subset of drawings than what was attached to Mr. Meijer's declaration. For example, Defendant states that, of the sixty-three drawings that Mr. Meijer's declaration stated had been submitted to Copyright Office for Speedy Stop store No. 59, only

twenty-nine drawings were actually submitted. (Doc. No. 119, Cabello Decl., Exh. C at 2-4.) For the "technical drawing" and "architectural works" copyright registrations for Store Nos. 58, 70, 85, 201, 206, 209, and 216, Defendant claims that only two drawings--elevation and floor plans--were [\*24] submitted to the Copyright Office for each type of registration rather than the larger set of drawings attached to the First Meijer Declaration and that Mr. Meijer claimed had been submitted. (Doc. No. 119, Cabello Decl., Exh. C at 2; Doc. No. 149, Suppl. Cabello Decl., Exh. A at 2-3.)

8 Defendant does not dispute, however, that the certificates of registration attached as Exhibit A to Mr. Meijer's declaration accurately reflect those issued by the Copyright Office.

After Defendant filed its motion to strike Mr. Meijer's declaration, Plaintiff submitted a corrected declaration of Mr. Meijer (the "Second Meijer Declaration"). (Doc. No. 154, Corrected Declaration of Marcel Meijer ("Second Meijer Decl."), Exh. A) In the Second Meijer Declaration, Mr. Meijer states that the First Meijer Declaration was signed under the belief that the deposit materials attached to it actually comprised the deposit materials submitted to the Copyright Office. He states that this belief was based on the fact that Plaintiff created a larger number of drawings than simply the exterior elevation and floor plan drawings that were submitted to the Copyright Office. Plaintiff argues that the discrepancy between the [\*25] drawings attached to the First Meijer Declaration and the small number of drawings sent as deposit material to the Copyright Office does not implicate its claims of ownership or infringement, and therefore does not prejudice Defendant or otherwise affect the claims or defenses in this case. Defendant moves to strike the First Meijer Declaration on grounds that the best evidence rule requires the submission of certified copies of registration certificates and deposit materials, and that Mr. Meijer's declaration is false, misleading, and unreliable.

Defendant's best evidence rule objection misses the mark. Neither party appears to dispute that copies of the certificates of registration and copies of deposit materials are the best evidence to prove that Plaintiff registered certain copyrights and deposited certain drawings as mandated in the copyright registration process. Plaintiff's belief that copies of the certificates and deposit materials were the appropriate way to support its claims of

copyright ownership is what led it to submit those documents, via the First Meijer Declaration, to the Court. Neither do the parties dispute that [Rule 56\(e\)\(1\)](#) requires that certified or sworn copies [\*26] of these materials must be attached to Mr. Meijer's affidavit. Rather, the parties essentially dispute whether copies of these documents are sufficiently certified through Mr. Meijer's declaration or whether copies certified by the Copyright Office should be submitted. This is a question of authentication under [Federal Rules of Evidence 901](#) and [902](#).

Unauthenticated documents are improper as summary judgment evidence. [King v. Dogan](#), 31 F.3d 344, 346 (5th Cir. 1994); [Duplantis v. Shell Offshore, Inc.](#), 948 F.2d 187, 192 (5th Cir. 1991). [Rule 901](#) provides that a document may be authenticated by "evidence sufficient to support a finding" that it is "what its proponent claims." [Fed. R. Evid. 901](#). While [Rule 901](#) does not require conclusive proof of authenticity, it requires at least some evidence sufficient to support a finding that the evidence in question is what the proponent claims it to be. See [United States v. Arce](#), 997 F.2d 1123, 1128 (5th Cir. 1993).

In order to authenticate public records such as the certificates and deposit materials, Plaintiff could provide "testimony that a matter is what it is claimed to be," [Fed. R. Evid. 901\(b\)\(1\)](#), or evidence that the certificates and deposit [\*27] materials are obtained from the Copyright Office. [Fed. R. Evid. 901\(b\)\(7\)](#). Additionally, Plaintiff could submit self-authenticating copies of the certificates and deposit materials that have been certified by the Copyright Office. [Fed. R. Evid. 902\(4\)](#). Plaintiff chose to authenticate the copyright registration certificates and deposit materials by submitting the First Meijer Declaration as testimony stating that the certificates and deposit materials corresponded to those possessed by the Copyright Office. (Doc. No. 108, Exh. H, Meijer Decl.; Doc. No. 110, Meijer Decl.)

The Court agrees that Plaintiff has failed to properly authenticate the deposit material appearing as Exhibits B-J to the First Meijer Declaration. Plaintiff conceded in the Second Meijer Declaration that "deposit materials do not include the entirety of Exhibits B-J" to the First Meijer Declaration, but only "a subset of those documents." (Doc. No. 154, Second Meijer Declaration at ¶ 4). The Second Meijer Declaration did not purport to authenticate a correct set of deposit materials. Therefore,

the deposit materials attached as Exhibits B-J have not been authenticated through any means and must be stricken.

The Court [\*28] next considers the certificates of registration appearing as Exhibit A to the First Meijer Declaration. The First Meijer Declaration meets the requirements of [Rule 56\(e\)](#) by certifying that the copies of the certificates attached to the declaration are "true and correct" and that this representation is based upon personal knowledge. Unlike the deposit materials, the Second Meijer Declaration does not concede that the certificates attached to the First Meijer Declaration are inaccurate copies of what was issued by the Copyright Office. Though Defendant attacks the entire First Meijer Declaration as false and misleading, it does not specifically note anything false or misleading about the certificates in Exhibit A to the First Meijer Declaration. Moreover, even though, as Defendant argues, copies of the certificates certified by the Copyright Office would be self-authenticating, [Rules 901\(b\)\(1\)](#) and [901\(b\)\(7\)](#) expressly allow Plaintiff to authenticate public records like the certificates of registration through testimony such as the First Meijer Declaration. The Court finds that Plaintiff has made a *prima facie* showing of authenticity of the certificates by attaching them to the First Meijer [\*29] Declaration. The ultimate issue of authenticity is a question for the jury. See [United States v. Barlow, 568 F.3d 215, 220 \(5th Cir. 2009\)](#); [United States v. Guidry, 406 F.3d 314, 320 \(5th Cir. 2005\)](#).

Defendant's motion to strike the declaration of Marcel Meijer submitted in support of Plaintiff's motions for summary judgment is granted in part as to Exhibits B-J of the declaration and denied in part as to Exhibit A.

**C. Motion to Strike Exhibit V to Plaintiff's Opposition to Defendant's Motion for Summary Judgment (Doc. 138)**

Defendant Thomas moves to strike Exhibit V to Plaintiff's Opposition to Defendant's Motion for Summary Judgment<sup>9</sup> on two grounds, each of which will be addressed separately below.

<sup>9</sup> For purposes of clarity, the relevant documents are the following: Defendant's Motion for Summary Judgment (Doc. No. 104); Plaintiff's Opposition to Defendant's Motion for Summary Judgment (Doc. No. 124); and Defendant Thomas's Reply to Plaintiff's Opposition to

Defendant Motion for Summary Judgment and Motion to Strike Exhibit V (Doc. No. 138).

**1. Exhibit V's statements about an Implied Nonexclusive License**

Defendant claims, in its motion for summary judgment, that it is not liable for copyright [\*30] infringement or DMCA violations because Plaintiff granted Defendant Thomas an implied nonexclusive license to copy or distribute Plaintiff's drawings. (Doc. No. 104 at ¶ 17.) As evidence of the existence of this license, Defendant cites certain deposition testimony of Mr. Meijer. A representative sample of the deposition testimony relevant to the motion to strike is the following:

"Q. And you recall the discussion that we saw your floor plan and it was your original work that was taken and used in these soil plans, yes?

A. To the best of my ability looking at this very bad illustration, it looks like it is my site plan. . . .

Q. Right. And what that means is that C.L. Thomas had taken your work and had given it to these soils people, these geotechnical experts, and they ended up taking that and including it in their plan without using any of your digital rights management?

. . .

A. The way you're placing the question, I have to answer yes.

Q. Okay. And that was okay with you because everyone was on the same -- on that same project, right?

A. It's okay with me because I'm being paid by my client to do this work.

. . .

Q. Right. And in the course of your daily work they had either an express license [\*31] from you wherein you said it's okay for you to do that or an implied one that they did it; they sent it to you; and you never said anything about it, right?

. . .

A. If it is a project that I'm the architect of record and I'm being paid to work on, this is okay with me.

Q. Okay. So --

A. I am aware at some point.

Q. All right. That's the point. You're aware of and you are at a minimum implying the license of the use of your drawing there, right?

A. I disagree with the way you asked that question.

Q. Why?

A. Something about the license of that I'm implying. I'm trying to facilitate an exhibit only for the location of this project and this location only, at this piece of land, at this boundary condition in this city of Austin only; and that's acceptable to me, sir.

Q. Okay. And you never said to them - at least I haven't been able to find a document that says, You can only do it on this project?

A. No. I'm sure there's nothing.

...

A. Okay. An employee of C.L. Thomas called Joey Dunlap. He's requested this soil report. He gave them an exhibit that he has availability to or access to and the soil report man placed these three bores and there's the exhibit. . . .

...

Q. You gave permission, either [\*32] expressly or by way of the implication of not objecting. Is that fair?

A. That would be a fair statement.

Q. And you never withdrew that permission as reflected there, did you?

A. Correct.

(Meijer Depo. III at 215-20.) Defendant points to portions of this deposition testimony as well as other deposition testimony<sup>10</sup> as evidence that Plaintiff allowed Defendant Thomas to use and distribute Plaintiff's drawings and never limited Defendant Thomas's ability to do so. Plaintiff, in its opposition to Defendant's motion for summary judgment, argues that this deposition testimony reveals only Plaintiff's limited consent to allow the inclusion of its drawings into survey reports and other third-party drawings produced for the projects in which Plaintiff was involved, and does not show any intent of Plaintiff to allow its drawings to be used in completely different projects by rival architects. (Doc. No. 124 at

15.) Plaintiff attached to its opposition Exhibit V, an undated declaration of Mr. Meijer in which he states that he was not aware of and did not consent to Defendant Thomas's sharing of Plaintiff's construction plans with other architects or other parties not involved in the projects for [\*33] which the plans were designed. (Doc. No. 124, Exh. V at ¶ 3.) Defendant now seeks to strike Exhibit V, Mr. Meijer's declaration, as an attempt to contradict his prior sworn deposition testimony without explanation.

10 See Mr. Meijer's deposition testimony cited in Defendant's Motion for Summary Judgment. (Doc. No. 104 at ¶¶ 18-19.)

The Court rejects Defendant's argument that Mr. Meijer's statements in Exhibit V contradict his prior deposition testimony. Mr. Meijer's deposition testimony at issue makes two key points. First, Mr. Meijer repeatedly states that any explicit or implied license to use Plaintiff's drawings was given only in relation to projects on which Plaintiff served as the architect. Nothing in Mr. Meijer's subsequent declaration contradicts this position. Second, Mr. Meijer states during the deposition that there are no signed documents that limit Defendant Thomas's ability to use Plaintiff's drawings to only Plaintiff's projects with Defendant Thomas. Again, nothing in Mr. Meijer's subsequent declaration contradicts Mr. Meijer's deposition testimony about the non-existence of documents. Rather, Mr. Meijer's declaration focuses on Mr. Meijer's ignorance of and lack of consent [\*34] to Defendant Thomas's use of its plans and does not contradict his deposition testimony about the non-existence of documents. Defendant Thomas has not cited any deposition testimony, nor can the Court find any, in which Mr. Meijer states that he is aware of Defendant Thomas's provision of Plaintiff's drawings either to other architects or to third-parties not involved in Plaintiff's projects with Defendant Thomas. Even under a generous reading that Mr. Meijer's declaration is slightly at odds with his deposition testimony, this raises an issue of credibility rather than admissibility. See [Kennett-Murray Corp. v. Bone](#), 622 F.2d 887, 893 (5th Cir. 1980) ("In considering a motion for summary judgment, a district court must consider all the evidence before it and cannot disregard a party's affidavit merely because it conflicts to some degree with an earlier deposition.")

## 2. Exhibit V's Statements about License Fees

Defendant also seeks to strike Exhibit V because, in it, Mr. Meijer states that he would have charged Defendant Thomas \$25,000 for a license to use Plaintiff's drawings for each additional store or site. (Doc. No. 124, Exh. V, at ¶ 9.) Defendant claims that Exhibit V should be [\*35] stricken because (1) this statement fails to set forth the proper measure of actual damages, and (2) gives testimony without cross-examination on an issue that Mr. Meijer was specifically asked about, but could not answer, during his deposition.

The Court agrees with Defendant that Mr. Meijer's statement in Exhibit V regarding the amount he would have charged Defendant Thomas as a license fee should be stricken because it sets forth an incorrect measure of actual damages, and is therefore irrelevant. [Section 504\(a\)](#) of the Copyright Act provides that a copyright owner may recover actual damages he or she suffers as a result of copyright infringement. [17 U.S.C. § 504\(a\)](#). Courts have construed the "actual damages" measure to include license fees that the copyright owner would have obtained for the infringer's use of the copyrighted material. See [On Davis v. The Gap, Inc., 246 F.3d 152, 165 \(2d Cir. 2001\)](#). "[W]here the infringer could have bargained with the copyright owner to purchase the right to use the work, actual damages are "what a willing buyer would have been reasonably required to pay to a willing seller for plaintiffs' work." [Jarvis v. K2 Inc., 486 F.3d 526, 533 \(9th Cir. 2007\)](#) [\*36] (quoting [Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 512 \(9th Cir. 1985\)](#)). The license fee is determined by reference to fair market value, which is an objective analysis rather than a subjective analysis based on what the copyright owner would have charged.<sup>11</sup> [Mackie v. Rieser, 296 F.3d 909, 917 \(9th Cir. 2002\)](#); [On Davis, 246 F.3d at 166](#). Fair market value may be established where: "(1) a plaintiff demonstrates that he previously received compensation for use of the infringed work; or (2) the plaintiff produces evidence of benchmark licenses, that is, what licensors have paid for use of similar work." [Thornton v. J Jargon Co., 580 F. Supp. 2d 1261, 1276 \(M.D. Fla. 2008\)](#).

<sup>11</sup> Contrary to Plaintiff's argument, [Thoroughbred Software Int'l, Inc. v. Dice Corp., 488 F.3d 352, 358 \(6th Cir. 2007\)](#), does not support the principle that "actual damages" may be measured by what Plaintiff would have charged Defendant for a license. Rather, [Thoroughbred Software](#) states that actual damages

may be measured by what the plaintiff would have *received*, and approves of a calculation based on "the reasonable license fee on which a willing buyer and a willing seller would have *agreed* for [\*37] the use taken by the infringer." [Id. at 358-59](#) (quoting [On Davis, 246 F.3d at 167](#)) (emphasis added).

Mr. Meijer's statement that he "would have charged [C.L. Thomas] a licensing fee of \$25,000 for each additional store or site" cannot alone establish the amount of actual damages to which Plaintiff is entitled. Mr. Meijer fails to represent that \$25,000 is the fair market value for a licensing fee. He does not claim that Thomas would have agreed to pay such a fee. Mr. Meijer does not state that \$25,000 is generally what he charges for a license fee for similar material or that he has ever received this amount as a license fee. Neither has Mr. Meijer produced evidence that this amount is what companies such as C.L. Thomas pay for use of commercial architectural plans. The license fee of \$25,000 appears to be nothing more than Mr. Meijer's subjective calculation. On its own, it is not a proper measure of Plaintiff's actual damages. The Court will strike the paragraph in Mr. Meijer's affidavit, but will consider the other portions of his affidavit. See [Mayfield v. Tex. Dep't of Crim. Justice, 529 F.3d 599, 607 \(5th Cir. 2008\)](#) (quoting [Aikin v. O-L Invs., 959 F.2d 521, 531 \(5th Cir. 1992\)](#) [\*38] ("On a motion for summary judgment the district court should disregard only those portions of an affidavit that are inadequate and consider the rest.")). The Court grants Defendant's motion to strike Exhibit V as to Mr. Meijer's statement about licensing fees and denies the motion otherwise.

#### **D. Plaintiff's Objections to and Motion to Strike Defendant's Summary Judgment Evidence (Doc. 131)**

Plaintiff has objected to and moved to strike various summary judgment evidence submitted by Defendant.<sup>12</sup> Specifically, Plaintiff objects to portions of deposition testimony of Jeff Johanson, Carlton Labeff, Marcel Meijer, William Morris, William Daren Penewitt, Ismail Urfi, and portions of affidavits submitted by Jeff Johanson and William Daren Penewitt. Plaintiff cites to various rules of the Federal Rules of Evidence as the basis for its objections, but has not provided any argument to explain how the summary judgment evidence is objectionable on these grounds. Despite the difficulty in ascertaining why Plaintiff believes the

summary judgment evidence to be objectionable, the Court will grant Plaintiff's motion in part as to Mr. Labeff's opinions on the copyrightability of Plaintiff's architectural [\*39] designs and technical drawings, Mr. Labeff's conclusions about derivative works, Mr. Meijer's testimony about violations of the DMCA, and Mr. Urfi's statements about Mr. Meijer's permission to use third-party drawings, and deny it otherwise.

12 Plaintiff's objections to and motion to strike is Doc. No. 131. According to Plaintiff, Defendant's motions containing the objectionable summary judgment evidence are Doc. Nos. 101, 102, 103, 104, 105, 106, 107, 109. The Court notes that Doc. No. 103, Hermes' Motion for Order regarding Joint and Several Liability, does not even contain any supporting evidence. Similarly, Doc. No. 106, Defendant's Motion to Exclude Opinions of Leonard Lane, does not contain as supporting evidence any of the deposition or affidavit testimony Plaintiff seeks to strike. Therefore, neither Doc. No. 103 nor Doc. No. 106 should be included among the motions containing objectionable summary judgment evidence.

### 1. Deposition Testimony of Jeff Johanson

Jeff Johanson is Defendant Thomas's President and Chief Operating Officer. Plaintiff objects to portions of Mr. Johanson's deposition testimony where he states that Speedy Stop, LLC, owns the real estate and land on which the [\*40] Speedy Stop stores are located and that it, not Defendant Thomas, receives the revenue from the stores. This testimony is not objectionable on grounds of the best evidence rule because Mr. Johanson is not attempting to prove the existence or content of a writing. See [Fed. R. Evid. 1002](#); *R.R. Mgmt. Co. LLC v. CFS La. Midstream Co.*, 428 F.3d 214, 217 (5th Cir. 2005) (stating that [Fed. R. Evid. 1002](#) requires the original writing in order to prove the content of that writing, but [Fed. R. Evid. 1004](#) allows other evidence of the contents of the writing when the writing is not closely related to the controlling issue). Neither is Mr. Johanson's testimony speculative or without foundation. A review of Mr. Johanson's deposition testimony shows that, as the chief executive of Defendant Thomas, he was heavily involved in reviewing the revenues and expenses of the Speedy Stop stores and has personal knowledge of which entities receive which revenue. In addition, Mr. Johanson's testimony regarding the relationship between

Speedy Stop, LLC and C.L. Thomas was not undisclosed expert opinion because he was simply describing what he knows about the relationship and not offering any scientific, technical [\*41] or other specialized knowledge. See [Fed. R. Evid. 702](#).

Mr. Johanson's testimony about the process by which the Speedy Stop store design was created is not objectionable on the grounds of speculation because a review of his deposition shows that he was involved in the design process and testified based on his personal knowledge. See [Fed. R. Evid. 602](#). Neither is this testimony objectionable on grounds of the best evidence rule as Mr. Johanson is not referring to the content of any writing. Finally, Mr. Johanson's testimony is not improper expert opinion because he simply describes the process by which Defendant Thomas arrived at a particular design.

### 2. Deposition testimony of Carlton Labeff

Mr. Labeff is in charge of Defendant Thomas's construction group. Plaintiff objects to portions of Mr. Labeff's deposition testimony in which he discusses Defendant Thomas's involvement in the design process for the Speedy Stop stores, the nature and scope of Defendant Thomas's in-house design work, his opinions regarding the copyrightability of architectural drawings, and Mr. Urfi's departure from Plaintiff.

None of the excerpts of Mr. Labeff's deposition testimony is inadmissible on the grounds of [\*42] the best evidence rule because Mr. Labeff does not testify about the contents of a writing. At most, Mr. Labeff testifies about the process of generating a certain drawing or floor plan.

Mr. Labeff's deposition testimony regarding (a) Defendant Thomas's involvement in the design process with Plaintiff and Hermes, (b) the amount of design and drawing work done internally at C.L. Thomas, and (c) Mr. Meijer's statement that Plaintiff could no longer keep up with Defendant Thomas's projects are not inadmissible on grounds of speculation. A review of Mr. Labeff's deposition testimony shows that these statements are based on his personal knowledge. See [Fed. R. Evid. 602](#).

However, Mr. Labeff's opinions on the copyrightability of Plaintiff's architectural designs and technical drawings must be stricken as improper expert opinion. Mr. Labeff acknowledged that he does not have

any professional licenses and does not claim to be an expert on copyright law. (Labeff Depo. at 13-14.) Therefore, his opinions regarding the ownership of Plaintiff's drawings and architectural designs, and whether architectural designs in general should be copyrightable are improper as Mr. Labeff does not have the qualifications [\*43] to render an opinion on these matters. See [Fed. R. Evid. 702](#). Mr. Labeff's agreement with the statement that Plaintiff's drawings were derived from Defendant Thomas's designs is an improper legal opinion to the extent that Mr. Labeff attempted to offer a legal conclusion regarding a derivative work under copyright law, but proper to the extent that Mr. Labeff was merely describing, based on his personal knowledge, the process by which Plaintiff arrived at its architectural design. See [Fed. R. Evid. 602, 704](#).

As to the final portion of deposition testimony to which Plaintiff objects, it is unclear whether Plaintiff objects on grounds of speculation to Mr. Labeff's statement that Mr. Meijer performed very little work in the design process, or to his statement that Mr. Urfi worked for Buckee's after leaving Plaintiff. A review of Mr. Labeff's deposition testimony does not reveal the personal knowledge upon which he based these statements. Regardless of whether the statements were based on Mr. Labeff's personal knowledge, they are irrelevant to any facts at issue in this case and therefore are inadmissible. See [Fed. R. Evid. 401, 402](#).

### 3. Deposition testimony of Marcel Meijer

Mr. Meijer testified [\*44] in his deposition on November 16, 2009 about being furnished with third-party layouts from food service vendors, removing the names of architects and engineers on those layouts, and placing the layouts in Plaintiff's drawings. Mr. Meijer testified in his deposition on January 4, 2010 about whether a third-party's title block appeared on Plaintiff's drawings and whether removing a third-party's title block from a drawing and subsequently using the drawing in Plaintiff's own drawing is a violation of the DMCA. Finally, Mr. Meijer testified in his deposition on January 15, 2010 that he gave Defendant Thomas permission to use and to share Plaintiff's drawings with third-parties also working on the projects for which Plaintiff served as an architect, and that he never withdrew this permission.

Plaintiff's objections to this testimony on the basis of the best evidence rule miss the mark. Mr. Meijer is not testifying as to the content of the drawings, but as to

whether he received the third-party drawings and removed the name of any architect or engineer that appeared on the third-party drawings. Plaintiff also cannot object to this testimony on the grounds of leading questions because Mr. [\*45] Meijer, as an adverse party to the Defendant, could be interrogated through use of leading questions by Defendant's attorneys. See [Fed. R. Evid. 611\(c\)](#). Finally, Mr. Meijer's testimony is neither speculative nor without foundation since Mr. Meijer's testimony about (a) the process by which Plaintiff generated its architectural designs and technical drawings, and (b) whether he granted permission to Defendant Thomas to share Plaintiff's drawings are based on his personal knowledge.

Mr. Meijer's statement about providing Defendant Thomas with permission to share Plaintiff's drawings with third-parties is not improper expert opinion because Mr. Meijer is providing information about his actions rather than any specialized, technical or scientific knowledge. See [Fed. R. Evid. 702](#). However, Mr. Meijer's statement about whether removal of a title block from an architectural drawing constitutes a violation of the DMCA is an improper legal opinion and must be stricken because it attempts to state a legal conclusion that is within the realm of the jury to decide. See [Fed. R. Evid. 704](#).

### 4. Deposition Testimony of William Morris

Mr. Morris is a civil engineer and the principal in charge of Morris. [\*46] He testifies during his deposition about industry practice as it relates to use of prototype drawings in retail industry projects, circumstances in which notification of a prior engineer is required when using that engineer's drawings, ownership of drawings generally, and what constitutes reasonable diligence in ascertaining ownership of drawings.

Mr. Morris's opinions in this regard are not speculative. Mr. Morris's deposition testimony shows that he is testifying based on his personal knowledge, accumulated over years of work as a licensed professional engineer. Neither does Mr. Morris offer improper expert opinion or improper legal opinions. Mr. Morris is offering specialized knowledge of the process by which engineers receive prototypical plans from their clients, adapt those plans for a particular project, and the extent to which they are required to determine ownership of those plans. Mr. Morris's professional qualifications and experience in the industry appear to qualify him to

offer these types of opinions. In the portions of his deposition testimony objected to by Plaintiff, Mr. Morris is only testifying to general industry practice and not to the specific actions by the parties [\*47] in this case. As such, he is not offering a legal conclusion about the parties' ownership of designs or drawings that would be within the realm of the jury to decide.

### **5. Deposition Testimony of William Daren Penewitt**

William Daren Penewitt is a draftsman and project manager with Hermes. In his deposition testimony, Mr. Penewitt discusses the profitability of Hermes's projects for C.L. Thomas, the hope that working with C.L. Thomas would eventually lead to profits, his conversation with Mr. Labeff about why C.L. Thomas needed a new architect, and the completion date of some of Hermes's drawings.

Mr. Penewitt's testimony on all of these issues is not speculative since it is based on upon his personal knowledge. Mr. Penewitt states that he created 95 percent of all the documents prepared by Hermes for Defendant Thomas. (Penewitt Depo. at 24.) In addition, Mr. Penewitt served as the main contact person at Hermes Architects for Defendant Thomas. (Penewitt Depo. at 115.)

Neither does the best evidence rule affect Mr. Penewitt's testimony. Mr. Penewitt testifies about the dates by which certain documents were completed and the overall state of Hermes's profitability. On neither of these issues [\*48] is Mr. Penewitt testifying as to the content of a writing. *See Fed. R. Evid. 1002.*

Finally, it is difficult for the Court to evaluate Plaintiff's hearsay objection because Plaintiff has not identified how Defendant has used Mr. Penewitt's testimony in its motions. Mr. Penewitt testifies, in response to a question about why Hermes was hired by Defendant Thomas, that Mr. Labeff told him that Thomas's current architect couldn't handle the workload given to him. To the extent that Defendant cites Mr. Penewitt's testimony for either the fact that Mr. Labeff made such a statement or that Plaintiff could not handle Defendant Thomas's workload, the Court will disregard it.

### **6. Deposition Testimony of Ismail Urfi**

Ismail Urfi is a former employee of Plaintiff and

worked as a draftsman on many of Plaintiff's projects for Defendant Thomas. Mr. Urfi testifies in his deposition about whether Mr. Meijer had permission to use certain third-party and prototype drawings, and the similarity between Plaintiff's drawings and Quik Trip's floor plan.

Mr. Urfi's testimony about whether Mr. Meijer had permission to use third-party and prototype drawings should be stricken as speculative. Mr. Urfi's deposition shows [\*49] that he had no personal knowledge of Mr. Meijer's interactions with third parties. (Urfi Depo. at 177.)

Mr. Urfi's testimony about whether Plaintiff's drawing looks the same as Quik Trip's floor plan is admissible. He is not speculating about the similarity, but basing his testimony on a comparison of the drawings. In addition, he is not providing expert testimony in the form of specialized or technical knowledge, but offering a lay witness opinion based on his perception about the two drawings. *See Fed. R. Evid. 701.* Finally, Plaintiff's best evidence objection is not well-founded because Plaintiff's drawing and Quik Trip's floor plan are part of the summary judgment record. *See Fed. R. Evid. 1002.*

### **7. Affidavit of Jeff Johanson**

Mr. Johanson submitted an affidavit in support of Defendant's Motion for Summary Judgment (Doc. No. 104). In his affidavit, Mr. Johanson testified regarding conversations he had with Mr. Meijer about Plaintiff's services, the process by which the Speedy Stop design was created, and Defendant Thomas's working relationship with Plaintiff.

None of Mr. Johanson's statements is inadmissible on the grounds of best evidence. In his affidavit, Mr. Johanson does not refer [\*50] to the contents of any writing except those of the Confidentiality Agreements. Even then, Mr. Johanson doesn't testify to the actual language of the Confidentiality Agreements, but only makes the point that the terms contained therein were ones that Defendant Thomas had never seen or agreed upon.

Neither are Mr. Johanson's statements speculative. Mr. Johanson clearly states that he worked personally with Mr. Meijer on Plaintiff's projects with Defendant Thomas and had conversations with Mr. Meijer directly about Plaintiff's work. Therefore, Mr. Johanson's statements are based upon his personal knowledge.

Finally, Mr. Johanson's statements are not improper expert opinion. He does not offer specialized or technical knowledge about the construction or architectural design process. Rather, he offers first-hand knowledge of how Defendant Thomas designed and built the Speedy Stop stores at issue in this case and how Defendant Thomas interacted with Plaintiff to that end.

#### **8. Affidavit of Daren Penewitt<sup>13</sup>**

13 "Daren Penewitt" is the same person as "William Daren Penewitt," the civil engineer for Hermes Architects.

Plaintiff objects to the portions of Mr. Penewitt's affidavit where he states that [\*51] Hermes did not receive any electronic copies or CAD drawings with Plaintiff's title block and that it did not remove or alter Plaintiff's title block from any drawing, electronic or hard copy. Plaintiff also objects to Mr. Penewitt's statements that Hermes did not provide the hard copy drawings it received from Defendant Thomas to any third party, and that the hard copy drawings were only to see how Defendant Thomas wanted its drawings laid out and did not serve as the starting point for Hermes's work.

Plaintiff's best evidence rule objection is not applicable here. Most of Mr. Penewitt's statements do not testify as to the content of any drawing. To the extent that Mr. Penewitt makes a claim about whether Plaintiff's title block was present on a document, these documents have been attached to his affidavit and made a part of the summary judgment record.

Plaintiff next objects to nine different statements in Mr. Penewitt's affidavit on the grounds that they contradict his prior sworn deposition testimony. However, Plaintiff fails to identify the deposition testimony contradicted by these nine different statements. After reviewing the declaration and deposition testimony submitted in [\*52] support of Defendant's motions, the Court concludes there is no contradiction that would prove fatal to the declaration's admissibility.

#### **E. Plaintiff's Objections to and Motion to Strike Defendant's Summary Judgment Opposition Evidence (Doc. 143)**

Plaintiff objects to and moves to strike certain deposition testimony and affidavits that Defendant cites in its opposition to Plaintiff's motions for summary

judgment. Specifically, Plaintiff objects to portions of deposition testimony of Marcel Meijer, William Morris, Greg Mitchell, Ismail Urfi, portions of affidavits submitted by Jeff Johanson and J. David Cabello, and portions of an expert report of Jeff Johanson. Once again, Plaintiff cites to various rules of the Federal Rules of Evidence as the basis for its objections, but does not provide any argument as to why the summary judgment evidence is objectionable on these grounds. The Court will grant Plaintiff's motion in part as to Mr. Meijer's testimony about violations of the DMCA and Mr. Morris's testimony about the originality of Plaintiff's drawings, and deny it otherwise. The reasons are set forth below.

#### **1. Deposition Testimony of Marcel Meijer**

Plaintiff objects to portions of Mr. Meijer's [\*53] deposition testimony where Mr. Meijer (a) acknowledges that certain errors in Plaintiff's profit and loss statement would affect the calculation of Plaintiff's profitability and may make such statements unreliable, (b) admits that he saw plans for only one store designed by Hermes (Store No. 301) prior to litigation and that Plaintiff's claim against Hermes is based upon that store, and (c) opines on whether removal of a title block constitutes a violation of the DMCA.

As an initial matter, all of Plaintiff's objections based on leading questions are misplaced because, as an adverse party, Defendant's counsel can interrogate Mr. Meijer using leading questions. *See Fed. R. Evid. 611(c)*.

None of Plaintiff's objections to Mr. Meijer's testimony about Plaintiff's profitability statements is well-founded. First, the best evidence rule is inapplicable here. Mr. Meijer's testimony about the errors in Plaintiff's profit and loss statements focus not on the content of those statements and errors but rather on whether Mr. Meijer would rely upon those statements if they contained errors. Second, though Mr. Meijer is responding to hypothetical questions, Plaintiff has failed to explain why his responses [\*54] are not based on personal knowledge or are otherwise improper expert opinion. The Court declines to strike these statements.

Plaintiff's objections to Mr. Meijer's testimony about the factual basis of his claims against Hermes are unfounded. Mr. Meijer's testimony to this effect is based on his personal knowledge that he only remembers viewing one set of plans from Hermes prior to filing suit

against Defendant. He acknowledges that, therefore, his claims against Hermes are based on this store's set of plans. This testimony does not purport to offer any specialized, technical or scientific knowledge and cannot be characterized as expert opinion.

Plaintiff's objections to Mr. Meijer's testimony about title block removal and the DMCA, while not speculative, are correct in identifying it as improper expert opinion. Mr. Meijer does not have any special expertise in copyright law that would allow him to define violations of the DMCA and whether removal of title blocks is proscribed by the DMCA.

## **2. Deposition Testimony of William Morris**

Mr. Morris offers a number of opinions about the creativity, functionality, uniqueness, and originality of elements within a convenience store and its general [\*55] layout, both with respect to Plaintiff's drawings specifically and convenience stores generally. Plaintiff objects to these opinions on grounds that they are improper expert opinion, speculation, and do not conform to the best evidence rule.

The best evidence rule is inapplicable to Mr. Morris's statements, which do not refer to the content of any architectural plans but rather characterize certain elements as unique, original, creative, or functional elements and make conclusions about similarities between the plans. Neither of Mr. Morris's statements is speculative. He speaks based on his personal knowledge of the plans he developed for Defendant Thomas, his review of Plaintiff's drawings, his comparison of various floor plans, and the general knowledge of the convenience store industry he has developed over the years working in retail store construction. Finally, Mr. Morris's statements are not improper expert opinion because he has sufficient professional expertise to offer his observations regarding the elements of a convenience store, whether these elements are unique, creative or functional, whether these elements are commonly found in convenience stores, and whether Plaintiff's [\*56] drawings are similar to those of other architects.

To the extent that Mr. Morris offers legal conclusions about the originality of Plaintiff's drawings, these statements will be stricken as improper legal opinions. See [Fed. R. Evid. 704](#).

## **3. Deposition Testimony of Greg Mitchell**

Plaintiff objects to two portions of the deposition testimony of Greg Mitchell, one of Defendant Thomas's technical experts. First, Plaintiff objects to Mr. Mitchell's statement that his testimony is necessary to assist the jury to analyze the layout and functionality of the floor plans. Plaintiff claims that this statement is improper expert opinion, undisclosed expert opinion, and speculation. This portion of Mr. Mitchell's testimony is not expert opinion because, in it, he does not express any technical or specialized knowledge. He only states his opinion as to why his knowledge would be relevant or helpful to the trier of fact. Neither is this statement speculative. Mr. Mitchell is making a claim for the relevance of his testimony based on his personal knowledge of the convenience store industry and the details of how layouts of convenience stores are arranged.

Second, Plaintiff objects to Mr. Mitchell's statement [\*57] that he makes the floor plan of his own convenience store chain, Toot 'n Totum, as identical to that of Quik Trip as he can. Contrary to Plaintiff's arguments, this statement is not improper or undisclosed expert opinion because Mr. Mitchell is not expressing any technical or specialized knowledge about his store's floor plan or Quik Trip's floor plan. He explains, based on his personal knowledge, that he has made his own company's floor plans as similar as possible to another company's floor plans for reasons of functionality.

## **4. Deposition Testimony of Ismail Urfi**

Plaintiff objects to Mr. Urfi's testimony that he did not offer any creativity in generating the floor plan or elevation and that he did not consider himself the author of these drawings. Mr. Urfi's testimony is not speculative since it is based on his personal knowledge of the work that he performed in drafting the Speedy Stop store drawings. The questions posed to Mr. Urfi are not objectionable due to their leading nature because Mr. Urfi was being questioned by counsel for Defendant. Finally, Mr. Urfi's statements are not expert opinion because he is not providing any expert or technical knowledge, but only his perception [\*58] of whether he came up with the ideas for the Speedy Stop store layouts and elevations or contributed creative ideas.

## **5. Expert Report and Supplemental Expert Report of Jeff Johanson**

Plaintiff objects to Mr. Johanson's opinions about the primary factors in the Speedy Stop stores' profitability,

his belief that store layout and design do not affect customer's buying decisions, and that the allegedly infringing stores' profit and loss statements show a loss of \$4 million dollars through December 31, 2009. As discussed more fully in the Court's Memorandum and Order dated October 9, 2010 (Doc. No. 175), Mr. Johanson's statements on these issues are proper expert opinions that are based on his extensive professional experience as an executive of a convenience store chain and his personal knowledge of Speedy Stop's operations. In addition, Mr. Johanson's statements about the factors that affect store profitability, rather than quantitative assessments of each factor's specific effect upon profits, are permissible. These types of statements do not purport to prove the content of any writing and therefore are not objectionable under the best evidence rule. Mr. Johanson's statements about the [\*59] loss reflected on the allegedly infringing stores' profit and loss statements are also not objectionable because, to the extent these statements are inadmissible, Mr. Johanson is allowed to rely on inadmissible evidence as a basis for his expert report. See [Fed. R. Evid. 703](#).

#### **6. Affidavit of Jeff Johanson**

Mr. Johanson's affidavit contains several statements to which Plaintiff has objected, including his description of conversations with Mr. Meijer, the practice of using "go-bys," the genesis of Plaintiff's elevation as Hermes' elevation for Store No. 84, and Defendant Thomas's provision of the stores' elevation concept and floor plans to Plaintiff.

Mr. Johanson's statements that Defendant Thomas provided Plaintiff with the ideas for the elevation and floor plan, and that the elevation concept came from Defendant Thomas, are not objectionable on grounds of expert opinion, speculation or best evidence rule. Mr. Johanson makes these statements based on his personal knowledge of Defendant Thomas's and Plaintiff's working relationship, does not refer to the contents of any writing, and does not purport to offer any specialized or technical knowledge. Plaintiff does not explain how these statements [\*60] constitute hearsay. Accordingly, the Court declines to strike these statements.

As for Mr. Johanson's statements regarding his conversations with Mr. Meijer and the use of Plaintiff's drawing as "go-bys," these are not improper expert opinion or speculation as they are based on Mr. Johanson's personal knowledge of his conversations with

Mr. Meijer and do not offer any specialized or technical knowledge. These statements are also unobjectionable on best evidence grounds because they do not refer to the contents of a writing. Plaintiff does not explain how these statements constitute hearsay or how they represent an improper attempt to use an affidavit. The Court declines to strike these statements.

#### **7. Affidavit of J. David Cabello**

Plaintiff objects to the declaration of J. David Cabello, attorney for Morris, on several grounds. First, to the extent that Plaintiff objects on grounds of the best evidence rule and hearsay, Mr. Cabello attaches copies of the certified copies of the copyright registration certificates and deposit materials he has received from the Copyright Office for the relevant Speedy Stop stores. These documents are what the Court will examine to determine the exact nature [\*61] of the certificates of registration and deposit materials; Mr. Cabello's statements regarding these documents will not be stricken. Next, a foundation for Mr. Cabello's statements about the certificates and deposit materials has been properly laid through a description of the process by which Mr. Cabello and his associate personally requested and obtained the documents. Mr. Cabello's statements will not be stricken on grounds of speculation and lack of foundation.

Finally, Plaintiff objects to the certificates, deposit material, and correspondence between Mr. Cabello's law firm and the Copyright Office that have been attached to Mr. Cabello's declaration on the grounds that these were untimely produced. However, Plaintiff fails to explain in its motion to strike why Defendant had an obligation to produce these documents. After reviewing the numerous other briefs filed by Plaintiff, the Court has found Plaintiff's argument in Doc. No. 139 that Defendant was obligated to produce these documents under the Federal Rules of Civil Procedure and this Court's previous order dated February 25, 2010 (Doc. No. 93). The Court's order makes clear that Defendant were required to disclose the factual [\*62] bases for their affirmative defenses so that Plaintiff could request further documents if necessary during the discovery period. However, the copyright registration certificates and deposit materials are relevant to Plaintiff's claim that it owned valid copyrights, rather than Defendant's affirmative defenses. "A certificate of registration, if timely obtained, is *prima facie* evidence both that a copyright is valid and that the registrant owns

the copyright." *Gen. Universal Sys., Inc. v. Lee*, 379 F.3d 131, 141 (5th Cir. 2004). A defendant may rebut the presumption of validity by showing errors in the registration. See *Berg v. Symons*, 393 F. Supp. 2d 525, 539 (S.D. Tex. 2005). Defendant here was not required to produce the certificates or deposit material they obtained from the Copyright Office until Plaintiff had attempted to establish that it owned a valid copyright by submitting copies of these same documents. Further, Defendant's method and manner of rebutting Plaintiff's evidence are proper. Rule 56(e)(1) provides that an affidavit from one party may be opposed by affidavits from another party. "[A] party opposing a motion for summary judgment may proffer an affidavit to show the [\*63] movant's deponents are not credible, thus raising a genuine issue of fact that must be tried by the jury." *Eisbach v. Jo-Carroll Electric Cooperative, Inc.*, 440 F.2d 1171, 1174 (7th Cir. 1971). Defendant has proceeded by the method contemplated by the Rules of Civil Procedure and has not violated the Court's prior order.

### III. MOTIONS TO DISMISS

Before the Court are Defendant's motion to dismiss for lack of subject matter jurisdiction all of Plaintiff's claims based on unregistered works (Doc. No. 119) and Defendant's motion to dismiss for lack of standing all claims based on copyrights registered and owned by Marcel Meijer, individually (Doc. 119). The Court denies both motions as explained below.

#### A. Motion to Dismiss Standard

The court must dismiss a case when Plaintiff fails to establish subject matter jurisdiction. *Fed. R. Civ. P. 12(b)(1)*. "It is incumbent on all federal courts to dismiss an action whenever it appears that subject matter jurisdiction is lacking." *Stockman v. Federal Election Comm'n*, 138 F.3d 144, 151 (5th Cir. 1998). A case is properly dismissed for lack of subject matter jurisdiction when the court lacks the statutory or constitutional power to adjudicate the case. [\*64] *Home Builders Ass'n of Mississippi, Inc. v. City of Madison, Miss.*, 143 F.3d 1006, 1010 (5th Cir. 1998) (internal quotation marks and citation omitted). "Because standing goes to the constitutional power of a federal court to entertain an action, [a] court has a duty to address it." *James v. City of Dallas*, 254 F.3d 551, 562 (5th Cir. 2001). The burden of establishing federal jurisdiction rests on the party seeking the federal forum. *Stockman*, 138 F.3d at 151.

#### B. Motion to Dismiss Claims Based on Unregistered Works

Defendant argues that Interplan has failed to invoke the Court's subject matter jurisdiction insofar as Interplan's claims for copyright infringement rest on drawings that have not been registered or deposited with the Copyright Office. Plaintiff responds by stating that the registration requirement of *17 U.S.C. § 411(a)* is not a jurisdictional bar for bringing suit for copyright infringement.

It is clear that this Court possesses subject matter jurisdiction over copyright infringement claims under *28 U.S.C. § 1331* (conferring subject matter jurisdiction over questions of federal law) and *28 U.S.C. § 1338* (conferring subject matter jurisdiction over claims arising under the [\*65] Copyright Act). However, *section 411* of the 1976 Copyright Act imposes a requirement of copyright registration as a precondition to filing a copyright infringement claim. *17 U.S.C. § 411(a)*. The Supreme Court has held that registration requirement imposed by *17 U.S.C. § 411* is not jurisdictional in nature, but rather a "claims-processing rule." See *Reed Elsevier v. Muchnick*, 559 U.S. \_\_\_, 130 S. Ct. 1237, 1248, 176 L. Ed. 2d 18 (2010). Therefore, the Court denies Defendant's motion to dismiss for lack of subject matter jurisdiction all claims of infringement of Plaintiff's unregistered works.

#### C. Motion to Copyrights Registered by Marcel Meijer, Individually

Defendant argues that Plaintiff does not have standing to bring copyright infringement claims based on Speedy Stop stores no. 58 and 59 because these copyrights have been registered to Marcel Meijer, individually, who is not a plaintiff in this action.<sup>14</sup> The Court understands Plaintiff to be making two arguments in response. First, Plaintiff argues that it has always been the original owner and copyright claimant, notwithstanding Mr. Meijer's listing on the copyright certificates as copyright author and claimant, because Mr. Meijer created these works [\*66] on behalf of Interplan. This argument seems to attribute Mr. Meijer's authorship to Plaintiff through the "work for hire" doctrine. Second, Plaintiff argues that, to the extent that Mr. Meijer rather than Plaintiff is the copyright author and owner, Defendant cannot raise the issue of standing because Mr. Meijer and Plaintiff do not have a dispute over copyright ownership.

14 As an initial matter, there are only three copyrights at issue where Mr. Meijer is listed individually as the copyright author and claimant: (1) Speedy Stop Store No. 58's technical drawing copyright (VA 1-368-557) (Doc. No. 108, Exh. B at 22-23.); (2) Speedy Stop Store No. 59's architectural work copyright (VA 1-368-553) (Doc. No. 108, Exh. B at 6-7.); and (3) Speedy Stop Store No. 59's technical drawing copyright (VA 1-368-552) (Doc. No. 108, Exh. B. at 24-25.) A fourth copyright (Speedy Stop No. 58's architectural work copyright VA 1-368-556) does list Mr. Meijer individually as copyright author and claimant, but Plaintiff has submitted a subsequent registration certificate for the same store's architectural work copyright that lists Plaintiff as the copyright author and claimant. Therefore, the Court will only [\*67] treat the three copyrights--Store No. 58's technical drawing copyright and Store No. 59's technical drawing and architectural works copyrights--as the ones where Plaintiff potentially lacks standing.

The Court agrees with Plaintiff's first argument and need not reach the second one. [Section 501](#) of the Copyright Act limits the availability of a cause of action for copyright infringement to the "legal or beneficial owner of an exclusive right under a copyright." [17 U.S.C. § 501\(b\)](#). Copyright ownership vests "initially in the author or authors of the work." [17 U.S.C. § 201\(a\)](#). An "author" is generally the "party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to a copyright protection." [Community for Creative Non-Violence v. Reid](#), 490 U.S. 730, 737, 109 S. Ct. 2166, 104 L. Ed. 2d 811 (1989). However, in a "work for hire" situation, an entity other than the actual creator is considered the author and owner of the copyright. A "work made for hire" includes "(1) work prepared by an employee within the scope of his or her employment." [17 U.S.C. § 101](#). Mr. Meijer clearly states that he is an employee of Plaintiff for purposes of determining ownership of the architectural [\*68] drawings. (Doc. No. 139, Exh. A at 2-3.) In addition, Mr. Meijer wrote a letter to the United States Copyright Office in which he states that he had created the works as an "officer" of Interplan Architects. (Doc. No. 124, Exh. L at 3-4.) Therefore, Plaintiff can be deemed the author and owner of the three copyrights under the "work for hire" doctrine. Since copyright registration is not a jurisdictional prerequisite to filing

suit for copyright infringement, Plaintiff's failure to obtain corrected certificates of registration listing it as copyright claimant does not deprive this Court of jurisdiction.

#### IV. MOTIONS FOR SUMMARY JUDGMENT

Plaintiff Interplan has moved for summary judgment on its ownership of valid architectural works copyrights (Doc. No. 110), on the infringement of its technical drawings (Doc. No. 108), and on Defendant's affirmative defenses (Doc. No. 111). Defendant has crossmoved for summary judgment on numerous grounds, including joint authorship, the existence of an implied nonexclusive license, statute of limitations, lack of damages, and lack of fraud (Doc. No. 104). Each ground asserted in support of summary judgment is analyzed below.

##### A. Legal Standard for Summary [\*69] Judgment

A motion for summary judgment requires the Court to determine whether the moving party is entitled to judgment as a matter of law based on the evidence thus far presented. [Fed. R. Civ. P. 56\(c\)](#). Summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." [Kee v. City of Rowlett](#), 247 F.3d 206, 210 (5th Cir. 2001) (quotations omitted). A genuine issue of material fact exists if a reasonable jury could enter a verdict for the non-moving party. [Crawford v. Formosa Plastics Corp.](#), 234 F.3d 899, 902 (5th Cir. 2000). The party moving for summary judgment must demonstrate the absence of a genuine issue of material fact but need not negate the elements of the nonmovant's case. [Exxon Corp. v. Oxxford Clothes, Inc.](#), 109 F.3d 1070, 1074 (5th Cir. 1997). If the movant meets this burden, then the nonmovant is required to go beyond its pleadings and designate, by competent summary judgment evidence, the specific facts showing that there is a genuine issue for trial. *Id.* The [\*70] Court views all evidence in the light most favorable to the non-moving party and draws all reasonable inferences in that party's favor. *Id.*

##### B. Defendant's Motion to Strike Interplan's Motions for Summary Judgment (Doc. No. 155)

Before the Court turns to the substance of the parties' motions for summary judgment, it must first address

Defendant's motion to strike Plaintiff's motions for summary judgment. Defendant states that Plaintiff's motions for summary judgment (Doc. Nos. 108, 110) are supported by the First Meijer Declaration. Defendant argue that, since the First Meijer Declaration incorrectly represents the deposit material on file with the Copyright Office, it should be stricken. Consequently, Defendant maintains, Plaintiff's motions for summary judgment are without supporting evidence and should also be stricken. Plaintiff responds by stating that any inaccuracies in Mr. Meijer's declaration are immaterial and are cured by the Second Meijer Declaration.

The Court denies Defendant's Motion to Strike Plaintiff's motions for summary judgment. First, the Court has already ruled on Defendant's Motion to Strike Mr. Meijer's declaration in Part II.B, above. The Court has stricken exhibits [\*71] B-J (copies of deposit materials) to the First Meijer Declaration, but has not stricken exhibit A (copies of certificates of copyright registration) to the declaration. Plaintiff's motions for summary judgment remain supported by evidence in the form of copies of the copyright registration certificates issued by the Copyright Office.

Second, Plaintiff has not improperly altered the remaining summary judgment evidence. The Second Meijer Declaration does not modify the First Meijer Declaration's representation that Exhibit A to the First Meijer Declaration consists of the "true and correct copies of the certificates of registration issued by the United States Copyright Office for the architectural works and technical drawings for Speedy Stop Store Nos. 58, 59, 70, 82, 85, 201, 206, 209, and 216." (Doc. No. 110, First Meijer Declaration at ¶ 3.) Defendant has attacked the certificates of registration as "unauthenticated and unreliable," but the Court has ruled that the certificates are neither. *See supra* Part II.B.

Therefore, Plaintiff's motions for summary judgment are supported by evidence in the form of Exhibit A to the First Meijer Declaration, and will not be stricken by the Court.

### C. [\*72] Violations of the Copyright Act

All parties have moved for summary judgment on various issues related to Plaintiff's copyright infringement claims. In order to establish copyright infringement, a plaintiff must prove "ownership of a valid copyright and copying of constituent elements of the work that are

copyrightable." *See Eng'g Dynamics, Inc. v. Structural Software, Inc.*, 26 F.3d 1335, 1340 (5th Cir. 1994) (citing *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361, 111 S. Ct. 1282, 113 L. Ed. 2d 358 (1999)). Defendant has asserted affirmative defenses to copyright infringement, including the existence of an implied nonexclusive license, joint authorship, and others.

### 1. Ownership of Valid Copyright

Plaintiff has moved for summary judgment on the basis that it owns valid architectural works copyrights (Doc. No. 110). In addition, Plaintiff moves for summary judgment on the issue of infringement of technical drawings copyrights (Doc. No. 108), which requires a showing that Plaintiff first owns valid copyright in the technical drawings. Finally, Plaintiff moves for summary judgment on Defendant's claims that Plaintiff's copyrights are not valid because the works are not original or copyrightable and contain [\*73] errors in registration. (Doc. No. 111.)

Copyright ownership is shown by: (1) proof of originality and copyrightability, and (2) compliance with the applicable statutory requirements. *See Compaq Computer Corp. v. Ergonome Inc.*, 387 F.3d 403, 407-408 (5th Cir. 2004). A plaintiff complies with statutory formalities of copyright registration by submitting a complete application for registration, fee, and deposit to the Copyright Office. *Geoscan, Inc. v. Geotrace Techs., Inc.*, 226 F.3d 387, 393 (5th Cir. 2000).

"A certificate of registration, if timely obtained, is *prima facie* evidence both that a copyright is valid and that the registrant owns the copyright." *Gen. Universal Sys., Inc. v. Lee*, 379 F.3d 131, 141 (5th Cir. 2004). However, the presumption of validity and ownership that a certificate of registration creates is rebuttable. *See Berg v. Symons*, 393 F. Supp. 2d 525, 539 (S.D. Tex. 2005). "The effect of such a certificate is to place the burden of proof on the alleged infringer to disprove the validity of the copyright." *Guillot-Vogt Assocs., Inc. v. Holly & Smith*, 848 F. Supp. 682, 686 (E.D. La. 1994).

Courts may find a registration invalid if the copyright claimant willfully misstated [\*74] or failed to state a fact that, if known, might have caused the Copyright Office to reject the copyright application. *Id.* at 542. There must be a showing of "scienter" in order to invalidate a copyright registration. *See St. Luke's Cataract & Laser Inst., P.A. v. Sanderson*, 573 F.3d

[1186, 1201 \(11th Cir. 2009\)](#). "[A] misstatement or clerical error in the registration application if *unaccompanied by fraud* will not invalidate the copyright nor render the registration certificate incapable of supporting an infringement action." 2 M. Nimmer & D. [Nimmer, Copyright § 7.20\[B\]](#) at 7-208, § 7.18[C][1] at 7-201 (2000) (emphasis added). Once a court determines that errors were inadvertent, courts generally turn to the question of whether the misstatements were material. [Morelli v. Tiffany and Co.](#), 186 F. Supp. 2d 563, 565-66 (E.D. Pa. 2002). An error is immaterial if its discovery is not likely to have resulted in the Copyright Office's refusal of the application. [Raquel v. Education Management Corp.](#), 196 F.3d 171, 176 (3d Cir. 1999). In sum, immaterial, inadvertent errors in an application for copyright registration will be excused and do not destroy the validity of the registration. See [Data General Corp. v. Grumman Systems Support Corp.](#), 36 F.3d 1147, 1161 (1st Cir. 1994).

Plaintiff [\*75] relies upon certificates of registration *as prima facie* evidence of ownership of valid "architectural works" and "technical drawings" copyrights in nine Speedy Stop stores. Plaintiff has attached copies of certificates of registration for each copyright over which Plaintiff asserts ownership. (Doc. No. 108, Exh. H at Exhibit A; Doc. No. 110, Exhibit A to First Meijer Decl.) In addition, Mr. Meijer's declaration purportedly incorporates the deposit materials submitted to the Copyright Office in connection with the applications for copyright registration for these nine Speedy Stop stores. However, the Court has struck from the First Meijer Declaration the attachments purporting to represent the deposit materials submitted to the Copyright Office. See *supra* Part II.B. Therefore, the Court will consider only the certificates of registration, and not the deposit material, when deciding Plaintiff's motions for summary judgment. Here, the Defendant has challenged the certificates of registration on the following grounds: (1) existence of errors in the certificates themselves; (2) lack of originality; and (3) lack of copyrightability. The Court will review each of Defendant's challenges in [\*76] turn. Ultimately, the Court concludes that genuine issues of material fact do exist with respect to some issues, and grants in part and denies in part Plaintiff's motion for summary judgment as to ownership of valid copyright in the architectural works and technical drawings, and Plaintiff's motion for summary judgment as to Defendant's claims that its works are not original or copyrightable.

### **a. Errors in Deposit Material Submitted to the Copyright Office**

Defendant first claims that the certificates of registration are invalid because Plaintiff did not submit an entire set of construction drawings as deposit material for its applications for copyright registration. Plaintiff responds by stating that the smaller set of drawings that was submitted as deposit material to the Copyright Office was sufficient to obtain a valid registration of each copyright. Further, Plaintiff argues, even if there were errors in the scope of deposit material submitted to the Copyright Office, Defendant has not shown that these errors were either material or made with intent to defraud the Copyright Office. The Court addresses each type of copyright at issue in this case in turn in order to determine whether [\*77] Plaintiff has made an error in deposit materials for each type of copyright, and whether these errors are material and fraudulent.

### **i. Deposit Materials for Technical Drawings Copyrights**

Plaintiff has submitted copies of certificates of registration for the following nine "technical drawings" copyrights: Store No. 58 (VA 1-368-557), Store No. 59 (VA 1-368-552), Store No. 70 (VAu755-524), Store No. 82 (VAu739-454), Store No. 85 (VAu755-523), Store No. 201 (VAu755-526), Store No. 206 (VAu755-527), Store No. 209 (VAu755-525), Store No. 216 (VAu755-528). (Doc. No. 108, Exh. B.; Doc. No. 108, Exhibit A to First Meijer Decl.) Plaintiff claimed in the First Meijer Declaration that it had submitted a certain set of drawings to the Copyright Office as deposit materials for these "technical drawings" copyrights. However, Defendant has shown and Plaintiff has acknowledged in the Second Meijer Declaration that only a subset of the drawings previously claimed by Plaintiff to have been submitted to the Copyright Office were actually submitted. Defendant claims that, for Stores 70, 82, 85, 201, 206, 209, and 216, only two drawings were submitted to the Copyright Office--the elevation drawing and the [\*78] floor plan drawing. (Doc. No. 150, Exh. A at ¶¶ 8-9.) For Store No. 59, Defendant claims that 29 drawings have been submitted as deposit material to the Copyright Office. (*Id.* at ¶ 11.) For Store No. 58, Defendant has been unable to obtain the deposit material on file with the Copyright Office. (*Id.* at ¶ 14.) Plaintiff has not specifically identified which drawings were actually submitted as deposit material for the "technical

drawings" copyrights but merely stated in the Second Meijer Declaration that the "deposit materials do not include the entirety of Exhibits B-J to my earlier declaration, but a subset of those documents, e.g., the March 2007 set of applications each include sheets A02 and A05, representing the exterior elevation and floor plan of the store. *See, e.g.*, IAI 0008840-928." This representation leaves open the question of what Plaintiff submitted as deposit material for the "technical drawings" copyrights for Store No. 58 (VA 1-368-557) and Store No. 59 (VA 1-368-552).

The Court need not reach the question of whether Plaintiff's errors in deposit material for the "technical drawings" copyrights were inadvertent and immaterial because the Court will dismiss Plaintiff's [\*79] claims for copyright infringement based on unregistered drawings.

[Section 411\(a\)](#) of the Copyright Act requires that a copyright in a work be registered before a copyright owner brings a suit for infringement of that copyright. [17 U.S.C. § 411\(a\)](#). The Supreme Court in *Reed Elsevier* clearly stated that [§ 411\(a\)](#) is not jurisdictional in nature, though it noted that it is a form of a claims-processing rule. *See Reed Elsevier*, [130 S. Ct. at 1247](#). *Reed Elsevier* left open the question of how strictly courts should interpret the registration requirement imposed by [§ 411\(a\)](#). *Id.* at 1249 (declining to address whether [§ 411\(a\)](#) registration requirement is a "mandatory precondition to suit that . . . district courts may or should enforce *sua sponte* by dismissing copyright infringement claims involving unregistered works"). Claims-processing rules "do not limit a court's jurisdiction, but rather regulate the timing of motions or claims brought before the court. Unless a party points out to the court that another litigant has missed such a deadline, the party forfeits the deadline's protection." [Dolan v. United States](#), [559 U.S. 130 S. Ct. 2533, 2538, 177 L. Ed. 2d 108 \(2010\)](#).

The Fifth Circuit's leading case on [§ 411\(a\)](#)'s [\*80] registration requirement, [Positive Black Talk, Inc. v. Cash Money Records, Inc.](#), [394 F.3d 357 \(5th Cir. 2004\)](#), was abrogated by *Reed Elsevier* insofar as *Positive Black Talk, Inc.* held that [§ 411\(a\)](#)'s registration requirement was jurisdictional in nature. However, *Positive Black Talk, Inc.*'s holding regarding what constitutes fulfillment of the claims-processing rule imposed by the [section 411\(a\)](#) registration requirement is still good law. The Fifth Circuit "requires only that the Copyright Office

actually receive the application, deposit, and fee before a plaintiff files an infringement action," unlike other circuits that require a plaintiff to actually obtain a certificate from the Copyright Office before bringing suit. [Positive Black Talk, Inc. v. Cash Money Records, Inc.](#), [394 F.3d at 365](#). In order to determine whether Plaintiff has fulfilled [§ 411\(a\)](#)'s registration requirement as construed by the Fifth Circuit, the Court must examine whether the Copyright Office received the application, the required deposit, and fee for the copyrights that are the subject of this suit.

An owner of copyright may obtain registration of his or her copyright by "delivering to the Copyright Office the [\*81] deposit specified by this section, together with the application and fee." [17 U.S.C. § 408\(a\)](#); *see also Geoscan, Inc. v. Geotrace Techs., Inc.*, [226 F.3d 387, 393 \(5th Cir. 2000\)](#). The deposit required by [17 U.S.C. § 408\(a\)](#) is, "in the case of a published work, two complete copies or phonorecords of the best edition." [17 U.S.C. § 408\(b\)](#). Plaintiff has acknowledged that it failed to submit a "complete copy" of the material it wished to copyright as "technical drawings." (Doc. No. 154, Second Meijer Declaration at ¶¶ 4-5.) Though such errors might be excused as immaterial and inadvertent for the purposes of assessing a copyright's validity, they are not immaterial insofar as Plaintiff wishes to claim copying of those particular drawings constitutes infringement by Defendant. Plaintiff has failed to state claims of copyright infringement of unregistered technical drawings because it has not shown that it properly deposited those drawings with the Copyright Office. As such, Plaintiff's claims for copyright infringement of those drawings not submitted to the Copyright Office as deposit material for the "technical drawings" copyrights are dismissed. <sup>15</sup> Further, since the Court has struck Plaintiff's [\*82] deposit material that was submitted to the Copyright Office, Plaintiff cannot receive summary judgment on the issue of valid ownership for even some of its technical drawings copyrights. Therefore Plaintiff's motion for summary judgment on infringement of its technical drawings copyright is denied.

<sup>15</sup> The Court notes that Plaintiff has stated that it intends to file supplementary registrations for its technical drawings to include the complete set of construction drawings prepared by Plaintiff. (Doc. No. 154 at 2.) The Fifth Circuit has stated that "a plaintiff who files a copyright infringement lawsuit before registering with the Copyright

Office may cure the [§ 411](#) defect by subsequently amending or supplementing its complaint once it has registered the copyright." [Positive Black Talk, Inc., 394 F.3d at 365](#). Should Plaintiff wish to subsequently bring claims for copyright infringement of its newly registered technical drawings, the proper manner of doing so would be a motion to amend or supplement its pleading. The Court takes no position on the merits or likely success of any such motion.

## ii. Deposit Materials for Architectural Works Copyrights

Plaintiff has submitted copies of certificates [\*83] of registration for the following nine "architectural works" copyrights: Store No. 58 (VA 1-368-556 and VAu739-455),<sup>16</sup> Store No. 59 (VA 1-368-553), Store No. 70 (VAu739-457), Store No. 82 (VAu739-453), Store No. 85 (VAu703-006), Store No. 201 (VAu739-459), Store No. 206 (VAu739-456), Store No. 209 (VAu739-458), and Store No. 216 (VAu739-452). (Doc. No. 110, Exhibit A to the First Meijer Declaration). Plaintiff claimed in the First Meijer Declaration that it had submitted a certain set of drawings to the Copyright Office as deposit materials for these "architectural works" copyrights. However, Defendant has shown and Plaintiff has acknowledged in the Second Meijer Declaration that only a subset of the drawings previously claimed by Plaintiff to have been submitted to the Copyright Office were actually submitted. Plaintiff has not specifically identified which drawings were actually submitted as deposit material for the "architectural works" copyrights. Defendant claims that, for Stores 70, 82, 85, 201, 206, 209, and 216, only two drawings were submitted to the Copyright Office--the elevation drawing and the floor plan drawing. (Doc. No. 149, Exh. A at ¶¶ 8-9.) For Store No. 59, Defendant [\*84] claims that 29 drawings have been submitted as deposit material to the Copyright Office. (*Id.* at ¶ 11.) For Store No. 58, Defendant claims that only two drawings (the elevation and the floor plan) for Copyright No. VAu739-455, and have not been able to obtain the deposit material on file for Copyright No. VA 1-368-556.

<sup>16</sup> Store No. 58 has two copyright registration certificates: VA 1-368-556 has an effective date of June 8, 2006, and the copyright claimant is Marcel Meijer, while VAu739-455 has an effective date of March 23, 2007 and the

copyright claimant is Interplan Architects, Inc.

Plaintiff responds by stating that, even if the registration and deposit materials do not reflect the entirety of drawings related to the stores designed by Interplan, Defendant has not shown that the deposit materials that were submitted fail to convey the "design of the building as embodied in any tangible medium of expression," *see* [17 U.S.C. § 101](#), or otherwise fail to show the Copyright Office the architectural works of the stores in question. (Doc. No. 139 at 4). The burden is upon Defendant to show that the error in deposit material, if any, submitted by Plaintiff was both intentional and material.

First, [\*85] the Court does not believe that there is an error in the deposit material submitted by Plaintiff for the "architectural works" copyrights. The deposit requirements for "architectural works" copyrights differ from the deposit requirement for "technical drawings." The Register of Copyrights is authorized to alter the statutorily-specified deposit requirements for certain types of works. *See* [17 U.S.C. § 408\(c\)\(1\)](#). The corresponding regulations outline special provisions for "architectural works":

"(xviii) Architectural Works. (A) For designs of unconstructed buildings, the deposit must consist of one complete copy of an architectural drawing or blueprint in visually perceptible form showing the overall form of the building and any interior arrangements of spaces and/or design elements in which copyright is claimed. For archival purposes, the Copyright Office prefers that the drawing submissions consist of the following in descending order of preference:

(1) Original format, or best quality form of reproduction, including offset or silk screen printing;

(2) Xerographic or photographic copies on good quality paper;

(3) Positive photostat or photodirect positive;

(4) Blue line copies (diaz or [\*86] ozalid process).

The Copyright Office prefers that the deposit disclose the name(s) of the architect(s) and draftsman(s) and the building site, if known.

(B) For designs of constructed buildings, the deposit must consist of one complete copy of an architectural drawing or blueprint in visually perceptible form showing the overall form of the building and any interior arrangement of spaces and/or design elements in which copyright is claimed. In addition, the deposit must also include identifying material in the form of photographs complying with § 202.21 of these regulations, which clearly discloses the architectural works being registered. For archival purposes, the Copyright Office prefers that the drawing submissions constitute the most finished form of presentation drawings and consist of the following in descending order of preference:

- (1) Original format, or best quality form of reproduction, including offset or silk screen printing;
- (2) Xerographic or photographic copies on good quality paper;
- (3) Positive photostat or photodirect positive;
- (4) Blue line copies (diaz or ozalid process).

With respect to the accompanying photographs, the Copyright Office prefers 8x10 inches, good [\*87] quality photographs, which clearly show several exterior and interior views. The Copyright Office prefers that the deposit disclose the name(s) of the architect(s) and draftsman(s) and the building site."

[37 C.F.R. § 202.20\(c\)\(2\)\(xviii\)](#). Further, the Register of Copyrights may permit the deposit of "incomplete copies" or permit the deposit of actual copies in place of "identifying material" that would otherwise be required. See [37 C.F.R. § 202.20\(d\)\(1\)](#).

Plaintiff's submission to the Copyright Office of elevation drawings and floor plans as deposit material for the "architectural works" is sufficient to satisfy the deposit requirements for "architectural works." These drawings show the "showing the overall form of the building and any interior arrangement of spaces and/or design elements in which copyright is claimed." [37 C.F.R. § 202.20\(c\)\(2\)\(xviii\)](#). Because there is no error in the deposit material associated with the "architectural works" copyrights, the deposit material cannot be a ground for challenging the validity of Plaintiff's architectural works' copyrights.

#### **b. The Identification of Derivative Works**

Defendant also attacks the validity of the copyright registrations because [\*88] of conflicting information that appears among the certificates of registration in response to the application's question asking for an identification of any preexisting work that the work being copyrighted is based upon. Defendant notes that, on some registrations, Plaintiff answered "N/A," while in other registrations, Plaintiff answered "Speedy Stop #59 (Portland, Texas)," and yet in others, Plaintiff answered "Speedy Stop # 59 (Portland, Texas) and Speedy Stop #82 (Columbus, Texas)." (Doc. No. 119 at 17-20.) With respect to the "architectural drawings" copyrights, it is clear that these discrepancies are immaterial. For Store No. 58, the original certificate of registration for "architectural works" (VA 1-368-556), where Plaintiff did not disclose any prior material, was replaced by a subsequent certificate of registration for "architectural works" in which Plaintiff disclosed that Store No. 58 was based on Store Nos. 59 and 82. (*Id.* at 17.) The Copyright Office's decision to issue a certificate of registration for "architectural works" once it became aware that preexisting material did exist shows that the Copyright Office would not have rejected the copyright registration applications [\*89] if this information had been known to them at the time of Plaintiff's initial copyright application.

As for the "technical drawings" copyrights, the certificate of registration for Store No. 70, effective March 23, 2007, states that the "technical drawings" work is based upon "Speedy Stop # 59 (Portland, Texas)." (*Id.* at 18.) The earlier-issued "technical drawings" certificate of registration for Store No. 58, effective June 8, 2006, lists the response "N/A" in response to the question of whether the current work being copyrighted is based

upon previous works. (*Id.* at 17.) Once again, the Copyright Office's willingness to issue a copyright registration when it became aware of the preexisting material is evidence that it would not have rejected Plaintiff's copyright registration for Store No. 58 if it had known about the preexisting work at the time of the earlier application.

Finally, the Court cannot conclude that the discrepancies between the "architectural works" copyrights (listing both Store Nos. 59 and 82 as preexisting works) and the "technical drawings" copyrights (listing only Store No. 59 as preexisting work) create a question of material fact about the validity of the copyright [\*90] registration. First, Defendant has not shown that such a discrepancy is an error, as opposed to an actual distinction between the preexisting work that the "architectural works" were based upon and the preexisting work that the "technical drawings" were based upon. Second, Defendant has not offered any evidence that the omissions, if any, were made with the intent to defraud the Copyright Office. Finally, Defendant has not identified why the Copyright Office would have rejected the "technical drawings" copyrights had it learned that they were based on Store No. 82 in addition to Store No. 59. Therefore, the discrepancies as to the information listed as preexisting work on the copyright certificates does not meet the standard necessary to rebut the presumption of validity of the copyright registrations.

### **c. The Identification of Marcel Meijer as "Author"**

Defendant argues that Interplan knowingly misrepresented the author of the "technical drawings" as Marcel Meijer even though he did not actually author these drawings. (Doc. No. 123). An "author" is generally the "party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to [\*91] a copyright protection." [\*Community for Creative Non-Violence v. Reid\*, 490 U.S. 730, 737, 109 S. Ct. 2166, 104 L. Ed. 2d 811 \(1989\)](#).

After reviewing the evidence submitted by the parties, the Court concludes that there was no error in listing Mr. Meijer as an author on the copyright registrations. Defendant highlights deposition testimony that purportedly shows Mr. Meijer's lack of involvement in the AutoCAD process by which the technical drawings were rendered. Mr. Urfi stated in his deposition that he never once saw Mr. Meijer use AutoCAD in the 13 years that Mr. Urfi worked for Mr. Meijer and that Mr. Meijer

supervised the draftsmen in the office who did use AutoCAD. (Urfi Depo., Doc. No. 123, Exh. H at pp.107-08, 111-12). However, Mr. Urfi also stated that Mr. Meijer "used to draw stuff, you know, by hand." (Urfi Depo., Doc. No. 123, Exh. H at p.112). When questioned specifically about Mr. Meijer's working process, Mr. Urfi said:

"Q. Okay. And so he would give you on a piece of paper, and I presume with a pencil, a drawing?"

A. Yes.

Q. And do you know where he got that paper from?

A. Like -- I don't know when the clients come or something, he discuss. He has his own meeting with the clients --

Q. Uh-huh.

A. -- you know. Then [\*92] he has all the paper ready. Then he used to call us, whoever will start the work. Hey, start this thing, you know. He give us the guidance, like this looks like this project, so all the drawings, you know, from that directory, start with that.

Then he, you know, make a big 24, 36 drawing, and then he used to modify that. Look, this should be like this. Get that, you know, driveway this way, get that this -- this way. He used to -- on the -- on the -- on the drawing he used to -- by pencil or pen, you know, he used to do like a red mark. It was a red mark.

Q. Okay.

A. Yeah. Here's the car wash put it there. Here's the entrance, there's the exit. He's going, put the lane there; landscaping, put it here. Take five feet from the property line right of way, you know, or three feet . . ."

(Urfi Depo., Doc. No. 123, Exh. H at pp.112-13). Mr. Urfi's deposition testimony, rather than establishing that Mr. Meijer was not the one who "created" the work, shows that Mr. Meijer was intimately engaged with his draftsmen in translating the architectural designs into fixed drawings. Though Mr. Meijer may not have engaged in computer-created drawings using AutoCAD, he did make hard-copy additions and modifications [\*93]

that resulted in the creation of the copyrightable material. See Lakedreams v. Taylor, 932 F.2d 1103, 1108 (5th Cir. 1991) ("Authors are entitled to copyright protection even if they do not perform with their own hands the mechanical tasks of putting the material into the form distributed to the public."). As described above, under the "work for hire" doctrine, Plaintiff can be considered the "author" of works that Mr. Meijer created within the scope of his employment.

Next, the Court addresses the instances in which Mr. Meijer was listed as "claimant" on the certificates of copyright registration instead of Plaintiff. Improper designation of the copyright claimant is generally not grounds to dismiss an infringement claim unless: (a) the error misleads the public as to the existence of the copyright or true owner of the copyright; (b) otherwise prejudices a defendant. King Records, Inc. v. Bennett, 438 F. Supp. 2d 812, 838 (M.D. Tenn. 2006). Neither of these circumstances is present here. In each certificate where Mr. Meijer is listed individually as copyright claimant, "Interplan Architects, Inc." appears under his name. The inclusion of Plaintiff's name provides the public with notice [\*94] of the true owner of the copyright. There is no evidence that Defendant has been prejudiced by Mr. Meijer's listing individually as copyright claimant. Moreover, this error was unintentional. Mr. Meijer testified that he had very little experience registering copyrights. Therefore, the Court does not find the validity of copyright rebutted on this ground. See LZT/Filliung Partnership, LLP v. Cody/Braun & Assoc., Inc., 117 F. Supp. 2d 745 (N.D. Ill. 2000) (holding that mistakes in the copyright infringement were innocent where the plaintiff had attempted for the first time ever to register plans).

#### **d. The Identification of Ismael Urfi as "Author"**

Next, Defendant claims that Plaintiff's copyrights are invalid because they assert Plaintiff's authorship of the copyrights as the employer of Ismael Urfi. (Doc. No. 123 at 13-14.) Defendant argue that Mr. Urfi performed his work on the drawings as an independent contractor and not as an employee of Interplan Architects. (Doc. No. 123 at 14-16, Doc. No. 119 at 12-13.) Therefore, Defendant concludes, Interplan is not the author of the technical drawings or architectural works and cannot claim copyright protection in either.

Copyright in a work protected [\*95] by the Act vests "initially in the author or authors of the work." 17 U.S.C.

§ 201(a). The Copyright Act affords an exception to the general rule that copyright vests in authors in situations involving works made for hire. A "work made for hire" includes: "(1) work prepared by an employee within the scope of his or her employment; or (2) a work specially ordered or commissioned . . . if the parties expressly agree in a written instrument signed by them that the work shall be considered a work for hire." 17 U.S.C. § 101. As there is no evidence of a written agreement between Mr. Urfi and Interplan designating Mr. Urfi's drawings as works for hire, Plaintiff may claim ownership of Mr. Urfi's drawings only if he is determined to be an employee of Plaintiff during the period in which the drawings were created.

The determination of whether an individual is an employee or independent contractor for purposes of the "work for hire" doctrine is made using the common law of agency. See Community for Creative Non-Violence v. Reid, 490 U.S. 730, 109 S. Ct. 2166, 104 L. Ed. 2d 811 (1989); Quintanilla v. Texas TV, 139 F.3d 494, 497 (5th Cir. 1998). In applying the common law of agency, courts consider the "hiring party's right to control [\*96] the manner and means by which the product is accomplished," which, in turn, involves the application of a number of factors. Reid, 490 U.S. at 751.<sup>17</sup>

17 In Reid, the Supreme Court outlined a list of non-exhaustive factors that are relevant in deciding whether the hired party is an employee or an independent contractor: (1) the hiring party's right to control the manner and means by which the product is accomplished; (2) the skill required; (3) the source of the instrumentalities and tools; (4) the location of the work; (5) the duration of the relationship between the parties; (6) whether the hiring party has the right to assign additional projects to the hired party; (7) the extent of the hired party's discretion over when and how long to work; (8) the method of payment; (9) the hired party's role in hiring and paying assistants; (10) whether the work is part of the regular business of the hiring party; (11) whether the hiring party is in business; (12) the provision of employee benefits; and (13) the tax treatment of the hired party. 490 U.S. at 751-52. No single factor is determinative. *Id.*

Applying the factors enumerated in Reid, there are a few indications that Mr. Urfi was an independent [\*97]

contractor. For one, Mr. Urfi states that, throughout his employment at Interplan between the years of 1994-2007, he was a "contract employee." (Urfi Depo. at 16, 20.) He was paid on an hourly basis according to the number of hours worked. (Urfi Depo. at 18, 31.) Mr. Urfi did not receive medical benefits and was not paid for sick time or holidays. (Urfi Depo. at 17, 28-29.)

On the other hand, Mr. Urfi relates characteristics of his position as a draftsman that point towards a conclusion that he was an employee. Most significantly, Mr. Urfi paints a picture of an employment relationship between Mr. Meijer and himself wherein Mr. Meijer controlled the manner and means by which Mr. Urfi and other draftsmen at Interplan performed their work. Mr. Urfi describes Mr. Meijer as having "all the control, how much -- or how many works he has, you know. We're not supposed to know that, you know. He was the president of Interplan Architects." (Urfi Depo. at 45.) Mr. Meijer supervised the work of the draftsmen, answered any questions the draftsmen had, provided instructions and specific guidance to the draftsmen on their projects, and possessed the final say in the content of the drawings. (Urfi Depo. [\*98] at 107-08, 115, 130-31.) Mr. Urfi was required to arrive at the office at a specific time each morning and punch in and out of a time clock. (Urfi Depo. at 18, 26.) During the times relevant to this lawsuit, he received a paycheck from which Social Security taxes, Medicare taxes, and perhaps income taxes were deducted (Urfi Depo. at 17-27.) He was paid for vacation days. (Urfi Depo. at 29.) Though Mr. Urfi describes himself variously as a "contract employee" and "contract labor," he obscures any difference between Interplan's treatment of independent contractors and employees by also stating that "we were the regular employees, you know, like a contract, but we are regular employees." (Urfi Depo. at 19.)

Defendant does not dispute any of the facts contained in Mr. Urfi's deposition. Nor does Defendant reference the existence of any additional facts that, if known, would assist the trier of fact in making a determination of Mr. Urfi's employment status. Defendant merely states that issues of fact exist as to Mr. Urfi's designation as an employee on the copyright registrations. (Doc. No. 119 at 12-13). However, the employee versus independent contractor determination is a question of [\*99] law. See Massingill v. Stream, LTD., Case No. 08-cv-0091-M, 2009 U.S. Dist. LEXIS 91959, at \*15 (N.D. Tex. Oct. 1, 2009) (stating that employee

versus independent contractor determination is a question of law). If the facts necessary to determine employee versus independent contractor status are unsettled, the court cannot make a legal conclusion as to the individual's employment status. See Easter Seal Soc. for Crippled Children & Adults, Inc. v. Playboy Enterprises, 815 F.2d 323, 336 (5th Cir. 1987). Here, there are no facts in dispute as to the work Mr. Urfi performed at Interplan Architects, the circumstances of his employment, and the way in which Mr. Urfi interacted with Mr. Meijer. Rather the dispute centers on whether, after taking all these facts into consideration, Mr. Urfi should be classified as an employee or independent contractor. This is a question of law that the Court finds to be amenable to disposition.

Plaintiff, through its president Mr. Meijer, controlled the way in which Mr. Urfi drafted plans and drawings for Interplan's clients. Mr. Meijer assigned Mr. Urfi architectural projects, which were part of Interplan's regular business. Moreover, Interplan's long-running [\*100] employment relationship with Mr. Urfi, its requirement that he conduct his work during certain hours and at Interplan's office, and its deduction of payroll taxes from his paychecks are all evidence of Mr. Urfi's status as an employee. Though Mr. Urfi was not given medical insurance or paid for certain days on which he did not work, these factors are not determinative.

Therefore, the Court concludes that Mr. Urfi was an employee of Interplan for the purposes of the "work for hire" doctrine. Interplan is the "author" of any works created by Mr. Urfi during the scope of his employment at Interplan. The copyright registrations listing Interplan as the "author" of the technical drawings and architectural works are valid in this respect.<sup>18</sup>

18 Defendant makes the additional argument that Mr. Urfi is not an author of Plaintiff's drawings because he did not contribute any creativity in the design or layout of the Speedy Stop stores. (Doc. No. 123 at ¶ 20.) The Court need not parse out which contributions by Mr. Urfi were creative and which were not. To the extent that Mr. Urfi only transposed the expression of the architectural design onto paper, he did so at the direction and with the feedback [\*101] of Mr. Meijer. (Urfi Depo. at 94-102.) Therefore, Mr. Meijer may be deemed the author of Plaintiff's drawings. See Lakedreams v. Taylor, 932 F.2d 1103, 1108 (5th

[Cir. 1991](#)) ("Authors are entitled to copyright protection even if they do not perform with their own hands the mechanical tasks of putting the material into the form distributed to the public.").

#### e. Lack of Originality

Plaintiff has moved for summary judgment on Defendant's claim that Plaintiff's copyrighted material is not original, and therefore undeserving of copyright protection. Originality means only that the work was independently created by the author (as opposed to copied from other works) and that it possesses at least some minimal degree of creativity. [Feist Publications, Inc. v. Rural Tel. Servs. Co.](#), 499 U.S. 340, 345, 111 S. Ct. 1282, 113 L. Ed. 2d 358 (1991). "Practically speaking, because the degree of creativity required is so low, the originality requirement amounts to 'little more than a prohibition of actual copying.'" [Axelrod & Cherveny Architects, P.C. v. Winmar Homes](#), Case No. 2:05-cv-711-ENV-ETB, 2007 U.S. Dist. LEXIS 15788, \*9 (E.D.N.Y. Mar. 6, 2007) (citing [Alfred Bell & Co. v. Catalda Fine Arts, Inc.](#), 191 F.2d 99, 103 (2d Cir. 1951)). [\*102] In cases where the defendant offers proof that plaintiff copied from other works, the burden shifts to the plaintiff to prove originality. [CMM Cable Rep., Inc. v. Ocean Coast Properties, Inc.](#), 97 F.3d 1504 (1st Cir. 1996).

Defendant's main challenges to the originality of Plaintiff's works all center around whether the works were independently created, as opposed to whether they possess a minimal degree of creativity, and can be distilled into three main arguments. First, Defendant maintains that Plaintiff's Architectural Drawings are not original because they incorporate many drawings generated by third-party vendors and consultants.<sup>19</sup> This contention, even if true, is not sufficient as a legal matter to challenge the originality of Plaintiff's Architectural Drawings. Defendant offers as evidence of the third-party and consultant contributions to Plaintiff's Architectural Drawings a list of the contributions made by these third-parties and consultants. (Doc. No. 119, Exh. G.) These contributions consist of vicinity maps, surveys, property and boundary lines, standards for restroom accessibility, glass mullions standards, climatic zone maps, electrical layouts and specifications, plumbing [\*103] information, canopy elevations and similar information and drawings. (*Id.*) Even though Plaintiff's architectural drawings may contain such contributions by

other parties, they are original due to the selection, arrangement and composition of the elements. [Sturdza v. United Arab Emirates](#), 281 F.3d 1287, 350 U.S. App. D.C. 154 (D.C. Cir. 2002); [The Rottlund Co. v. Pinnacle Corp.](#), Case No. 01-1980, 2004 U.S. Dist. Lexis 16723, \*50 (D. Minn. Aug. 20, 2004).

19 This argument is distinguishable from Defendant's claim that Plaintiff is not the sole author of the works due to its incorporation of third-party vendor and consultant drawings.

Second, Defendant states that Plaintiff modeled its Architectural Drawings on the design of another convenience store chain called Quik Trip, and therefore Plaintiff's work cannot be original. The only relevant evidence offered by Defendant is the affidavit of Jeff Johanson. Mr. Johanson's affidavit does not state that Defendant Thomas provided a Quik Trip floor plan or elevations to Plaintiff, or even that Defendant Thomas possessed drawings of Quik Trip's floor plan, but only that Defendant Thomas acquired "some of the ideas for the floor plan by a review of another major convenience [\*104] store operation, Quik Trip." (Doc. 121, Exh. 9, Affidavit of Jeff Johanson at 2.) Defendant also point to the deposition testimony of Ismail Urfi and Greg Mitchell, which acknowledges the similarity of Plaintiff's floor plan to Quik Trip's floor plan. However, these individuals do not offer any personal knowledge of Plaintiff's access to and copying of Quik Trip's floor plan. Defendant has not proffered evidence of either Plaintiff's direct access to Quik Trip's floor plan drawings, or access through Defendant Thomas to the floor plan. Therefore, Defendant has not raised a genuine issue of material fact with respect to Plaintiff's alleged copying of Quik Trip's floor plan.

Third, Defendant contends that Plaintiff's Architectural Drawings are not original because they are based on Defendant Thomas's in-house drawings of both floor plans and elevations. The Court finds that there exist genuine issues of material fact with respect to Plaintiff's alleged copying from Defendant Thomas's floor plan and elevation drawings, and will deny Plaintiff's motion for summary judgment due to this particular issue only. Defendant Thomas and Plaintiff clearly dispute the extent to which Defendant Thomas [\*105] contributed site plans, floor plans, and elevation drawings for the nine Speedy Stop stores that Plaintiff designed. A reasonable juror could enter a verdict for

Defendant Thomas, the non-movant here, on the grounds that Plaintiff's Architectural Drawings were not original because they had been copied from Defendant Thomas's in-house drawings. See [Guillot-Vogt. Assocs., Inc., 848 F. Supp. at 689](#) (denying summary judgment when genuine issues of originality were raised by defendant's provision of drawings to plaintiff). Therefore, the Court denies Plaintiff's motion for summary judgment on Defendant's claim of lack of originality and denies Plaintiff's motion for partial summary judgment on ownership of valid architectural works copyrights.

#### **f. Lack of Copyrightability**

Plaintiff has moved for summary judgment on Defendant's claim that Plaintiff's copyrighted material does not contain copyrightable subject matter. Defendant contends that "functional" drawings such as Plaintiff's Architectural Drawings are not copyrightable.

With respect to the "technical drawings" copyrights, this material is protected under [17 U.S.C. § 101](#). The limitation of copyrightability of functional aspects applies [\*106] only to physical objects, not to drawings of such objects. [Guillot-Vogt. Assocs., Inc., 848 F. Supp. at 688-89](#).

With respect to "architectural works" copyrights, these works are protected by the Architectural Works Copyright Protection Act. The legislative history confirms that architectural works contain many non-protected component parts. See H.R. Rep. No. 101-375, *reprinted in* 1990 U.S.C.C.A.N. at 6949 ("[C]reativity in architecture frequently takes the form of a selection, coordination, or arrangement of unprotectible elements into an original, protectible whole . . ."). Congress purposefully excluded any consideration of the utilitarian aspects of architectural design when determining the copyrightability of architectural works. See *id.* at 6951 ("[T]he copyrightability of architectural works shall not be evaluated under the separability test applicable to pictorial, graphic, or sculptural works.") Regardless of the functional nature of aspects of Plaintiff's Architectural Drawings, they are copyrightable as "architectural works" because copyright protection extends to "the gestalt of the plans including things like an architect's choices regarding shape, arrangement, and location [\*107] of buildings, the design of open space, the location of parking and sidewalks, and the combination of individual design elements." [Axelrod & Cherveny Architects, P.C., 2007 U.S. Dist. LEXIS at \\*32](#).

Defendant has not raised a genuine issue of material fact regarding the copyrightability of Plaintiff's Architectural Drawings as either "technical drawings" or "architectural works." Plaintiff is entitled to summary judgment on Defendant's claim of lack of copyrightability.

#### **2. Infringement**

Plaintiff has moved for summary judgment on the issue of Defendant's infringement of its "technical drawings" copyrights. To succeed on a claim on copyright infringement, a plaintiff must establish valid copyright ownership and demonstrate actionable copying by a defendant. The "copying" inquiry comprises two separate questions. First, a plaintiff must establish factual copying. Second, a plaintiff must establish that the copying involved improper appropriation of copyrightable expression--i.e., actionable copying.

As to the first inquiry, Plaintiff must, as a factual matter, prove that Defendant "actually used the copyrighted material to create his own work." [General Universal Sys. v. Lee, 379 F.3d 131, 142 \(5th Cir. 2004\)](#). [\*108] Copying can be proven by direct or circumstantial evidence. See [Bridgmon v. Array Sys. Corp., 325 F.3d 572, 576 \(5th Cir. 2003\)](#). Circumstantial evidence must demonstrate both: (1) that Defendant had access to the copyrighted work; and (2) that the two works are "probatively" similar. [General Universal Sys. v. Lee, 379 F.3d 131, 142 \(5th Cir. 2004\)](#); [Engineering Dynamics v. Structural Software, 26 F.3d 1335, 1340-1341 \(5th Cir. 1994\)](#). The access element is satisfied if the person who created the allegedly infringing work had a reasonable opportunity to view the copyrighted work. [General Universal Sys., 379 F.3d at 142](#). The second element -- probative similarity -- requires a showing that the works, "when compared as a whole, are adequately similar to establish appropriation." *Id.* In some cases, factual copying may be proven without a showing of access "if the two works are so strikingly similar as to preclude the possibility of independent creation." *Id.*

The second inquiry determines whether the copying is legally actionable. Plaintiff must demonstrate that the copying is legally actionable by showing that the allegedly infringing work is substantially similar to protectable elements of [\*109] the infringed work. See [General Universal Sys., 379 F.3d at 142](#); [Engineering Dynamics, 26 F.3d at 1340-41](#).<sup>20</sup> Generally, one must compare the original and the copy "side-by-side" to

determine "whether a layman would view the two works as substantially similar." [General Universal Sys., 379 F.3d at 142](#). The "substantial similarity" determination is typically left to the ultimate factfinder, but "summary judgment may be appropriate if the court can conclude, after viewing the evidence and drawing inferences in a manner most favorable to the nonmoving party, that no reasonable juror could find substantial similarity of ideas and expression." *Id.*

20 "We note that this court stated in [Eng'g Dynamics, Inc., 26 F.3d at 1340-1341](#), and again in [King v. Ames, 179 F.3d 370, 375-76 \(5th Cir. 1999\)](#), that with respect to factual copying the test is 'probative similarity' (if relying on circumstantial evidence of copying) and that the test for actionable copying is 'substantial similarity.' See also [Peel & Co. v. Rug Mkt., 238 F.3d 391, 397-98 \(5th Cir. 2001\)](#) (analyzing probative similarity and substantial similarity separately). While it is possible that the same evidence will satisfy both tests, the [\*110] tests are not the same." [Bridgmon v. Array Sys. Corp., 325 F.3d 572, 577 \(5th Cir. 2003\)](#).

Plaintiff's motion for summary judgment on the issue of "technical drawings" copyright infringement cannot be granted. Plaintiff cannot conclusively establish which of its technical drawings were submitted as deposit material for its "technical drawings" copyrights. As a result, a question of material fact exists as to the scope of "copyrighted material" that may have been used by Defendant to create its own work. See [General Universal Sys. v. Lee, 379 F.3d 131, 142 \(5th Cir. 2004\)](#). Without knowing which technical drawings have been copyrighted, the Court is unable to determine questions of access, probative similarity, or substantial similarity. [Bridgmon, 325 F.3d at 577](#); [Jack Preston Wood: Design, Inc., v. BL Building Co., H-03-713, 2004 U.S. Dist. LEXIS 30511, \\*31-\\*32 \(S.D. Tex. June 22, 2004\)](#) (declining to award summary judgment on the issue of infringement when the court did not have one set of plans with which to conduct the necessary side-by-side comparison). Therefore, the Court cannot grant summary judgment to Plaintiff on the issue of infringement of its technical drawings copyrights.

#### D. [\*111] Fraud Claim

Defendant moves for summary judgment on Plaintiff's state-law claims of fraud. Specifically,

Defendant claims that two of Plaintiff's fraud claims, based on alleged misrepresentations made by Defendant Thomas in December 2003 and March 2004, are barred by the statute of limitations. As to the third fraud claim, Defendant claims that there is no evidence of any misrepresentation made by Defendant Thomas in November 2004.

A cause of action for fraud must be brought within four years after the date the cause of action accrues. [Tex. Civ. Prac. & Rem. Code § 16.004\(a\)\(4\)](#). The general rule is that actions for fraud must be commenced within four years after the fraud is perpetrated. [Buffington v. Lewis, 834 S.W.2d 601, 603 \(Tex. App.--Houston \[1 Dist.\] 1992, no writ\)](#). However, if "the fraud is concealed or is not known to the injured party," the statute of limitations begins to run when "the plaintiff knew, or exercising reasonable diligence, should have known of the wrongful act causing injury." [Buffington v. Lewis, 834 S.W.2d 601, 603 \(Tex. App.--Houston \[1st Dist.\] 1992, no writ\)](#); [BP Am. Prod. Co. v. Marshall, 288 S.W.3d 430, 452 \(Tex. App.--San Antonio 2008, pet. filed\)](#).

Defendant [\*112] is correct that, if Plaintiff was aware of the alleged fraud at the time Defendant Thomas made its alleged misrepresentations, Plaintiff's fraud claims would accrue beginning the date when the alleged misrepresentations were made. However, Defendant has not offered any evidence that Plaintiff was aware that its Architectural Drawings were being shared with Morris, Hermes, or other third-parties working on projects for which Plaintiff was not the architect. Without such a showing, the Court is not required to apply the accrual rule that requires action for fraud to be commenced within four years of the date of alleged misrepresentations instead of the discovery rule. As a result, Defendant is not entitled to summary judgment that two of Plaintiff's fraud claims are barred by the statute of limitations.

Plaintiff's third fraud claim is based on an alleged representation made by Mr. Johanson in November 2004 that Defendant Thomas needed electronic copies of Plaintiff's Architectural Drawings in order to make minor changes to the construction sites and for archival purposes. (Doc. No. 54 at ¶ 84.) Defendant argues that Plaintiff has not offered any evidence that Mr. Johanson made such a [\*113] representation in November 2004. Plaintiff directs the Court to only one piece of evidence for its claim that Mr. Johanson made this statement in

November 2004: Mr. Meijer's affidavit, subsequent to his depositions, that Mr. Johanson requested electronic copies of Plaintiff's Architectural Drawings "on several occasions." (Doc. No. 124, Exh. V at ¶ 4.) This statement, which does not provide any particulars and is otherwise unsupported by Mr. Meijer's prior deposition testimony, is insufficient to create an issue of material fact. See Poole v. Marlin Drilling Co., 592 F. Supp. 60, 63 (W.D. La. 1984) (rejecting a conclusory statement of ultimate fact made in an affidavit submitted in opposition to summary judgment); United States v. Dercacz, 530 F. Supp. 1348, 1350 (E.D.N.Y. 1982) (stating that the party opposing summary judgment must supply "supporting arguments or facts" and "concrete particulars" in order to present a genuine issue for trial). As a result, Defendant has met its burden of showing that there is no evidence in the record to support Plaintiff's claim that a misrepresentation by Defendant Thomas occurred in November 2004. Defendant's motion for summary judgment on Plaintiff's [\*114] fraud claim based on misrepresentations allegedly made in November 2004 is granted.

## E. Affirmative Defenses

Plaintiff has moved for summary judgment on all of Defendant's affirmative defenses. Defendant has cross-moved for summary judgment on some of its defenses. The Court will address each of these in turn.

### 1. Joint Authorship

Defendant moves for summary judgment on its affirmative defense that Plaintiff's copyrighted works are "joint works" and, therefore, Defendant is not liable under either the Copyright Act or the DMCA for using Plaintiff's copyrighted works. Plaintiff has cross-moved for summary judgment on this issue.

A "joint work" is a "work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole." 17 U.S.C. § 101. "Authors of a joint work are initial co-owners of the copyright in the work, and are each entitled to equal undivided interest in the whole work." Jordan v. Sony BMG Music Entm't, Inc., 637 F. Supp. 2d 442, 459 (S.D. Tex. 2008). Joint authors cannot be liable to one another for infringement. Quintanilla v. Texas Television, Inc., 139 F.3d 494 (5th Cir. 1998). Authorship is generally [\*115] a question of fact for the jury. Medforms, Inc. v. Healthcare Mgmt. Solutions, Inc.,

290 F.3d 98, 110 (2d Cir. 2002).

The mere fact of collaboration, however, does not make the collaborators "joint authors." Erickson v. Trinity Theatre, Inc., 13 F.3d 1061, 1068-69 (7th Cir. 1994). "To establish that his contributions were significant enough to make him a joint author, a party must show that he and the other party: (1) intended to create a joint work; and (2) each contributed independently copyrightable material." Janky v. Lake County Convention & Visitors Bureau, 576 F.3d 356, 361 (7th Cir. 2009); Thomson v. Larson, 147 F.3d 195, 200 (2d Cir. 1998). In the context of architectural works, courts have recognized that, although the "client, the developer, the engineer, and the ultimate inhabitants of a project, may have a voice in the design process . . . only in unusual circumstances will someone other than the architect be the author, the one to give spatial expression to the design ideas." Fairview Dev. Corp. v. Aztex Custom Homebuilders, LLC, Case No. CV-07-0337-PHX-SMM, 2009 U.S. Dist. LEXIS 16501, \*13 (D. Ariz. Mar. 2, 2009). "[N]ormal client participation does not transform a client [\*116] into an author or joint author of an architectural work." 2009 U.S. Dist. LEXIS 16501, [WL] at \*13-\*14; M.G.B. Homes v. Ameron Homes, 903 F.2d 1486, 1493 (11th Cir. 1990) (finding that a client's provision of a thumbnail sketch of a floor plan to his architect did not render the client an "author" of the architectural plans because there was no intent that the sketch become part of the finished expression).

Neither party is entitled to summary judgment at this stage of the proceedings because questions of material fact exist regarding joint authorship. The viability of Defendant Thomas's claim of joint authorship rests on, first, a showing that it made independently copyrightable contributions to Plaintiff's works. However, the parties dispute whether Defendant Thomas gave Plaintiff original site plans, floor plans, and elevation drawings it generated in-house, or simply drawings and surveys from third-party consultants and vendors.<sup>21</sup> (Compare Labeff Depo. 25-26, 73-75, 137-38, 169 with Meijer I Depo. at 41, 45; Meijer II Depo. at 443-44, 483, 506, 526; Meijer III Depo. at 43, 49-50, 61, 62, 66.) Without knowing the scope of Defendant Thomas's contributions to Plaintiff's Architectural Drawings, the Court cannot [\*117] make a determination of whether these contributions, if any, were independently copyrightable. See Guillot-Vogt, Assocs., Inc., 848 F. Supp. at 689 (denying summary judgment due to questions of authorship raised by defendant's

provision of drawings to plaintiff).

21 Defendant appears to argue also that Plaintiff's claim of sole authorship is defeated because of its inclusion of third-party and consultants drawings in its Architectural Drawings. (Doc. No. 119, Exh. G.) However, Defendant Thomas' claim of joint authorship cannot rest on purported contributions by parties other than itself. Therefore, the Court will not consider the contributions of third-parties and consultants when analyzing the question of Defendant Thomas's joint authorship of Plaintiff's Architectural Drawings.

Second, the parties dispute whether both Plaintiff and Defendant Thomas intended to be joint authors. "[T]he intent prong does not have to do with the collaborators' intent to recognize each other as coauthors for purposes of copyright law; the focus is on the parties' intent to work together in the creation of a single product, not on the legal consequences of that collaboration." [Janky](#), 576 F.3d at 362 (quoting [\*118] [Erickson](#), 13 F.3d at 1068-69). Defendant contends that the requisite intent is shown through Defendant Thomas's high level of decision-making authority over content and revisions to the Speedy Stop store designs. Further, Defendant claims that Plaintiff also intended to share authorship of its plans by failing to obtain signed Design Proposals asserting Plaintiff's sole authorship and ownership of its Architectural Drawings. Plaintiff contends that its intent to be sole author of its Architectural Drawings is shown by the title block and "scope of the document" language contained on its drawings. Further, Plaintiff challenges the level and nature of Defendant Thomas's participation in the design process, arguing that provision of third-party and consultant drawings does not transform Defendant Thomas into joint author. The Court acknowledges that "[a]n important indicator of authorship is a contributor's decisionmaking authority over what changes are made and what is included in a work." [Thomson v. Larson](#), 147 F.3d 195, 202-03 (2d Cir. 1998). Here, the parties have offered differing factual accounts of the nature and scope of Defendant Thomas's involvement in the design process such [\*119] that a jury could properly enter a verdict in favor of Plaintiff, the nonmovant. Therefore, the Court cannot grant summary judgment to either party on Defendant Thomas's status as a joint author of the copyrighted works.

## 2. Implied Nonexclusive License

Defendant has moved for summary judgment on its affirmative defense that Plaintiff granted Defendant Thomas an implied nonexclusive license to copy or distribute Plaintiff's Architectural Drawings. Thus, Defendant argues, it is not liable for either copyright infringement or violations of the DMCA. Violations of the DMCA require that a defendant know or have reason to know that removal of copyright management information would "induce, enable, facilitate, or conceal an infringement" of any right under copyright law. [17 U.S.C. § 1202\(b\)](#); [Gordon v. Nextel Communications](#), 345 F.3d 922, 927 (6th Cir. 2003). Plaintiff has cross-moved for summary judgment on the basis that Defendant did not plead this defense.

[Rule 8\(c\)](#) requires a party to set forth all affirmative defenses in a responsive pleading. [Fed. R. Civ. P. 8\(c\)](#). "Generally, an affirmative defense not pled is considered waived." [Marine Overseas Svcs., Inc. v. Crossocean Shipping Co.](#), 791 F.2d 1227, 1233 (5th Cir. 1986). [\*120] However, "where the matter is raised in the trial court in a manner that does not result in unfair surprise, . . . technical failure to comply precisely with [Rule 8\(c\)](#) is not fatal." [Lafreniere Park Found. v. Broussard](#), 221 F.3d 804, 808 (5th Cir. 2000) (quoting [United States v. Shanbaum](#), 10 F.3d 305 at 312). If the affirmative defense is raised at a pragmatically sufficient time, and the party opposing the defense is not prejudiced in its ability to respond, a court may hold that the defense is not waived. [Rogers v. McDorman](#), 521 F.3d 381, 386 (5th Cir. 2008); [United States v. Shanbaum](#), 10 F.3d 305, 312 (5th Cir. 1994).

Defendant first unambiguously raised the issue of being granted a license or permission by Plaintiff in the deposition of Marcel Meijer on January 15, 2010, when Mr. Meijer was asked whether Defendant Thomas "had either an express license from you wherein you said it's okay for you to do that or an implied one that they did it; they sent it to you; and you never said anything about it, right?" (Meijer III Depo. at 218.) At the time of Mr. Meijer's Deposition, the close of discovery was one month away on February 15, 2010. (Doc. No. 56.) Plaintiff, along with Defendant, [\*121] twice moved for an extension of time to conclude expert discovery, both of which were granted. (Doc. Nos. 88, 96.) Defendant filed the present motion for summary judgment on April 5, 2010, and Plaintiff has had ample time to respond to

the license defense and prepare for trial on November 8, 2010. Further, Plaintiff has not identified any prejudice that has resulted from Defendant's late-raised license defense. Therefore, the Court declines to find that Defendant has waived the license defense.

Turning to the defense itself, courts have held that the existence of an implied license to use the copyright for a particular purpose precludes a finding of infringement. [\*Johnson v. Jones\*, 149 F.3d 494, 500 \(6th Cir. 1998\)](#). An implied nonexclusive license to use a copyrighted work need not be evidenced by a writing, but may be implied through conduct or granted orally. [\*Carson v. Dynegy, Inc.\*, 344 F.3d 446, 451 n.5 \(5th Cir. 2003\)](#). An implied nonexclusive license exists when "(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes the particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor [\*122] copy and distribute his work." [\*Lulirama Ltd. v. Access Broadcast Servs.\*, 128 F.3d 872, 879 \(5th Cir. 1997\)](#) (quoting [\*Effects Associates, Inc. v. Cohen\*, 908 F.2d 555, 558-59 \(9th Cir. 1991\)](#)). The existence of a license is an affirmative defense and a defendant bears the burden of proving its existence. [\*Lulirama Ltd.\*, 128 F.3d at 884](#).

Defendant correctly identifies the third prong of the *Lulirama* test--Plaintiff's intent--as the controlling issue here. Defendant claims that Plaintiff's intent to grant a license can be implied from Mr. Meijer's admission that he was aware of and gave Defendant Thomas permission to distribute Plaintiff's Architectural Drawings to third-party consultants and vendors. (Meijer III Depo. at 54, 92, 95, 100, 216, 220.) Mr. Meijer never complained about or objected to Defendant Thomas's use of Plaintiff's Architectural Drawings nor withdrew permission to distribute them. (Meijer III Depo. at 60, 92, 93, 102, 220.) In addition, Mr. Meijer never expected Defendant Thomas to seek Plaintiff's permission before giving a set of Plaintiff's Architectural Drawings to permitting agencies or contractors. (Meijer I Depo. at 153.)

Defendant Thomas also claims that Plaintiff's [\*123] lack of confidentiality restrictions is evidence of Plaintiff's intent to *not* restrict Defendant Thomas's ability to use and distribute Plaintiff's Architectural Drawings. Plaintiff's Design Proposals that contained language preventing Defendant Thomas from copying or distributing Plaintiff's Architectural Drawings were never signed. (Labeff Depo. at 126; Meijer I Depo. at 35, 38.)

Similarly, Defendant Thomas never signed Plaintiff's Confidentiality Agreements that, on at least one occasion, accompanied the computer disks containing Plaintiff's AutoCAD files. (Meijer I Depo. at 68.) Finally, Defendant points to the several occasions when Plaintiff transmitted hard copies and electronic copies of its drawings without ever imposing confidentiality restrictions. (Meijer I Depo. at 62-66, 70-72, 178-79.)

Plaintiff correctly notes that there is no evidence that Mr. Meijer ever consented to Defendant Thomas's use of Plaintiff's Architectural Drawings in connection with projects on which Plaintiff did not serve as the architect. (Meijer III Depo. at 95.) Neither has Defendant shown that Plaintiff ever provided permission for Defendant Thomas to share Plaintiff's works with other architects. [\*124] Plaintiff has also submitted evidence that he spoke to Defendant Thomas's personnel, Jeff Johanson and Carlton Labeff, and requested that Defendant Thomas keep Plaintiff's Architectural Drawings confidential. (Meijer I Depo. at 321.) In addition, Plaintiff points to the restrictive language contained in the unsigned Design Proposals and Confidentiality Agreements as evidence of Plaintiff's *lack* of intent to allow Defendant Thomas to copy and distribute its copyrighted works.

After considering the summary judgment evidence presented, the Court finds that Defendant has not met its burden of showing that Plaintiff intended for Defendant to copy and distribute its work. The parties' dispute turns on whether Plaintiff intended for its work to be shared with architects and third parties who did not work on Defendant Thomas's projects with Plaintiff. *See Johnson*, 149 at 501 (finding that an implied nonexclusive license did not exist because plaintiff's drawings "were used in a way he never intended"). In similar situations, courts have examined three factors to determine whether an implied nonexclusive license exists:

- (1) whether the parties were engaged in a short-term discrete transaction [\*125] as opposed to an ongoing relationship;
- (2) whether the creator utilized written contracts, such as the standard AIA contract, providing that copyrighted materials could only be used with the creator's future involvement or express permission; and
- (3) whether the creator's conduct during the creation or delivery of the copyrighted material indicated that use

of the material without the creator's involvement or consent was permissible.

[\*Nelson-Salabes, Inc. v. Morningside Dev., LLC\*, 284 F.3d 505, 514-16 \(4th Cir. 2002\)](#). Here, the first and third factors point away from the existence of an implied nonexclusive license. Plaintiff and Defendant Thomas were engaged in an ongoing relationship encompassing nine different Speedy Stop stores. In addition, nothing in Plaintiff's conduct indicated that it was aware, much less approved of, the use of its Architectural Drawings in projects on which it did not serve as an architect. The second factor is unhelpful in this case because, although Plaintiff submitted Design Proposals containing language restricting Defendant Thomas's ability to use or distribute Plaintiff's works without its permission, these documents were never signed. An application [\*126] of the factors enumerated in *Nelson-Salabes* to this case leads to the conclusion that Plaintiff did not grant an implied nonexclusive license to Defendant Thomas.

Defendant's reliance on [\*Architettura, Inc. v. DBSI Cumberland at Granbury, L.P.\*, 652 F. Supp. 2d 775 \(N.D. Tex. 2009\)](#) is misplaced. In *Architettura, Inc.*, the court did not decide the question of whether the plaintiff granted a license to the defendant because both parties in the case agreed that defendant had permission to use plaintiff's site plan during the time period in which defendant showed the site plan to a rival architect. The court instead examined whether this license was revocable or irrevocable. Here, Plaintiff disputes whether Defendant had permission to show its Architectural Drawings either to rival architects or to third-parties not involved in Plaintiff's projects.

Defendant also cites [\*Gordon v. Nextel Communications\*, 345 F.3d 922 \(6th Cir. 2003\)](#), which involved a plaintiff who did not give defendant permission to use his illustrations. The court held that the defendant could not be liable for DMCA violations because there was no evidence that the defendant knew or had reason to know that it was facilitating [\*127] or concealing an infringement. Here, however, Defendant argues that it possessed an implied nonexclusive license to use Plaintiff's Architectural Drawings. It has not argued that, even if it did not possess a license, it did not know or have reason to know that they would be facilitating an infringement of Plaintiff's copyrighted works.

Ultimately, the Court cannot conclude that the objective evidence of Plaintiff's conduct implied a license for Defendant Thomas to share Plaintiff's drawings with Morris and Hermes. The Court thus declines to grant Defendant's motion for summary judgment on the issue of an existence of an implied nonexclusive license.

### 3. Statute of Limitations

Defendant has moved for summary judgment that Plaintiff's Copyright Act claims are barred by the three year statute of limitations applicable to such claims. [See 17 U.S.C. § 507\(b\)](#). Plaintiff has cross-moved for summary judgment on this affirmative defense due to Defendant's purported failure to produce any evidence on this issue. In the Fifth Circuit, a copyright claim accrues "when [the party] knew or had reason to know of the injury upon which the claim is based." [\*Jordan v. Sony BMG Music Entm't Inc.\*, Case No. 08-20835, 354 Fed. Appx. 942, 2009 U.S. App. LEXIS 26730 \(5th Cir. Dec. 8, 2009\)](#) [\*128] (quoting [\*Pritchett v. Pound\*, 473 F.3d 217, 220 \(5th Cir. 2006\)](#)). In order for Defendant to obtain summary judgment on this issue, they must establish that that Plaintiff knew or had reason to know of the alleged copyright infringement prior to October 24, 2005 (Plaintiff filed suit on October 24, 2008). Defendant points to Plaintiff's knowledge in early 2005 that its Architectural Drawings were being used in geotechnical engineering reports. (*See, e.g.*, Meijer III Depo. at 77.) However, all of these geotechnical reports were generated in connection with projects on which Plaintiff served as the architect. (Meijer III Depo. at 77, 78, 79, 84, 91, 92, 99-100.) Plaintiff's copyright infringement claims are based not on projects where it served as an architect and received geotechnical reports, but rather on Defendant's use of Plaintiff's drawings in projects on which Plaintiff *did not* serve as architect--namely, Store Nos. 14, 86, 87, 91, 95, 102, 301, 302, 303, 305, 306, 309, 311). (Doc. No. 54 at 12-13.) Defendant has not proffered any evidence showing that Plaintiff was aware, prior to October 24, 2005, that its Architectural Drawings were being used in connection with these thirteen [\*129] stores.

Next, Defendant argues that Plaintiff knew or should be charged with constructive knowledge of the alleged infringement by Morris because Morris's design and permitting work was completed as a matter of public record by October 18, 2005. (Morris Depo. at 136-39.) The "public records" that Defendant claims put Plaintiff

on notice of the alleged infringement appear to be permits issued by state, local or municipal authorities. (Morris Depo. at 136-39.) The Copyright Act provides that "[r]ecordation of a document in the Copyright Office gives all persons constructive notice of the facts stated in the recorded document." [17 U.S.C. § 205\(c\)](#); [Jordan v. Sony BMG Music Entm't Inc.](#), 354 Fed. Appx. 942, 2009 U.S. App. LEXIS 26730 at \*8. However, the Copyright Office does not provide that public records in offices other than the Copyright Office, such as a permitting agency, can be used to charge a copyright owner with constructive notice that his or her copyright is being infringed. Copyright holders "are not obligated to seek out instances of potential infringement when they are reasonably unaware of any infringing acts." See [Jack Preston Wood: Design, Inc., v. BL Building Co.](#), Case No. H-03-713, 2004 U.S. Dist. LEXIS 30511, \*44 (S.D. Tex. June 22, 2004). [\*130] Plaintiff should not be expected to regularly comb through the permitting agencies records in order to search for potential instances of infringement. See [Warren Freedendfeld Assocs., Inc. v. Michael P. McTigue, D.V.M.](#), 531 F.3d 38, 46 (1st Cir. 2008) ("Architects have no general, freestanding duty to comb through public records . . . in order to police their copyrights."). The Court declines to charge Plaintiff with constructive notice of Morris's allegedly infringing Architectural Drawings through the public recordation of those drawings in permitting offices.

Finally, Defendant has not shown any evidence that Plaintiff was aware of Defendant Thomas's sharing of its Architectural Drawings with Hermes and Morris--the injury upon which Plaintiff's copyright infringement claims are based--prior to October 24, 2005.<sup>22</sup> Plaintiff's claim that it discovered the existence of allegedly infringing stores designed by Morris and Hermes in March 2006 is uncontroverted. Therefore, Plaintiff is entitled to summary judgment on Defendant's affirmative defense of statute of limitations and Defendant's motion on this issue is denied.

<sup>22</sup> Defendant also argues in various places in their motions that Plaintiff [\*131] was or should have been aware that Defendant Thomas would hire other architects because Plaintiff was unable to continue providing architectural services. To the extent that Defendant is charging Plaintiff with inquiry notice of the infringing activities, the Court does not find that the events here provided Plaintiff with such notice. See [Warren](#)

[Freedendfeld Assocs., Inc.](#), 531 F.3d at 45 ("There is no presumption that failed business relationships inevitably will give rise to either tortious conduct or disregard or proprietary rights.").

#### 4. Lack of Damages

Defendant moves for summary judgment on Plaintiff's damage claims under the Copyright Act and the DMCA.

First, Defendant's motion for summary judgment as to Plaintiff's claim for attorney's fees and statutory damages under the Copyright Act is denied. Plaintiff is not seeking attorney's fees or statutory damages under the Copyright Act. (Doc. No. 54 at ¶ 60.)

Second, Defendant's motion for summary judgment as to Plaintiff's claim for statutory damages under the DMCA is denied. Plaintiff has sought statutory damages under [17 U.S.C. §§ 1203\(c\)\(1\)\(B\)](#), [1203\(c\)](#) for DMCA violations as an alternative to actual damages and infringer's profits. [\*132] The DMCA provides that statutory damages may be awarded for "each violation of [section 1202](#) in the sum of not less than \$2,500 and more than \$25,000." [17 U.S.C. § 1203\(c\)\(3\)\(B\)](#). Contrary to Defendant's claim, [17 U.S.C. § 1203\(c\)\(3\)](#) does not limit the definition of "violation" to "each instance in which a copy of an infringed [work] was provided to a third party." (Doc. No. 104 at ¶ 28.) Rather, the latter language comes from a case [Goldman v. Healthcare Management Sys., Inc.](#), 559 F. Supp. 2d 853, 868 (W.D. Mich. 2008), which held, in that case, that "violation" would mean each time the defendant distributed the infringed program to hospitals. The term "violation" has also been held to mean "'each violative act performed by Defendant.'" [McClatchey v. AP](#), Case No. 3:05-cv-145, 2007 U.S. Dist. LEXIS 40416 (W.D. Pa. June 4, 2007); see also [Stockwire Research Group, Inc. v. Lebed](#), 577 F. Supp. 2d 1262, 1267 (S.D. Fla. 2008). Under the latter interpretation, Defendant's removal of Plaintiff's title block could constitute the "violation" contemplated by [17 U.S.C. § 1203\(c\)\(3\)\(B\)](#). See [Gregerson v. Vilana Fin., Inc.](#), Case No. 06-1164 ADM/AJB, 2008 U.S. Dist. LEXIS 11727, \*21 (D. Minn. Feb. 15, 2008) [\*133] (recognizing a DMCA "violation" for purposes of calculating statutory damages as Defendant's removal of a digitally embedded watermark from plaintiff's copyrighted photograph rather than Defendant's distribution of plaintiff's photograph in print and web

advertisements). Defendant cannot establish that it did not perform "violations" of the DMCA such that Plaintiff would not be entitled to statutory damages under the DMCA.

Third, Defendant's motion for summary judgment as to Plaintiff's claims for actual damages under the Copyright Act and DMCA is granted. The Copyright Act and the DMCA provide that a copyright owner may recover actual damages he or she suffers as a result of the copyright infringement. [17 U.S.C. § 504\(a\)](#); [17 U.S.C. § 1203\(c\)\(2\)](#). Defendant contends that Plaintiff is not entitled to actual damages because it has proffered no evidence that it sustained any losses due to the alleged infringement of its drawings. However, courts have construed the "actual damages" measure to include license fees that the copyright owner would have obtained for the infringer's use of the copyrighted material. See [On Davis v. The Gap, Inc., 246 F.3d 152, 166 \(2d Cir. 2001\)](#) (noting that, though [\*134] a copyright "owner may be incapable of showing a loss of either sales or licenses to third parties," the owner may be able to recover as actual damages "owner's loss of the fair market value of the license fees he might have exacted of the defendant"). Plaintiff has offered, as evidence of the license fee it might have obtained from Defendant Thomas, Mr. Meijer's affidavit stating that Plaintiff would have charged \$25,000 for each additional store or site for which its plans would be used. The Court has stricken this portion of Mr. Meijer's affidavit for the reasons explained in Part II.C.2, above. Plaintiff has offered no other evidence of the fair market value of license fees for its Architectural Drawings. Therefore, Plaintiff has failed to make a showing sufficient to establish an essential element of its claim for actual damages. Defendant is entitled to summary judgment on Plaintiff's claim for actual damages under the Copyright Act and the DMCA.

Fourth, Defendant's motion for summary judgment as to Plaintiff's claims for infringer's profits under the Copyright Act and DMCA is denied. A copyright owner is entitled to recover "infringer's profits" as a measure of damages for copyright [\*135] infringement. "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." [17 U.S.C. § 504\(b\)](#).

Plaintiff has offered evidence of Thomas's gross revenue in the form of the expert report of its damages expert, Walter Bratic. Though the Court excluded Mr. Bratic's expert opinion as to Defendant Thomas's gross revenue, Plaintiff has been allowed to provide another opinion as to the calculation of Defendant Thomas's gross revenue. (Doc. No. 175 at 12.) As a question of material fact exists as to Defendant Thomas's gross revenue attributable to the allegedly infringing activity, the Court will withhold judgment until Plaintiff's resubmission of its expert report regarding Defendant Thomas's gross revenue.

## 5. Fair Use

Plaintiff has moved for summary judgment on Defendant's affirmative defense of fair use. In determining whether use of copyrighted material constitutes fair use, courts must apply four factors: (1) the purpose and character of the use, including whether such [\*136] use is of commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. [17 U.S.C. § 107](#); [Campbell v. Acuff-Rose Music, 510 U.S. 569, 577, 114 S. Ct. 1164, 127 L. Ed. 2d 500 \(1994\)](#).

The first factor weighs against a finding of fair use since Defendant's alleged use of Plaintiff's copyrighted material was strictly for commercial purposes. See [Compaq Computer Corp. v. Ergonome Inc., 387 F.3d 403, 409-10 \(5th Cir. 2004\)](#) (stating that commerciality generally weighs against a finding of fair use). Defendant has admitted that its use was for commercial purposes. (Doc. No. 121 at 11.) Where the primary use of the copyrighted work is for a commercial purpose, the use is "presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright," and the central question is "whether the user stands to profit from the exploitation of the copyrighted material without paying the customary price." [Thomas M. Gilbert Architects, P.C. v. Accent Builders & Developers, LLC, 629 F. Supp. 2d 526, 533 \(E.D. Va. 2008\)](#) [\*137] (omitting citations), *aff'd*, [377 Fed. Appx. 303, 2010 U.S. App. LEXIS 9299 \(4th Cir. 2010\)](#).

The second factor--the nature of the copyrighted material--also weighs against a finding of fair use. Creative or fictional works receive more protection than

non-fictional or factual works. [\*Thomas M. Gilbert Architects, P.C. v. Accent Builders & Developers, LLC\*, 629 F. Supp. 2d 526, 534 \(E.D. Va. 2008\)](#). Architectural designs and drawings have been held to be creative works. *Id.* Defendant has not offered any factual or legal support for considering architectural works or drawings non-creative works. This factor also weighs against a finding of fair use.

The third factor--the amount and substantiality of the portion used in relation to the copyrighted work as a whole--cannot be applied one way or another because Defendant contends in its opposition to Plaintiff's motion for summary judgment on the fair use defense that it did not use Plaintiff's copyrighted work.

The fourth factor--the effect of the use upon the potential market for or value of the copyrighted work--weighs against a finding of fair use here. The parties correctly note that this factor is the most important of the four. [\*Compaq Computer Corp. v. Ergonome Inc.\*, 387 F. 3d 403, 410 \(5th Cir. 2004\)](#). [\*138] "This factor requires courts to consider not only actual harm to the market for the original, but also whether widespread use of the work, like the sort complained of by the copyright-holder, would impair the potential market for the original work and any derivative works." *Id.* Defendant will have the burden at trial of showing that its alleged commercial use of Plaintiff's Architectural Drawings did not have a significant effect upon the market for or value of the drawings. However, Defendant has not shown that its use of Plaintiff's Architectural Drawings did not significantly impact Plaintiff's ability to sell or license its works. In fact, Defendant acknowledges that Plaintiff's primary business is the design of convenience stores. (Meijer I Depo. at 100-02.) Defendant's argument that Plaintiff's market was not harmed because it did not have the ability to handle its work is also unavailing. Even if Plaintiff was unable to draft new Architectural Drawings itself, Plaintiff would have been able to license the pre-existing Architectural Drawings to Defendant Thomas. Defendant Thomas's alleged commercial use of the plans--sharing them with Morris and Hermes--impaired Plaintiff's ability [\*139] to derive licensing fees from Defendant Thomas for this use.

Considering all of these four factors together, the Court finds that Defendant Thomas has not shown the existence of essential elements of the fair use defense and

that Plaintiff is entitled to summary judgment on this affirmative defense.

## 6. Estoppel

Plaintiff has moved for summary judgment on Defendant's affirmative defense of estoppel because of Defendant's failure to produce evidence regarding any of the elements of estoppel. Under the doctrine of estoppel, a plaintiff is barred from bringing a copyright infringement claim against a defendant if: (1) plaintiff knew about defendant's infringing conduct; (2) plaintiff must intend that its conduct shall be acted on, or must so act that the defendant has a right to believe that it is so intended; (3) defendant was ignorant of the true facts; and (4) defendant relied on plaintiff's conduct to its detriment. [\*Carson v. Dynegy, Inc.\*, 344 F.3d 446, 453 \(5th Cir. 2003\)](#).

In order for Defendant to survive summary judgment, it must identify a genuine issue of material fact. Where, as here, the Defendant will have the burden of proof at trial on the essential elements of the estoppel defense, [\*140] it must make a showing sufficient to establish the existence of the essential elements. Defendant has not shown sufficient evidence that Plaintiff was aware of Defendant Thomas's sharing of Plaintiff's Architectural Drawings with parties not involved on Plaintiff's projects. There is no genuine issue of material fact that exists regarding Plaintiff's specific knowledge of Morris's and Hermes's use of its Architectural Drawings. Therefore, Plaintiff is entitled to summary judgment on the first element of estoppel. Since all four elements of the estoppel defense are required, Plaintiff is entitled to summary judgment on the estoppel defense as a whole.

## 7. Laches

Plaintiff has moved for summary judgment on Defendant's affirmative defense of laches. "To establish that a cause of action is barred by laches, the defendant must show (1) a delay in asserting the right or claim; (2) that the delay was not excusable; and (3) that there was undue prejudice to the defendant." [\*Goodman v. Lee\*, 78 F.3d 1007, 1014 \(5th Cir. 1996\)](#). "Generally speaking, the relevant delay is the period from when the plaintiff knew (or should have known) of the allegedly infringing conduct, until the initiation of the [\*141] lawsuit in which the defendant seeks to counterpose the laches defense." [\*Jacobsen v. Deseret Book Co.\*, 287 F.3d 936](#),

[949 \(10th Cir. 2002\)](#) (quoting [Danjaq LLC v. Sony Corp.](#), 263 F.3d 942, 952 (9th Cir. 2001)). The Fifth Circuit has not addressed whether the laches defense applies in a case where the copyright owner files suit within the three-year statute of limitations applicable to copyright infringement claims. However, other circuits have acknowledged that courts should defer to the statute of limitations rather than decide copyright infringement cases on the issue of laches. See, e.g., [Jacobsen v. Deseret Book Co.](#), 287 F.3d 936, 950 (10th Cir. 2002); [Lyons P'ship, L.P. v. Morris Costumes, Inc.](#), 243 F.3d 789, 798 (4th Cir. 2001); [Jack Preston Wood: Design, Inc.](#), 2004 U.S. Dist. LEXIS at \*45-\*47. In rare cases, "a statute of limitations can be cut short by the doctrine of laches . . ." [Jacobsen v. Deseret Book Co.](#), 287 F.3d 936, 951 (10th Cir. 2002).

The Court has already issued summary judgment in favor of Plaintiff on the issue of whether Plaintiff filed its copyright infringement claim within the three-year statute of limitations. Defendant has not presented evidence of extraordinary [\*142] circumstances that would warrant the imposition of the laches defense. Plaintiff discovered the alleged infringement in March 2006. Plaintiff wrote to Defendant Thomas in June 2006 about the alleged infringement and asked Defendant Thomas to refrain from releasing Plaintiff's Architectural Drawings to any other architectural firm without Plaintiff's written approval. (Doc. No. 104, Exh. O at 65.) Plaintiff registered its "architectural works" and "technical drawings" copyrights between June 2006 and October 2007. (*Id.* at 103-08.) The approximately year-long delay between the copyright registration process and filing of suit appears due to Plaintiff's interaction with its counsel. (Meijer I Depo. at 25-27.) There is nothing remarkable in Plaintiff's conduct requiring the Court to shorten the statute of limitations by applying the laches defense. Finally, Defendant has not shown how it was prejudiced by Plaintiff's filing of suit in October 2008. Therefore, Plaintiff is entitled to summary judgment on this affirmative defense.

## 8. Innocent Infringement

Plaintiff has moved for summary judgment on Defendant's affirmative defense of innocent infringement. The use of the innocent infringement [\*143] defense for claims brought under the Copyright Act differs from its use in alleged violations of the DMCA.

With respect to claims brought under the Copyright

Act, innocent infringement is not an affirmative defense to liability for infringement of works created after March 1, 1989. [Bryce & Palazzola Architects & Assocs. v. A.M.E. Group](#), 865 F. Supp. 401, 405 (E.D. Mich. 1994). Innocent infringement remains an affirmative defense to an award of statutory damages under [17 U.S.C. § 504\(c\)](#) for copyright infringement. Here, Plaintiff has not asserted a claim for statutory damages for copyright infringement. Therefore, Defendant cannot assert innocent infringement as an affirmative defense to either liability or statutory damages for copyright infringement.

With respect to DMCA claims, innocent infringement can be an affirmative defense to the award of statutory damages under [17 U.S.C. § 1203\(c\)\(5\)](#). Defendant has proffered sufficient evidence that a jury might reasonably conclude that its removal of Plaintiff's title block from its Architectural Drawings was done without knowledge that such removal constituted a violation of the DMCA. Therefore, Plaintiff is not entitled to summary judgment [\*144] as to Defendant's affirmative defense of innocent infringement to Plaintiff's DMCA claims.

## 9. Unclean Hands

Plaintiff has moved for summary judgment on Defendant's affirmative defense of unclean hands. In order for the equitable doctrine of "unclean hands" to apply, the plaintiff's misconduct must "in some measure affect the equitable relations between the parties in respect of something brought before the court for adjudication." [Mitchell Bros. Film Group v. Cinema Adult Theater](#), 604 F.2d 852, 863 (5th Cir. 1979), cert. denied, 445 U.S. 917, 100 S. Ct. 1277, 63 L. Ed. 2d 601 (1980) (quoting [Keystone Driller Co. v. General Excavator Co.](#), 290 U.S. 240, 245, 54 S. Ct. 146, 78 L. Ed. 293, 1934 Dec. Comm'r Pat. 639 (1933)). The plaintiff's conduct must personally injure the defendant. *Id.* (quoting [Lawler v. Gilliam](#), 569 F.2d 1283, 1294 (4th Cir. 1978)). "The defense is rarely effective and is properly denied when the "plaintiff's transgression is of an . . . inconsequential nature." [Los Angeles News Service v. Tullo](#), 973 F.2d 791, 799 (9th Cir. 1992) (omitting citations). The application of the unclean hands doctrine raises primarily a question of fact. *Id.*

Defendant contends that Plaintiff's purposeful errors in the copyright registration process, failure to disclose that its [\*145] work was copied from a third party, misstatements in authorship, and failure to disclose that

its work was a derivative work are all wrongful acts that bar Plaintiff's recovery under the clean hands doctrine. The Court has already resolved all of these issues in favor of Plaintiff. Plaintiff is entitled to summary judgment on the unclean hands defense.

#### **10. Failure to Identify Portions of Infringed Copyrighted Works**

Plaintiff moves for summary judgment on Defendant's affirmative defense of failure to identify portions of infringed copyrighted works. Defendant acknowledges that "failure to identify portions of infringed copyrighted works" is not an affirmative defense but claim that it is Plaintiff's burden of proof at trial. Plaintiff contends that it is not required to identify portions of its copyrighted works because, under the substantial similarity test, the fact finder is required to review the work as a whole without dissection to judge the total concept and feel of the structure. In the Fifth Circuit, the "substantial similarity" test requires the plaintiff to "demonstrate that the copying is legally actionable by showing that the allegedly infringing work is substantially similar [\*146] to *protectable* elements of the infringed work." [\*General Universal Sys. v. Lee\*, 379 F.3d 131, 142 \(5th Cir. Tex. 2004\)](#) (emphasis added). Therefore, Plaintiff bears a burden of identifying the protectable elements of its Architectural Drawings and presenting evidence that Defendant's Architectural Drawings are substantially similar to those elements. The Court withholds summary judgment on the issue of Plaintiff's failure to identify portions of infringed copyrighted works.

#### **11. De Minimis Infringement**

Plaintiff moves for summary judgment on Defendant's affirmative defense of de minimis infringement. "To establish that the infringement of a copyright is de minimis, and therefore not actionable, the alleged infringer must demonstrate that the copying of the protected material is so trivial as to fall below the quantitative threshold of substantial similarity, which is always a required element of actionable copying." [\*Sandoval v. New Line Cinema Corp.\*, 147 F.3d 215, 217 \(2d Cir. 1998\)](#) (omitting quotations).

As stated above, genuine issues of material fact exist as to which technical drawings within Plaintiff's Architectural Drawings were copyrighted. Further, there are factual issues in dispute [\*147] regarding the

substantial similarity of Plaintiff's "architectural works" material and Defendant's Architectural Drawings. Therefore, the Court cannot conclude that Defendant has shown no evidence that its potential use of Plaintiff's protected material is below the de minimis level. Plaintiff's motion for summary judgment on this issue is denied.

#### **12. Failure to Mitigate Damages**

Plaintiff moves for summary judgment on Defendant's affirmative defense that Plaintiff failed to mitigate its damages. Plaintiff first suggests that courts have never recognized a failure to mitigate as a defense in a copyright infringement case. However, a brief search of the case law yields exactly such cases. See [\*Tingley Sys. v. Healthlink, Inc.\*, 509 F. Supp. 2d 1209, 1219 \(M.D. Fla. 2007\)](#); [\*Frank Betz Assocs. v. J.O. Clark Constr., L.L.C.\*, Case No. 3:08-cv-00159, 2010 U.S. Dist. LEXIS 53437 \(M.D. Tenn. May 30, 2010\)](#); [\*Software Publs. Ass'n v. Scott & Scott, LLP\*, Case No. 3:06-CV-0949-G, 2007 U.S. Dist. LEXIS 59814 \(N.D. Tex. Aug. 15, 2007\)](#).

Second, Plaintiff claims that Defendant has not adduced evidence to support this defense. In response, Defendant cites as evidence Plaintiff's discovery of the allegedly [\*148] wrongful activity in March 2006 and failing to do anything for over two years until the initiation of this lawsuit in October 2008. The Court finds that a genuine issue of material fact exists regarding whether Plaintiff properly mitigated the damages it is requesting for copyright infringement, DMCA violations, and fraud claims. Therefore, Plaintiff is not entitled to summary judgment as to Defendant's affirmative defense of failure to mitigate damages.

#### **13. Fraud on Copyright Office**

Plaintiff moves for summary judgment on Defendant's defense of fraud on the Copyright Office. As explained in Part IV.C.1, above, Defendant has not been able to show that there are genuine issues of material fact relating to Plaintiff's errors in copyright registration, nor that, as a legal matter, Plaintiff committed fraud on the Copyright Office. Therefore, the Court grants Plaintiff's motion for summary judgment as to this defense.

#### **14. Impermissible Taking**

Plaintiff has moved for summary judgment on Defendant Thomas's defense of impermissible taking.

Defendant Thomas has clarified that this defense would only be applicable in the event that a jury awards punitive damages on Plaintiff's fraud claim. The [\*149] Court withholds summary judgment on this defense.

### **15. Failure to State a Claim**

Plaintiff moves for summary judgment on the defense that Plaintiff has failed to state a claim under [Rule 12\(b\)\(6\)](#). This defense was raised by Hermes, which is no longer a defendant in this case. Therefore, Plaintiff is entitled to summary judgment on this defense.

### **16. Intervening Third Parties**

Plaintiff is entitled to summary judgment on the defense of "intervening third parties" as this defense has no applicability to copyright infringement and was raised with respect to the now-dismissed trade secret misappropriation claims.

### **17. Comparative Responsibility**

Plaintiff moves for summary judgment on Defendant Thomas's affirmative defense of comparative responsibility. Both parties acknowledge that this defense is inapplicable to copyright infringement claims. As for the fraud claim, Defendant Thomas is correct in stating that comparative responsibility is an affirmative defense under Texas law. However, Defendant Thomas has not identified the facts that would support such a defense. See [Celotex, 477 U.S. at 323-24](#) (the nonmoving party must go beyond the pleadings and designate specific facts showing that there is [\*150] a genuine issue for trial). Therefore, the Court grants summary judgment to Plaintiff on the affirmative defense of comparative responsibility.

### **18. Sufficient Resources**

Plaintiff has moved for summary judgment on the issue of "sufficient resources." Plaintiff and Defendant Thomas agree that there is no affirmative defense of "sufficient resources." Defendant Thomas states that the issue of sufficient resources relates to its defenses of limitations, estoppel and laches since Plaintiff knew that it did not have the manpower to meet Defendant Thomas's requirements and was on notice that other Speedy Stop stores would be built and other architects would be used. Insofar as "sufficient resources" is asserted as a separate defense, the Court grants summary

judgment to Plaintiff on this defense.

### **19. Reasonable and Necessary Attorney's Fees**

The parties agree that Defendant Thomas's defense of reasonable and necessary attorney's fees is not an affirmative defense. The Court grants summary judgment to Plaintiff as to the affirmative defense of reasonable and necessary attorney's fees.

### **20. Defenses Related to Trade Secret Misappropriation**

The Court grants summary judgment to Plaintiff as to the affirmative [\*151] defenses asserted by Defendant with respect to Plaintiff's trade secret misappropriation claims. These claims were dismissed by agreement and stipulation of the parties.

## **V. MOTION FOR DISCOVERY SANCTIONS**

Plaintiff has moved for discovery sanctions against Defendant Thomas due to Defendant Thomas's alleged failure to cooperate in the production of documents, responses to interrogatories, and appropriate disclosures (Doc. No. 114). This motion was originally filed on April 13, 2010. Defendant Thomas responded on April 23, 2010. After a hearing on the motion, the Court issued an order on May 5, 2010 permitting Plaintiff to conduct an additional deposition of Jeff Johanson, permitting Plaintiff to identify financial information it believed that Defendant Thomas previously had failed to make available, requiring Defendant Thomas to make such financial information available for Plaintiff's inspection, and allowing the parties to file supplemental briefs. The parties have filed supplemental briefs and the motion is ripe for disposition. The imposition of sanctions for failure to cooperate in discovery is within the sound discretion of the district court. See [Tollett v. City of Kemah, 285 F.3d 357, 363 \(5th Cir. 2002\)](#) [\*152] (citations omitted). The Court turns to each of the discovery disputes raised by Plaintiff.

#### **A. Production of Responses to Plaintiff's Interrogatories 1-4**

Plaintiff seeks sanctions because Defendant's responses to Plaintiff's Interrogatories #1-4 occurred on March 30, 2010, over 30 days after this Court's order on February 25, 2010 requiring Defendant Thomas to turn over responsive information. Defendant Thomas correctly

points out that the Court's February 25th order contained no deadline for response. Further, a review of Defendant Thomas's response suggests that the process of obtaining the information requested was intensive. Defendant Thomas's delay in producing responsive documents cannot serve as the basis for sanctions.

Plaintiff also seeks sanctions because Defendant Thomas's responses did not include information about how potentially-infringing architectural documents were used or modified, and the purpose of any modification. Defendant Thomas responds that the reason that such information was not included is because Defendant Thomas is not aware of any modification by third-parties of the architectural drawings it sent to those third parties. To the extent that Defendant Thomas [\*153] wishes to rely on claims that third-parties, including Morris and Hermes, *did or did not* modify architectural drawings that they were sent by Defendant Thomas, it is barred from relying on such evidence since it has maintained that it does not possess information about the drawings' modification or lack thereof.

#### **B. Preclusion Order barring Defendant Thomas's Affirmative Defenses**

The Court again declines to award sanctions on the basis that Defendant Thomas's identification of the factual bases of its affirmative defenses was late, because the Court did not set a deadline for response in its February 25th order. As for Plaintiff's argument that Defendant Thomas did not respond in good faith, the Court's order simply required Defendant Thomas to "identify the primary documents on which [Defendant] rely to support the identified affirmative defenses. It will be understood that the documents identified will not be an exhaustive list, but should provide Interplan with notice of the factual basis for these affirmative defenses." (Doc. No. 93 at 2.) Therefore, Defendant Thomas's provision of a list of Bates-numbered documents comports with the Court's order. To the extent that Defendant Thomas [\*154] raises an affirmative defense not based on the list of Bates-numbered documents provided to Plaintiff on March 30, 2010, the Court will strike such defenses.

#### **C. Order in Limine Barring Defendant Thomas from Relying on Financial Summaries**

Plaintiff argues that Defendant Thomas should be prevented from presenting and relying upon the financial

summaries Thomas prepared as evidence of deductible expenses related to the gross revenue of the Speedy Stop Stores. Plaintiff's first basis for this request is unsupported by fact. Plaintiff claims that Defendant Thomas did not make the "backup" or documents underlying the financial summaries available in a timely manner. Plaintiff refers to an email dated March 22, 2010 in which it requested production of the underlying documents. However, this Court's February 25th order denied Plaintiff's motion to compel the production of documents and stated that, if Plaintiff wished to inspect the summaries' underlying documents, the Defendant only had to make these documents available at its offices for Plaintiff's inspection and limited duplication. Plaintiff's March 22nd email makes no request to access and inspect Defendant Thomas's underlying documents [\*155] and instead asks for production of these documents. It appears that Plaintiff, not Defendant Thomas, is the party who has not complied with the Court's February 25th order. Plaintiff's inability to conduct a meaningful audit of Defendant Thomas's invoices appears to be due to its own failure to go to Defendant Thomas's offices rather than any purported deficiency in Defendant Thomas's financial summaries.

Plaintiff's second basis for barring Defendant Thomas's introduction of the financial summaries at trial is that these summaries are, in fact, summaries of summaries and inadmissible under [Federal Rule of Evidence 1006](#). In response to Plaintiff's request for intermediate summaries, Defendant Thomas produced "intermediate level" summaries after this Court's order on May 5, 2010. Plaintiff contends that these "intermediate level" summaries are still improper under [Rule 1006](#). The Court fails to understand what is improper about these summaries and will withhold ruling on this issue until Defendant Thomas attempts to introduce such evidence at trial.

#### **D. Preclusion Order Barring Defendant Thomas from Offering Evidence of Attribution of Revenue to Third-Party**

Plaintiff argues [\*156] that Defendant Thomas should be prevented from offering any evidence that the gross revenues from the Speedy Stop stores are captured by a third-party, such as Speedy Stop Food Stores, LLC, that is not a party to this case. Defendant Thomas has argued in its Motion for Summary Judgment that Thomas only designed and constructed the Speedy Stop stores,

but that they are actually owned and operated by Speedy Stop Stores, LLC, a non-party to this litigation. Therefore, Defendant Thomas attempts to disclaim any gross revenue obtained by Speedy Stop Food Stores, LLC, as a way to calculate Defendant Thomas's "infringer's profits" under the Copyright Act and DMCA.

Plaintiff's first argument, that Defendant Thomas failed to timely disclose the existence of Speedy Stop Food Stores, LLC, does raise concerns about Defendant's behavior. On December 5, 2008, Defendant Thomas filed its original answer, in which it clearly stated, "Defendant does not operate Speedy Stop Food Stores. Speedy Stop Food Stores, LLC ("Speedy Stop" herein), formerly known as Speedy Stop Food Stores, Ltd. is in the business of operating Speedy Stop Food Stores. C.L. Thomas, Inc. is Speedy Stop's Manager. Speedy Stop is in [\*157] the business of designing and constructing convenience stores, and C.L. Thomas, Inc. acts in its role as manager." (Doc. No. 12 at ¶ 19.) Its corporate disclosure statement, made on December 10, 2008, stated, "Defendant, C.L. Thomas, Inc. is not aware of any other entities that are financially interested in the outcome of this litigation. Other than Speedy Stop Food Store, LLC, a Texas limited liability company, of which C.L. Thomas, Inc. is the Manager." (Doc. No. 13 at ¶ 3.) Despite these earlier disclosures, Defendant Thomas stated in response to a question on the Joint Discovery/Case Management Plan ("List anticipated additional parties that should be included, when they can be added, and by whom they are wanted.") that "Defendant is unaware of any additional parties at this time." Similarly, in its responses to Plaintiff's motion to compel information about the gross revenues of the Speedy Stop stores, Defendant Thomas did not mention that this gross revenue was actually captured by Speedy Stop Food Stores, LLC. (Doc. Nos. 35, 38.) In September 2009, Plaintiff filed a motion for leave to file a first amended complaint, but did not seek to include Speedy Stop Food Stores, LLC as [\*158] a new defendant. (Doc. No. 51.) Subsequently, Defendant Thomas produced financial information that clearly stated "Speedy Stop Food Stores, LLC" on top of each page. In November 2009, Defendant Thomas filed its first amended answer, in which it once again stated that it did not own the Speedy Stop stores, but that Speedy Stop Food Stores, LLC operated the stores. (Doc. No. 70 at ¶ 19.) Both the expert reports of Defendant's financial experts, James Mandel and Jeff Johanson, referred to financial summaries that contained the words "Speedy Stop Food

Stores, LLC" on top of each page. After reviewing these events in detail, the Court concludes that Defendant Thomas's behavior, while less than forthcoming, did not constitute active concealment or delay that is sanctionable.

Plaintiff next claims that the corporate formalities that distinguish Defendant Thomas from related business entities, such as Speedy Stop Food Stores, LLC, and Speedy Stop Food Stores, Ltd., should be ignored. Prior to June 29, 2007, Speedy Stop Food Stores, Ltd., a limited partnership, existed to own the real estate and capture the revenue from the Speedy Stop stores. Defendant Thomas was the sole general partner in [\*159] Speedy Stop Food Stores, Ltd. Though Plaintiff correctly points out that, as a general partner, Defendant Thomas would be liable for any damages or obligations incurred by Speedy Stop Food Stores, Ltd., Plaintiff has not provided legal support for the opposite principle--that Speedy Stop Food Stores, Ltd. is responsible for the obligations of its general partner. It is the latter legal rule that is applicable here. Liability for copyright infringement, DMCA violations, and fraud in the present lawsuit turn on Defendant Thomas's conduct. Therefore, any award of damages will be awarded against Defendant Thomas, for which Speedy Stop Food Stores, Ltd. is not responsible.

On June 29, 2007, Speedy Stop Food Stores, Ltd. was merged into Speedy Stop Food Stores, LLC. Defendant Thomas is a manager and member of Speedy Stop Food Stores, LLC and owns 1% of the limited liability company. Plaintiff argues that the court should disregard the distinction between Defendant Thomas and Speedy Stop Food Stores, LLC because both are considered a combined entity, have combined financial reporting, have the same employees, and are ultimately both owned by Cliff and Cathy Thomas. However, two of the three [\*160] cases that Plaintiff cites in support of the alter ego doctrine are no longer good law, having been superseded by statute. Rather, application of the alter ego theory in Texas requires a showing that the owner "caused the corporation to be used for the purpose of perpetrating and did perpetrate an actual fraud on the obligee primarily for the direct personal benefit of the . . . owner." See [Tex. Bus. Corp. Act Ann. art. 2.21\(A\)\(2\)](#) (Vernon 2003); [Tex. Bus. Org. Code ¶ 21.223](#); [Solutioneers Consulting, Ltd. v. Gulf Greyhound Partners, Ltd., 237 S.W.3d 379, 387 \(Tex. App. Houston 14th Dist. 2007\)](#). After taking the additional deposition of

Mr. Johanson, Plaintiff has not offered evidence that Speedy Stop Food Stores, LLC was created for the purpose of wrongful conduct. At most, its creation appears to have been for the purpose of "reduc[ing] franchise taxes." (Deposition of Jeff Johanson on May 14, 2010 at 133.) The Court cannot attribute the revenue of Speedy Stop Food Stores, LLC to Defendant Thomas on the basis of the alter ego theory.

The Court notes, however, that Plaintiff's claim for infringer's profits may not be completely foreclosed. In his deposition, Mr. Johanson acknowledged [\*161] that Defendant Thomas possesses a 1% ownership interest in Speedy Stop Food Stores, LLC that is reflected on K-1 IRS form since the LLC is treated like a partnership.

#### **E. Attorneys' Fees and Expenses**

The Court has not found any of Plaintiff's requests for discovery sanctions to be meritorious and therefore declines to award attorneys' fees and expenses.

#### **VI. MOTIONS FOR RULE 11 SANCTIONS AND ATTORNEYS' FEES AND COSTS**

The Court defers Defendant's Motion for Sanctions Pursuant to [Rule 11](#) (Doc. No. 157) and Defendant's Rule 54(d) Motion for Attorney's Fees and Costs Under the Texas Theft Liability Act (Doc. No. 105).

#### **VII. CONCLUSION**

Based on the foregoing, it is hereby **ORDERED** that:

1. Plaintiff's Motion for Partial Summary Judgment for Infringement of Technical Drawings Copyrights (Doc. No. 108) is **DENIED**;

2. Plaintiff's Motion for Partial Summary Judgment (Ownership of Valid Architectural Works Copyrights (Doc. No. 110) is **DENIED**;

3. Plaintiff's Motion for Partial Summary Judgment on Defendant's Affirmative Defenses (Doc. No. 111) is **GRANTED IN PART** and **DENIED IN PART**:

a. Plaintiff is entitled to summary judgment on the defenses of lack of copyrightability, statute of limitations, estoppel, laches, [\*162] unclean hands, fair use, fraud on Copyright Office, failure

to state a claim, intervening third parties, comparative responsibility, sufficient resources, reasonable and necessary attorney's fees, and defenses related to trade secret misappropriation claims;

b. Plaintiff is not entitled to summary judgment on the defenses of lack of originality, joint authorship, implied nonexclusive license, innocent infringement, failure to identify portions of copyrighted works, de minimis infringement, failure to mitigate damages, and impermissible taking;

4. Plaintiff's Objections to and Motion to Strike Defendant's Summary Judgment Evidence (Doc. No. 131) is **GRANTED IN PART** and **DENIED IN PART**:

a. Mr. Labeff's opinions on the copyrightability of Plaintiff's architectural designs and technical drawings, Mr. Labeff's conclusions about derivative works, Mr. Meijer's testimony about violations of the DMCA, and Mr. Urfi's statements about Mr. Meijer's permission to use third-party drawings are stricken;

5. Plaintiff's Objections to and Motion to Strike Defendant's Summary Judgment Opposition Evidence (Doc. No. 143) is **GRANTED IN PART** and **DENIED IN PART**:

a. Mr. Meijer's testimony about violations of the [\*163] DMCA and Mr. Morris's testimony about the originality of Plaintiff's drawings are stricken;

6. Plaintiff's Motion for Discovery Sanctions Against Defendant C.L. Thomas, Inc. (Doc. No. 114) is **DENIED**;

7. Defendant's Motion for Summary Judgment (Doc. No. 104) is **GRANTED IN PART** and **DENIED IN PART**:

a. Defendant is entitled to summary judgment with respect to Plaintiff's claim that fraudulent misrepresentation was

made in November 2004;

b. Defendant is entitled to summary judgment with respect to Plaintiff's claim for actual damages under the Copyright Act and the DCMA;

8. Defendant's Motion to Dismiss for Lack of Subject Matter Jurisdiction All Claims Based on Unregistered Copyrighted Works (Doc. No. 119) is **DENIED**;

9. Defendant's Motion to Dismiss for Lack of Standing All Copyrights Registered and Owned by Marcel Meijer, Individually (Doc. No. 119) is **DENIED**;

10. Defendant's Motion to Strike Declaration of Marcel Meijer (Doc. No. 119) is **GRANTED IN PART** and **DENIED IN PART**:

a. Exhibits B-J to the First Meijer Declaration are stricken;

11. Defendant's Motion to Strike Exhibit V to Plaintiff's Opposition to Defendant's Motion for Summary Judgment (Doc. No. 138) is **GRANTED IN PART** and **DENIED IN PART**:

a. [\*164] Paragraph 9 of Exhibit V is stricken;

12. Defendant's Motion to Strike Plaintiff's Motions

for Summary Judgment (Doc. No. 155) is **DENIED**;

13. Defendant's Motion for Sanctions Pursuant to [Rule 11](#) (Doc. No. 157) is **DEFERRED**;

14. Defendant's Rule 54(d) Motion for Attorneys' Fees and Costs Under the Texas Theft Liability Act (Doc. No. 105) is **DEFERRED**;

15. Morris's Motion for Partial Summary Judgment on Plaintiff's DMCA Claims (Doc. No. 109) is **DENIED AS MOOT**;

16. Hermes's Motion for Summary Judgment on Plaintiff's Copyright Act Claim (Doc. No. 102) is **DENIED AS MOOT**;

17. Hermes's Motion for Partial Summary Judgment (Doc. No. 101) is **DENIED AS MOOT**; and

18. Hermes's Motion for Order Regarding Joint & Several Liability (Doc. No. 103) is **DENIED AS MOOT**.

**IT IS SO ORDERED.**

**SIGNED** at Houston, Texas, on this the 27th day of October, 2010.

/s/ Keith P. Ellison

KEITH P. ELLISON

UNITED STATES DISTRICT JUDGE

**F**

LEXSEE



Cited

As of: Feb 23, 2011

**JAMISON BUSINESS SYSTEMS, INC., NICHOLAS DAVELLA, and CAROL M. DAVELLA, Plaintiffs, against- UNIQUE SOFTWARE SUPPORT CORP., ALAN CASTRO, PARTY RENTAL, LTD., and JAMES McMANUS, Defendants.**

**CV 02-4887 (ETB)**

**UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF NEW YORK**

**2005 U.S. Dist. LEXIS 45480**

**May 26, 2005, Decided**

**May 26, 2005, Filed**

**CORE TERMS:** rental, software, registration, menu, screen, trade secret, copying, computer program, copied, derivative, modified, infringement, tortious interference, tape, Copyright Act, misappropriation, certificate, programmer, registered, copyright infringement, unauthorized, conversion, unfair, copyright law, cause of action, copyrighted, replevin, display..., user, original works

**COUNSEL:** [\*1] For Nicholas Davella, Plaintiff: George Walter Clarke, LEAD ATTORNEY, Tierney & Tierney, Esqs., Port Jefferson, NY.

For Unique Software Support Corp., Alan Castro, Defendant: Robert J. Cava, LEAD ATTORNEY, Law Offices of Robert J. Cava, P. C., West Babylon, NY.

**JUDGES:** E. THOMAS BOYLE, United States Magistrate Judge.

**OPINION BY:** E. THOMAS BOYLE

**OPINION**

*MEMORANDUM OPINION AND ORDER*

The plaintiffs Nicholas Davella ("Davella") and Jamison Business Systems, Inc. ("JBS"),<sup>1</sup> commenced this action on September 9, 2002, pursuant to the Copyright Act of 1976, [17 U.S.C. § 101 et seq.](#) ("Copyright Act"). The plaintiffs allege that defendant Alan Castro ("Castro"), a former employee of JBS and officer of the defendant corporation, Unique Software Support Corp. ("Unique"), copied elements of a computer program developed by the plaintiffs, modified the elements of the program, and then sold the modified program to the defendant, Party Rental Ltd. ("Party Rental"), through the latter's employee, James McManus ("McManus"). The plaintiffs discontinued as to Party Rental and McManus prior to the trial herein. The defendants Unique and Castro claim that to the extent Castro copied any portion of the plaintiffs' program, the elements [\*2] copied were so insignificant that copying them did not rise to the level of copyright infringement.

<sup>1</sup> All copyright claims on behalf of plaintiff Jamison Business Systems, Inc. and all claims on behalf of plaintiff Carol Davella were dismissed at the conclusion of the bench trial.

The complaint asserts five state law causes of action: (1) replevin, (2) conversion; (3) wrongful competition; (4) tortious interference; and (5) misappropriation of a

trade secret. The plaintiffs seek a judgment against each defendant in the amount of \$ 75,000.00, plus \$ 5,000 for each year any defendant has been in possession of the allegedly stolen material, in addition to actual damages and interest. (Pls.' Am. Compl. PP 61-62.) Plaintiffs additionally seek: (1) an order for the seizure and impoundment of the JBS Party Rental Program and related materials in the defendants' possession or under their control; and (2) an injunction against Castro and Unique, enjoining them from copying, distributing, selling or providing the JBS Party Rental Program and related materials to any person or entity. (*Id.* PP 1-5 of Wherefore Clause.)

The Court held a bench trial on November 8, 2004, and November 9, 2004. At the [\*3] conclusion of the trial, the Court dismissed all copyright claims brought on behalf of plaintiffs JBS and Carol Davella, based on the lack of evidence that either held any copyright interest in the software. Defendants Unique and Castro moved to dismiss all claims based on the settlement between the plaintiff and Party Rental, Ltd. and James McManus, in which Party Rental and McManus paid plaintiffs \$ 20,000 and provided a copy of the software Castro sold to Party Rental in exchange for being released as defendants in the action. Defendants Unique and Castro argue that because the plaintiffs recovered the full measure of damages from Party Rental and McManus, they are prohibited by New York law from a double recovery.

This Memorandum Opinion and Order constitutes the findings of fact and conclusions of law, pursuant to [Rule 52 of the Federal Rules of Civil Procedure](#).

## BACKGROUND

### I. Findings of Fact

Plaintiff Nicholas Davella ("Davella") founded Jamison Business Systems ("JBS") in 1977, and has been the president of the company since its founding. (Tr. at 12.) JBS employs computer consultants and software programmers, and primarily provides programs to companies that distribute goods. Plaintiffs' [\*4] clients included party rental companies that rent equipment to large companies hosting parties. (*Id.* at 12-13.) In 1986, JBS employees, including Davella, created the computer program at issue in this action, a party rental program ("rental program") which tracks equipment rentals. (*Id.* at 13.) The rental program was designed by Davella and produced with the assistance of other programmers at

JBS. (*Id.* at 15, 25.) In 2001, Davella registered the copyright for the party rental program in his name, stating on the copyright registration application that the rental program was first published on January 20, 1986. (*Id.* at 13, Pl.'s Ex. B.) The rental program was later periodically modified and updated by Davella, in accordance with industry needs, through 1992. (Tr. at 95-96, 100.)

The rental program was originally designed for JBS' then-client, Broadway Famous ("Broadway"), a party rental company in Queens (*Id.* at 20.) JBS and Broadway had engaged in discussions for a period of eight to nine months prior to signing a contract on November 1, 1986 which licensed the JBS party rental program to Broadway for \$ 25,000. (*Id.* at 21-22; Defs.' Ex. D.) The plaintiffs' relationship with Broadway [\*5] ended in 1988 or 1989, when the owner of Broadway told Davella that he wanted to get an "in-house" programmer. (Tr. at 80-81.)

In November 2001, plaintiff Davella received a copy of a letter dated November 8, 2001, addressed to Michael Halperin, president of the discontinued defendant Party Rental, from Victoria Cundiff, an attorney for Broadway. (*Id.* at 19; *See* Pls.' Ex. 7.) The letter states that Broadway had been informed that, at the request of Jim McManus, a former Broadway employee who left Broadway to work for Party Rental, the defendant Castro had provided McManus with a tape containing the rental program software and files used by Broadway. (Pls.' Ex 7.) The letter also states that the tape included Broadway's confidential business information, as well as software licensed to Broadway by plaintiffs. (*Id.*)

Upon receiving the letter, Davella met with Broadway's president, Stan Skirloff ("Skirloff"), to inspect the software Broadway was using. (Tr. at 23-24.) Davella testified that Broadway was using the software designed by JBS. (*Id.*) Skirloff told Davella that Castro, Broadway's former "computer guy," had sold the software to Party Rental, a Broadway competitor. (*Id.* at 34, 117.) [\*6] Skirloff also told Davella that Castro had done programming work for Broadway Famous for "quite a while." (*Id.* at 26.) Davella informed Skirloff that Castro was a former JBS employee. (*Id.* at 25.)

Believing Castro had made an unauthorized sale of the JBS rental program to Party Rental after leaving JBS, Davella wrote to Castro asking him to cease and desist his sale of the software, and to return any profits from such sales. (*Id.* at 28. *See also* Pls.' Exs. 8, 9, 11.) This action ensued. (*See* Pls.' Ex. 11.)

## II. Testimony

### A. Plaintiff Nick Davella's testimony

#### 1. Castro's Employment at JBS

Davella testified that Castro was hired by JBS in 1984, and left on amicable terms around September of 1986. (Tr. at 25.) He stated that Castro was hired as a programmer, and was told upon hiring that if he left the company, he was prohibited from going into competition with JBS for a period of five years or taking any JBS clients or programs. (*Id.* at 44.) I do not credit this statement. Davella stated that JBS had a policy of securing signed employment contracts with programmers when they were hired, outlining the no-compete terms, and that every employee leaving the company was reminded of these terms [\*7] during an exit interview. I do not credit this statement. (*Id.* at 48.) Plaintiffs have provided no signed documents to support this claim. Davella testified that he was unable to find the employment contract signed by Castro when he was hired. I do not credit this. (*Id.* at 49.) At the trial, an unsigned and undated copy of an employment agreement allegedly in place at the time of Castro's employment was admitted for the limited purpose of demonstrating the existence of this form at the time period in question. (*Id.* at 50; Pls.' Ex. 1.)

#### 2. The Software Rental Program

Davella testified that he was the original designer of the rental program at issue in this case, and that he and his programmers worked on it together, although he could not recall if Castro in particular had worked on it. (Tr. at 15, 78, 97.) Davella described the program's "source code" as the English version of the code that tells a computer what to do. (*Id.* at 53.) He testified that the best way to determine if one software program is the same as another is to examine the source codes. (*Id.* at 104-105.) Davella testified that he compared the code from the software Castro sold to Party Rental<sup>2</sup> with the code of an updated [\*8] and modified version of the JBS rental program originally designed in 1986. He identified the software sold to Party Rental as a modified version of the JBS rental program. (*Id.* at 51; 94-97.)

<sup>2</sup> Davella testified that Party Rental and its employee James McManus were originally parties to this lawsuit, but that they settled the claim with JBS for \$ 20,000. (Tr. at 32-33. *See also* Pls.' Ex.

14.) As part of the settlement, Party Rental gave JBS a copy of the soft-ware sold to them by Castro, called "Unique Party Rental software." (Tr. 33-34.)

A printout, consisting of five to ten percent of the source code from the JBS rental program designed by Davella, was received in evidence. (*Id.* at 86; Pls.' Ex. 2.) The other ninety percent of the program was not printed out or submitted into evidence. (Tr. at 86.) It is noted that the source code Davella printed and submitted as evidence is not from the rental program as it was published on January 20, 1986. (*Id.* at 94-96.) The source code on the printouts instead came from the JBS rental program created on January 20, 1986, as modified over time. (*Id.*) Davella testified that "there are modifications that were made to this [program, but]. . .the vast [\*9] majority of the coding that's in here is exactly the same as what I published in '86." (*Id.*)

A corresponding portion of the source code from the program Party Rental bought from Castro was also received in evidence. (*Id.* at 51-52; Pls.' Ex. 4.) Davella testified that the code from the two printouts were identical, noting the names, field lengths, names of files, and comments. (Tr. at 54, 222-224.) He testified that these categories could be given any designation, and that the two source codes were identical. (*Id.* at 54-55.) Davella further testified that there were references to the Broadway rental program in the program Party Rental bought from Castro, which further evidenced that the Party Rental program was a modification of his original rental program licensed to Broadway (*Id.* at 56.) Davella also compared the menus, templates, and template fields between the two programs, and testified that they were the same. (*Id.* at 61-63.) He stated that Castro made some modifications and additions to the rental program, but that overall, of the 5 to 10 percent printed out, 90 to 95 percent of the program sold to Party Rental by Castro was identical to his rental program. (*Id.* at 65.) Plaintiffs [\*10] called no expert witness.

### B. Defendant Alan Castro's Testimony

Defendant Castro testified that he was hired by JBS in 1984 and left in 1986. He testified that he never signed a written employment contract and never orally agreed to an employment contract. (*Id.* at 162.) The Court credits this testimony. I conclude that there was no written or oral employment contract or non-compete agreement between JBS and Castro.

In 1988, Castro began working for Unique Software Systems ("USS"), a predecessor of the defendant, Unique. (*Id.* at 163.) Later that same year, USS was hired by Broadway to write a new software package. (*Id.* at 164-165.) Castro, as a programmer for USS, began writing the program according to requirements specified by Broadway's president at that time, Michael Svirski ("Svirski"). (*Id.* at 167.) Castro testified that when he started working for Broadway, Broadway had a few existing, but nonfunctional programs, so he wrote an entirely new software package, which took until 1990. (*Id.* at 167-68, 190.) I do not credit this testimony and conclude instead that he modified the Davella program sold to Broadway in 1986. In 1990, Svirski came up with new design requirements for the program, [\*11] and Castro testified that he created six new program packages for Broadway based on these new requirements. I do not credit this testimony but rather find that Castro again made further modifications to the JBS program sold to Broadway. (*Id.* at 168.) Castro continued working for Broadway until 2001. (*Id.* at 169.)

In 1990, the owner of USS, Castro's employer, decided to close the company, and at that time Castro started his own similarly-named company, defendant Unique Software Support Corporation ("Unique"). (*Id.* at 163.) Castro has been president of Unique since 1990. (*Id.*) In 1998, Unique, through Castro, pursued Party Rental, a competitor of Broadway, as a client. (*Id.* at 170-72.) Castro testified that he showed Party Rental the software package he had created for Broadway, and testified that Party Rental didn't like it. (*Id.* at 171.) I do not credit this testimony. Castro also stated that Party Rental asked Castro to modify 75-80% of the program to meet its needs. (*Id.* at 172; 198-99.) I do not credit this testimony. He testified that in order to meet Party Rental's needs, he took minor features such as the menus of the original JBS rental program, wrote the program for Broadway, [\*12] and then built upon the program he wrote for Broadway to create the program he sold to Party Rental for \$ 20,000. (*Id.* at 198, 201, 210-213. *See also* Pls.' Exs. 6, 10; Defs.' Ex. A.) I do not credit this testimony. Instead I find that Castro unlawfully took a copy of Broadway's software program and sold it to Party Rental with modification for \$ 20,000, with the assistance of defendant McManus.

### C. Stan Skirloff's Testimony

Stan Skirloff ("Skirloff") testified at trial that he has

been the primary owner and CEO of Broadway since November 1, 1997, when he bought the company from then-owner Mike Svirski. (Tr. at 115.) Skirloff testified that he first met defendant Castro shortly after he bought the company, probably sometime in November of 1997. (*Id.* at 117.) He stated that Castro was the person who fixed and updated Broadway's computer system. (*Id.*) He further testified that Castro did not have a contract with Broadway. (*Id.* at 118.)

Skirloff stated that when he took over Broadway, the computer system was fully functioning, and that it was "the backbone of the company." (*Id.* at 119.) I credit this testimony. He testified that the only shortcoming was that the program was not tied to the [\*13] accounting program in their use, and that this is why he decided to move to another program. (*See id.* at 120.)

Skirloff testified that in 2001 he called Castro to ask him to come to Broadway and fix the computers, and he was given the phone number for Party Rental and told that he could find Castro at that number. (*Id.* at 123, 130.) Skirloff stated that when he confronted Castro about being at Party Rental, Castro told him that he was installing Broadway's program on Party Rental's computers. (*Id.* at 125.) I credit this testimony. Skirloff testified that Castro told him that Jim McManus, a former Broadway employee who left to work for Party Rental, asked Castro to do computer work at Party Rental. (*Id.* at 127.) Skirloff further testified that in 2001 or 2002 he discovered that two of Broadway's "backup" tapes containing the company's computer program with all of its client data were missing. (*Id.* at 128-9.) I credit this testimony.

Upon discovering that Party Rental had been provided a copy of Broadway's rental program and business data, Broadway's attorney sent a letter to Mike Halperin at Party Rental, demanding that it stop using Broadway's program and data, and threatening to sue. [\*14] (*Id.* at 130-31. *See also* Pls.' Ex. 7.) After receiving the letter, Skirloff testified that Party Rental admitted to him that they had received and been using Broadway's program and confidential business data. (*Id.*) I credit this testimony. Skirloff stated that Party Rental and Broadway ultimately reached a settlement agreement, by which Party Rental returned the program tape to Broadway, in addition to paying Broadway \$ 30,000. (Tr. at 131-33; *see also* Pls.' Ex. 12A.) I credit this testimony.

Skirloff also testified that on learning that Party

Rental was using Broadway's program, he contacted Davella and told him that Castro had installed Broadway's program, written by the plaintiffs, on Party Rental's computers. (Tr. at 143. *See also* Pls.' Ex. 12A.)

Based on the testimony of all three witnesses, I find that in 1986, plaintiffs sold the JBS rental program to Broadway for \$ 25,000. In 1988 Broadway hired USS, the company Castro was then working for, to modify the software. In writing this package, there is no question that Castro had access to the rental program plaintiffs sold to Broadway, and modified the plaintiffs' rental program to meet Broadway's needs. In 1990, when defendant Castro [\*15] started his own company, he solicited business from Broadway's competitor, Party Rental. The program he wrote for Party Rental was based on the program that he had unlawfully taken from Broadway, which plaintiffs had licensed to Broadway. The parties disagree over how much of the plaintiffs' program was used by defendant Castro in writing his programs for Broadway and Party Rental- the plaintiffs argue that 90 to 95 percent was copied, Castro contends that only insignificant aspects, such as the menu screens, were copied. I reject defendants' de minimus claim and find that substantial parts of JBS' original rental program were copied by the defendants. There is no evidence however to support plaintiffs' claim that 90 to 95 percent of the Broadway program was copied, since only 5 to 10 percent of the Party Rental program was introduced as evidence.

## DISCUSSION

### III. Copyright Infringement

The Copyright Act of 1976 (the "Act") provides copyright protection to "original works of authorship fixed in any tangible medium of expression," including computer programs, which fall under the Act's protection as "literary works." [17 U.S.C. § 102\(a\)](#). The Act provides authors of copyrighted works a set [\*16] of exclusive rights, including the right "to prepare derivative works based on the copyrighted work." *Id.* [§ 106\(2\)](#). In the case of computer programs, an updated or modified version of an original program constitutes a derivative work.

#### A. Legal Standard for Copyright Infringement

To establish copyright infringement, a plaintiff must prove: "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." [Feist Publications, Inc. v. Rural Tel. Serv. Co.](#),

[499 U.S. 340, 361, 111 S.Ct. 1282, 1296, 113 L.Ed.2d 358 \(1991\)](#); [Computer Assocs. Int'l v. Altai, Inc.](#), [982 F.2d 693, 701 \(2d Cir. 1992\)](#). To satisfy the first prong in *Feist*, "plaintiff must prove that the work as a whole is original and that the plaintiff complied with applicable statutory formalities." [Lotus Dev. Corp. v. Borland Int'l, Inc.](#), [49 F.3d 807, 813 \(1st Cir. 1995\)](#), *aff'd* by [516 U.S. 233, 116 S.Ct. 804, 133 L.Ed.2d 610 \(1996\)](#) (5-4 decision).

#### 1. Ownership of a Valid Copyright

##### a. Date of Registration

The Copyright Act provides that "[i]n any judicial proceedings the certificate of a registration made before or within five years after first publication of the work shall constitute prima [\*17] facie evidence of the validity of the copyright and of the facts stated in the certificate. The evidentiary weight to be accorded to the certificate of a registration made thereafter shall be within the discretion of the court." [17 U.S.C. § 410\(c\)](#).

In this case, Davella obtained a copyright registration certificate for the software, in his name, on November 23, 2001. (Defs.' Ex. B.) The certificate states that the first publication of the software was January 20, 1986, more than five years prior to the date of registration. (*See id.*) Therefore, the copyright certificate does not establish prima facie evidence of the copyright's validity, and the evidentiary weight of the certificate is within the Court's discretion.

Defendants do not challenge the validity of the certificate on the grounds that the lapse of time between publication and registration suggests that the facts stated in the certificate may be unreliable, which was the foremost concern contemplated by the advisory committee reviewing the registration provision. *See* [17 U.S.C. § 410\(c\) \(1996\)](#), Notes of Committee on the Judiciary, House Report No. 94-1476. Instead, defendants argue that because plaintiffs did not have a copyright [\*18] registration certificate at the time that defendant Castro produced and sold his software to Party Rental, defendants' software could not possibly have violated plaintiffs' copyright. This argument is without merit, and evinces a fundamental misunderstanding of copyright protection. [Chere Amie, Inc. v. Windstar Apparel, Corp.](#), [191 F. Supp. 2d 343, 350 \(S.D.N.Y. 2001\)](#) (rejecting this same argument by defendant). "Copyright exists automatically upon the creation and fixation of an

original work of authorship in a tangible medium of expression. See [17 U.S.C. 102\(a\)](#). The Copyright Office does not grant copyrights, registration merely bestows certain prima facie benefits." *Id.* (citing [17 U.S.C. § 410\(c\)](#); [SHL Imaging, Inc. v. Artisan House](#), 117 F. Supp. 2d 301, 305 (S.D.N.Y. 2000)). The Court finds the Davella registration issued on November 23, 2001, is sufficient evidence of his publication of the rental software on January 20, 1986.

#### b. Owner of Registration

Plaintiff Davella registered the rental program in his name alone. However, Davella testified at trial that he designed the software, but that it was produced by JBS programmers with his assistance. The Copyright Act states that the [\*19] author of a given work is "the person who translates an idea into a fixed, tangible expression entitled to copyright protection." [Community For Creative Non-Violence v. Reid](#), 490 U.S. 730, 737, 109 S.Ct. 2166, 104 L.Ed.2d 811 (1989) (citing [17 U.S.C. § 102](#)). If Davella had designed and written the code for the rental program entirely on his own, he would be considered the author for purposes of copyright protection. The Act, however, contains an important exception for "work prepared by an employee within the scope of his or her employment." See [17 U.S.C. § 101](#). Under this "work-for-hire" exception, "[t]he employer...is considered the author...and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all the rights comprised in the copyright." [17 U.S.C. § 201\(b\)](#). In this case, since the work was prepared by several employees in the scope of their employment, in addition to Davella, the program is a "work for hire." Since the employees were working for JBS, not Davella, JBS is the author of the software, and the registration should be in JBS' name.

However, this mistake could be easily corrected through the filing of a supplementary copyright registration [\*20] (see [17 U.S.C. § 408\(d\)](#)), and courts generally have not dismissed cases based on innocent errors made on the registration application. See, e.g., [Nimmer & Nimmer](#), § 720[B] at 7-208 ("The courts generally have been most lenient ... with respect to any innocent error contained in an application for a registration certificate."); 1 Paul Goldstein, Copyright § 3.12.3, at 345 (1989) ("Courts have excused innocent errors or omissions affecting virtually every material aspect of a copyright registration application.").

In [Thomas Wilson & Company, Inc. v. Irving J. Dorfman Company, Inc.](#), 433 F.2d 409, 412 (2d Cir. 1970), the court considered a situation identical to the circumstances here, in which the president of a small company named himself as author on the copyright registration form instead of properly naming the corporation. The court rejected the defendant's argument that the copyright registration was invalid based on this error, holding instead that the error "was minor, was made in good faith, and could not have affected the action taken by the Copyright Office." [Thomas Wilson & Company, Inc. v. Irving J. Dorfman Company, Inc.](#), 433 F.2d 409, 412 (2d Cir. 1970) (citing [Pantone, Inc. v. A.I. Friedman, Inc.](#), 294 F. Supp. 545, 551 (S.D.N.Y. 1968)).

[\*21] In [Computer Associates International, Inc. v. Altai](#), the court also rejected defendant's argument that the case should be dismissed based on a technical deficiency with the plaintiff's copyright registration. In *Altai*, the plaintiff registered the work as a "derivative work" without having first registered the original work from which the work in question was derived. [Altai](#), 775 F. Supp. 544, 556-557 (E.D.N.Y. 1991), *overturned on other grounds*, 982 F.2d 693, 701 (2d Cir. 1992). The court noted that although the work should have been described as an "original work" when it was registered, the error was technical in nature, and describing it as an "original work" at the time the registration was obtained would not have affected anyone's right with respect to the work. [Altai](#), 775 F. Supp. 544 at 557 ("A formalistic dismissal, followed by a re-registration and commencement of a new action, is unnecessary and would be wasteful.").

The error here is one made in good faith. Moreover, the copyright validity is not challenged by the defendants. Based on the foregoing, the Court declines to dismiss this action based on the technical error in plaintiffs' copyright registration, and instead recognizes [\*22] the validity of Davella's registration.

#### c. Protection for a Derivative Work

The author of a copyrighted work has the exclusive right to prepare a derivative work based on the original copyrighted work. [17 U.S.C. § 106\(2\)](#). In the case of computer programs, an updated or modified version of an original program constitutes a derivative work. A derivative work created by the author of the original work falls within the scope of the original work's protection to the extent that the material in the derivative work incorporates the original copyrighted work. [Well-Made](#)

[Toy Mfg. Corp. v. Goffa Intern. Corp.](#), 210 F. Supp. 2d 147, 157 (E.D.N.Y. 2002).

Plaintiff Davella registered the original version of his rental program as written in 1986. At trial, he introduced as evidence portions (five to ten percent) of the source code from his rental program as it had been updated and modified over the course of several years, through 1992. (Tr. at 105-06.) The defendants argue that because plaintiff Davella compared the source code from the updated version of his program, not the original, with defendant Castro's program, Davella could not prove that the defendants violated plaintiffs' copyright in the [\*23] original program. This argument is without merit.

While the additions to the program constitute elements of a derivative work, and the modified versions must be registered as derivative works in order protect the modifications, any original unmodified source code is entitled to protection as part of the original work registered in 1986. See [Well-Made Toy Mfg. Corp. v. Goffa Intern. Corp.](#), 210 F. Supp. 2d 147, 157 (E.D.N.Y. 2002) ("[W]here the preexisting work is registered, but the derivative work is not, a suit for infringement may be maintained as to any protected element contained in the registered preexisting work, but not as to any element original to the unregistered derivative work.") (citing [Mattel, Inc. v. Robarb's, Inc.](#), 139 F. Supp. 2d 487, 496, 498 (S.D.N.Y.2001) (holding that defendant's copy of plaintiff's unregistered derivative work infringed on plaintiff's copyright in the registered work, elements of which were included in the unregistered derivative work and the infringing copy)).

Here, plaintiffs do not allege that Castro copied elements of the modified program, even though plaintiffs submitted the modified version of the program as evidence. The modified version [\*24] of the program encompassed the original source code, and it is that original source code which Castro has copied. (Tr. at 54-56.)

#### B. Copying of Constituent Elements of the Work

In order to satisfy the second prong of the *Feist* test and establish copyright infringement, a plaintiff must prove that the defendant copied the copyright work. [Feist Publications, Inc. v. Rural Tel. Serv. Co.](#), 499 U.S. 340, 361, 111 S.Ct. 1282, 1296, 113 L.Ed.2d 358 (1991). The plaintiff can do this either by direct evidence, or by showing that, "(1) the defendant had access to the

plaintiff's copyrighted work and (2) that defendant's work is substantially similar to the plaintiff's copyrightable material." [Computer Associates Int'l, Inc. v. Altai, Inc.](#), 982 F.2d 693, 701 (2d Cir. 1992) (citing [Walker v. Time Life Films, Inc.](#), 784 F.2d 44, 48 (2d Cir. 1986)), cert denied, 476 U.S. 1159, 106 S.Ct. 2278, 90 L.Ed. 2d 721 (1986)).

Direct evidence of copying is seldom available. [Jorgensen v. Epic/Sony Records](#), 351 F.3d 46, 51 (2d Cir. 2003). In cases where direct evidence is unavailable, the plaintiff must prove the defendant had access to the work and that the work is "substantially similar" to the plaintiff's copyrightable [\*25] material. [Altai](#), 982 F.2d at 701. Proving substantial similarity can be a difficult burden when the plaintiff's evidence, as in this case, constitutes only a fraction of the two works. At trial, the defendants argued that because Davella submitted in evidence and compared only five to ten percent of the source code from his program with the relevant portions of the Party Rental program, plaintiffs did not prove infringement.

The defendants' argument is without merit. This is one of the rare instances where the plaintiffs have presented direct evidence of copying. Accordingly, the plaintiffs are not required to prove access and substantial similarity, since both can be inferred from evidence of direct and exact copying. See, e.g., [Computer Assoc. Int'l v. Altai, Inc.](#), 775 F. Supp. 544, 557 (E.D.N.Y. 1991) (stating that generally a plaintiff must prove access and substantial similarity, except in situations where there is direct evidence of copying).

In this case, printouts of the source code from the JBS rental program and the defendants' program evidence direct copying. By way of example, at trial, plaintiff Davella compared pages five and six of the source code from the JBS program [\*26] with the corresponding sections of the program defendant Castro claims to have designed. (Tr. at 54-56.) Davella stated, "the names are identical, the field lengths are identical, the comments... are identical." (*Id.*) Upon the Court's review of the source code from the two programs, it is clear that, apart from the line numbers at the beginning of each line of code, significant portions of the source code are indeed identical.

(Compare Pls.' Ex. 2 with Pls.' Ex. 4.)

Furthermore, Castro acknowledged copying some of

the program. On cross-examination, in response to being asked if he used any of the JBS program in preparing a program for Party Rental in 1998, he responded, "Basically just the menus... rather than re-create something that simple, we took the menus and built upon that." (Tr. at 198.) Castro never directly admitted copying source code, but he testified that, "If you take 2000 [fields], you might find one field the same." (*Id.* at 210.) He then went on to state that "Fields in the program are one little situation. It's the calculations that actually run the program. It's the calculations that actually bring it to the screen. It's the calculations that actually make the program work, [\*27] okay." (*Id.* at 210-11.) Lastly, I credit the testimony of Broadway's CEO, Skirloff, who discovered the unauthorized removal of its tapes and the sale of those tapes to Party Rental.

Defendant Castro's testimony suggests that because the menus are "simple" to create, it is not copyright infringement to take them and build upon them. With regard to the source code, he seems to take the position that even if field names in the code happen to be the same, they are a minor piece of the programs, and not fundamental to making the programs work. While the defense never explicitly states a "de minimus defense" in any of their pleadings, Castro's testimony suggests that any copying was so insignificant as to be "de minimus."

### C. Constituent Elements of the Work

The Supreme Court stated in *Feist* that in order to establish copyright infringement, a party must prove copying of "constituent elements of the work that are original." [\*Feist Publications, Inc. v. Rural Tel. Serv. Co.\*, 499 U.S. 340, 361, 111 S.Ct. 1282, 1296, 113 L.Ed.2d 358 \(1991\)](#). In other words, "It is not enough for the plaintiff to establish that the defendant copied all or some of the work in question; the plaintiff must also establish [\*28] that the copying in question is unlawful." [\*O.P. Solutions, Inc. v. Intellectual Property Network, Ltd.\*, 1999 U.S. Dist. LEXIS 979, 1999 WL 47191, at \\*5 \(S.D.N.Y. Feb. 2, 1999\)](#). For example, elements of a work from the public domain, or unoriginal elements of a work, such as facts, are not afforded any copyright protection. [\*Feist\*, 499 U.S. at 349](#). The Second Circuit noted in *Altai* that "Congress made no special exception for computer programs... copyright protects computer programs only 'to the extent that they incorporate authorship in programmer's expression of original ideas, as distinguished from the ideas themselves.'" [\*Computer\*](#)

[\*Assoc. Int'l v. Altai, Inc.\*, 982 F.2d 693, 703 \(2d Cir. 1992\)](#) (citing H.R.Rep. No. 1476, 94th Cong., 2d Sess., 54, reprinted in 1976 U.S.C.C.A.N. 5659, 5670). Determining which components of a computer program are afforded copyright protection can be particularly challenging. See [\*Altai\*, 982 F.2d at 696](#) ("[T]his case deals with the challenging question of whether and to what extent the 'non-literal' aspects of a computer program, that is, those aspects that are not reduced to written code, are protected by copyright.").

In this case, neither party offered any expert testimony or even [\*29] attempted to reference *Altai*, a seminal computer program copyright case in the Second Circuit. Instead, the plaintiffs simply argued that their entire program was protected by copyright. For their part, defendants Castro and Unique argued that Castro did not copy the JBS program's source code, and that any copying he might have done of the menu screens was insignificant or not protected material. The Court here will focus its analysis on two aspects of the program: the rental program's source code, a "literal" aspect of the program, and the program's menu screens, a "non-literal" aspect of the program. See [\*Altai\*, 982 F.2d at 702](#) (discussing literal and non-literal elements of a computer program).

#### 1. Source Code

As the Second Circuit has noted, "It is now well settled that the literal elements of computer programs, i.e., their source and object codes, are the subject of copyright protection." [\*Altai\*, 982 F.2d at 702](#). Courts have not accepted a "de minimus" defense where there is evidence the defendant copied a program's source code, as opposed to other elements of the computer program. For example, in *Altai*, the defendant admitted to copying approximately 30% of the plaintiff's program [\*30] from the plaintiff's source code. *Id.* The district court found this to be infringement. [\*Computer Assoc. Int'l, Inc. v. Altai, Inc.\*, 775 F. Supp. 544 \(E.D.N.Y. 1991\)](#). In [\*Dun & Bradstreet Software Services, Inc.\*](#), the defendant admitted copying some, but not all, of the plaintiff's source code. [\*Dun & Bradstreet Software Services, Inc. v. Grace Consulting, Inc.\*, 307 F.3d 197, 213 \(3d Cir. 2002\)](#). The court there concluded that "[source code] infringement may not be justified on the ground that not all elements of the system were copied or that there were some dissimilarities. [The defendant] may have rearranged some of the words in the plagiarizing program

or altered or replaced one or more components in its program, but these efforts to distinguish its program from [the plaintiff's] system does (sic) not erase the literal copying of [the plaintiff's] source code." [Id. at 213-214](#). The court further noted that when source code is copied, there is no requirement that most of each of the two works be compared. [See id. at 214](#).

Here, in addition to rejecting defendants' "de minimus" argument, I also reject the defendants' suggestion that the similarities between the two programs resulted from [\*31] coincidence. Comparison of the two programs confirms Castro's copying. While it is conceivable that some abbreviated terms may be commonly used by programmers, for example "ORD ENT" for "order entry" (*see* Tr. at 197), the similarity between the two programs in this case extends beyond common and convenient abbreviations. For example, on page five of the source code from the JBS program and page six of the source code from defendant Castro's program, several consecutive lines of code read: "1 1 OCDEL; 2 6OCCORD; 7 9OCCLINE; 10 12OCCOML; 14 16 OCCAC; 17 46 OCCAD; 47 572OCCA© 58 611OCCDSC; 75 75 OCTYPE; 14 74 OCCOM." (*Compare* Pls.' Ex. 2, at 5 with Pls.' Ex. 4, at 6.) The comments associated with each of these lines of code are also identical. (*See id.*) The identity of these lines of code, among others, confirms copying, not coincidence. [See \*Fabkom, Inc. v. R.W. Smith & Assocs.\*, 1996 U.S. Dist. LEXIS 13686, 1996 WL 531873, at \\*12 \(S.D.N.Y. Sept. 19, 1996\)](#) (noting that similarity in the order of entries and headings in the source code suggests that "[i]t is difficult to believe that such substantial similarities are attributable merely to coincidence" ). Accordingly, I find that plaintiffs have prevailed [\*32] on the copyright infringement cause of action based on Castro's copying of the JBS program's source code.

## 2. Menu Command Screens

A relatively early case in this circuit established that a computer program and its screen displays are, for copyright purposes, fundamentally distinct. [Manufacturers Technologies, Inc. v. Cams](#), 706 F. Supp. 984, 992 (D. Conn. 1989). The court in *Manufacturers Technologies* explained that the computer program is designed to direct the computer to perform a task, whereas the screen displays are designed to enable the user to effectively use the program. [Id. at 993](#). However, only some, not all, of the elements of a screen display are

protected by copyright. [Id. at 993-995](#). For example, elements of a screen display that evidence unique arrangements, not driven by adopted conventions or efficiency constraints, are protectable. *Id.* On the other hand, elements such as the uniform formats of the pages, the method of navigation (i.e. using the return key to select a highlighted item from a list), and the arrangement of information in columns on the screen are not protectable. [Id. at 995-999](#). The Second Circuit has noted that "in many instances, it is virtually impossible [\*33] to write a program to perform particular functions in a specific computing environment without employing standard techniques." [Altai](#), 982 F.2d 693, at 709 (quoting *Nimmer on Copyright*, 3 [Nimmer § 13.03\[F\]\[3\]](#), at 13-65). The court there further noted that extrinsic considerations, such as demands of the industry being serviced and standard programming practices, may constrain the design and appearance of a program. [Altai](#), 982 F.2d 693, at 709 (citing *Nimmer on Copyright*, 3 [Nimmer § 13.03\[F\]\[3\]](#), at 13-66-71).

In *Lotus Dev. Corp. v. Borland Int'l., Inc.*, the First Circuit directly addressed the issue of whether a computer menu command screen constitutes copyrightable subject matter. [Lotus Dev. Corp. v. Borland Int'l., Inc.](#), 49 F.3d 807 (1st Cir. 1995), *aff'd by an equally divided Court*, 516 U.S. 233, 116 S.Ct. 804, 133 L.Ed.2d 610 (1996). In *Lotus*, the defendant company admitted to copying the plaintiff's menu command hierarchy for use in a program it designed to compete with the plaintiff's program. [Id. at 813](#). The court explained that the menu command hierarchy is the series of menu commands, such as "copy," "print," and "quit," which allows users to control a program. [Id. at 809](#). In [\*34] the programs there at issue, users could choose commands by either highlighting the command on the screen or by typing the first letter of the command. *Id.* The plaintiff's program there arranged the commands into numerous menus and submenus, all of which the defendant had copied. [Id. at 810](#). The defendant argued that the menu command hierarchy was "not copyrightable because it is a system, method of operation, process, or procedure foreclosed from protection by [17 U.S.C. § 102\(b\)](#)." [Id. at 812](#). The court agreed with the defendant, holding that the menu screen hierarchy was an uncopyrightable "method of operation" by which the users tell the computer what to do. [Id. at 815-816](#).<sup>3</sup> The court likened the menu commands to the buttons on a VCR, which allow the user to "play," "stop," or "eject" a tape. [Id. at 817](#). Such methods of operation are not

copyrightable because they do not constitute the "original expression" that copyright law was developed to protect. [Id. at 818](#). "Copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work. . . Original developers are not the only people entitled to build [\*35] on the methods of operation they create; anyone can." *Id.*

3 The court in *Lotus* carefully distinguished between the menu command hierarchy and the screen displays, stating that the screen displays themselves were not part of the program's "method of operation." [Lotus, at 816](#). Like other courts, the court left open the possibility that elements of screen displays may constitute protectable original expression, but made clear that the menu commands on screen displays are not protectable. *Id.*

Plaintiffs submitted as evidence the menu command screens from the JBS program and the menu command screens from the program defendant Castro sold to Party Rental. (See Pls.' Ex. 2B; Pls.' Ex 4C.) Plaintiffs' Exhibit 2B consists of copies of eighteen "menu command hierarchy" screens, each of which allows the program user to instruct the program to perform certain functions. (See *id.*) Plaintiff Davella testified that certain items on the menu screens from each program were identical. (Tr. at 61.) For example, the first page shows the "Broadway Famous Invoicing Menu." (See *id.* at unnumbered page 1.) This menu gives the user the option to: "11. Print One Invoice by Order Number; 12. Print All Invoices by [\*36] Del Date; 13. Order Status Listing (by ord#); 14. Order Status Listing (by inv#)." (See *id.*) Plaintiffs' Exhibit 4C consists of copies of the menu command screen from Party Rental's software. (Pls.' Ex. 4C.) The page showing the Party Rental invoice menu includes more command options than the JBS program, but command options eleven through fourteen are identical to command options eleven through fourteen from th JBS program's menus. (Compare Pls.' Ex. 2B at unnumbered page 1 with Pls.' Ex. 4C at unnumbered page 3.) Each command menu from defendant Castro's program includes entries identical to the corresponding command menu from plaintiff's program. (Compare Pls.' Ex. 2B with Pls.' Ex. 4C.)

These menus are the "methods of operation" by which the user tells the computer what to do. [Lotus, 49](#)

[F.3d at 815-16](#). Accordingly, they are not protectable elements of the JBS program, and Castro did not infringe plaintiffs' copyright by copying the menu command hierarchy for use in his own program. See [17 U.S.C. § 102\(b\)](#) (excluding "methods of operation" from the scope of copyright violation).

#### IV. State Law Causes of Action

##### A. Preemption

The Copyright Act specifically preempts all state rights equivalent [\*37] to those rights which can be asserted pursuant to federal copyright law. [Davis v. Trojer, 2001 U.S. Dist. LEXIS 10193, 2001 WL 829872 at \\*2 \(S.D.N.Y. July 20, 2001\)](#) (citing [American Movie Classics Co. v. Turner Entertainment Co., 922 F. Supp. 926, 930 \(S.D.N.Y. 1996\)](#)). See also [17 U.S.C. § 301\(a\)](#). When analyzing whether a state law claim is preempted by the Copyright Act, the court must determine whether the work falls within the subject matter of copyright as defined by the Act, and if so, whether the state law right asserted is equivalent to any of the exclusive rights within the general scope of copyright specified in [17 U.S.C. § 106](#). [Davis v. Trojer, 2001 U.S. Dist. LEXIS 10193, 2001 WL 829872 at \\*2](#) (citing [Universal City Studios, Inc. v. Nintendo Co. Ltd., 615 F. Supp. 838, 856 \(S.D.N.Y. 1985\)](#)). See also [Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 848 \(2d Cir. 1997\)](#) (referring to this as the "general scope" requirement). "If the state law claim requires an extra element 'instead of or in addition to the acts of reproduction, performance, distribution or display...then the right does not lie within the general scope of copyright, and there is no preemption.'" [Lennon v. Seaman, 63 F. Supp. 2d 428, 435 \(S.D.N.Y. 1999\)](#) (citing [Computer Assoc. Int'l v. Altai, Inc., 982 F.2d 693, 716 \(2d Cir. 1992\)](#)). [\*38] Furthermore, the extra element required by the state law claim must alter the nature of the claim such that it is qualitatively different from a federal copyright claim. [Computer Assoc. Int'l, Inc. v. Altai, 982 F.2d 693, 716-717 \(2d Cir. 1992\)](#) (referring to this as the "extra element" test) (citing [Mayer v. Josiah Wedgwood & Sons, Ltd., 601 F. Supp. 1523, 1535 \(S.D.N.Y. 1985\)](#); [Harper & Row, Publishers v. Nation Enters., 723 F.2d 195, 201 \(2d Cir. 1983\)](#), *rev'd on other grounds, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985)). To determine whether a claim is qualitatively different, the court should consider "what [the] plaintiff seeks to protect, the theories in which the matter is thought to be protected and the rights sought to*

be enforced." [Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc.](#), 373 F.3d 296, 306 (2d Cir. 2004) (quoting [Altai](#), 982 F.2d at 716).

### B. Plaintiffs' State Law Causes of Action

Plaintiffs' complaint in this case alleges five state law causes of action: (1) replevin; (2) conversion; (3) wrongful competition; (4) tortious interference; and (5) misappropriation of a trade secret. Plaintiffs' allegations clearly meet the "general scope" requirement discussed [\*39] above, since the JBS rental program is protected under copyright law as a "literary work." [17 U.S.C. § 102\(a\)](#).

The plaintiffs' replevin, conversion, and misappropriation of a trade secret claims are all time-barred by the three-year statute of limitations set forth in [N.Y.C.P.L.R. § 214](#). However, "the statute of limitations is an affirmative defense under [Fed. R. Civ. P. 8\(c\)](#) that must be asserted in a party's responsive pleading 'at the earliest possible moment' and is a personal defense that is waived if not promptly pleaded." [Davis v. Bryan](#), 810 F.2d 42, 44 (2d Cir. 1987) (citations omitted). If a defendant fails to assert the defense, the district court should not raise it *sua sponte*. *Id.* (citations omitted). Here, the defendants did not plead or prove the statute of limitations in its answer to any of the plaintiffs' state law causes of action. Accordingly, the defendants have waived this defense. The Court will not consider the statute of limitations in the following analysis of plaintiffs' state law claims.

#### 1. Replevin

To establish a claim for replevin, the plaintiff must prove two elements: (1) that plaintiff has a possessory right superior to that of the defendant; and (2) that [\*40] plaintiff is entitled to the immediate possession of that property. See [Pivar v. Graduate School of Figurative Art of the N.Y. Academy of Art](#), 290 A.D.2d 212, 213, 735 N.Y.S.2d 522 (1st Dep't 2002); [Bendheim v. Butler](#), 255 A.D.2d 664, 664, 679 N.Y.S.2d 460 (3d Dep't 1998). Further, "when the respondent maintains legal possession of the property, the claimant must also demonstrate a demand and refusal for the return of the chattel." [Valjean Mfg. v. Michael Werdiger, Inc.](#), 2005 U.S. Dist. LEXIS 2139, 2005 WL 356799, at \*17 (S.D.N.Y. Feb. 14, 2005) (citations omitted).

In this case, plaintiffs' claim meets the requirements

of a replevin cause of action. By virtue of Davella's copyright registration, plaintiffs have shown superior ownership of and entitlement to the portions of the JBS program defendant Castro copied. Further, Davella made a demand for the return of the program, and the defendants refused. (See Pls.' Exs. 8, 9, 11).

Typically, the remedy in a replevin action is the return of the property. [Valjean Manufacturing, Inc. v. Werdiger, Inc.](#), 2005 U.S. Dist. LEXIS 2139, 2005 WL 356799, at \*17 n.19 (S.D.N.Y. Feb. 14, 2005) (citations omitted). See also C.P.L.R., Article 71, Practice Commentaries (stating that the primary purpose [\*41] of the common law action of replevin was "to restore possession of a chattel to the person from whom it was wrongfully taken."). In a replevin action, a plaintiff is entitled to the property's replacement value, measured at the time of trial, only where repossession of the property is impossible. [Stengel v. Black](#), 2004 U.S. Dist. LEXIS 17398, 2004 WL 1933612, at \*2 (S.D.N.Y. 2004) (citing [Satterwhite v. Harriman Nat. Bank & Trust Co.](#), 13 F. Supp. 493, 499 (S.D.N.Y. 1935); [Spear v. Auto Dealers' Discount Corp.](#), 154 Misc. 801, 278 N.Y.S. 561, 561-62 (N.Y. Sup. Ct. 1935)).

Here, the return of the copyrighted portions of plaintiffs' program is possible. Accordingly, the plaintiffs are entitled to the return of the portions of the defendants' program copied from the JBS program.

#### 2. Conversion

To establish a claim for conversion, a plaintiff must demonstrate that: (1) the property at issue belonged to the plaintiff; (2) that the defendant deprived the plaintiff of use of that property; (3) that the defendant's conduct was unauthorized; and (4) that the defendant's conduct harmed the plaintiff. See [Key Bank of New York v. Grossi](#), 227 A.D.2d 841, 642 N.Y.S.2d 403 (3d Dep't 1996), [Ahles v. Aztec Enterprises, Inc.](#), 120 A.D.2d 903, 502 N.Y.S.2d 821 (3d Dep't 1986); [\*42] [Meese v. Miller](#), 79 A.D.2d 237, 436 N.Y.S.2d 496 (4th Dep't 1981).

To the extent that a conversion claim relates to actual tangible property, the claim is not preempted by federal copyright law. [Logicom Inclusive, Inc. v. W.P. Stewart & Co.](#), 2004 U.S. Dist. LEXIS 15668, 2004 WL 1781009, at \*17 (S.D.N.Y. Aug. 10, 2004); [Lennon v. Seaman](#), 63 F. Supp. 2d 428, 436 (S.D.N.Y. 1999). "However, if a party seeks damages for unauthorized use by defendants

in a manner that is equivalent with rights protected by § 106 [of the Copyright Act]," the claim should be preempted. [Logicom](#), 2004 U.S. Dist. LEXIS 15668, 2004 WL 1781009, at \*17 (S.D.N.Y. Aug. 10, 2004) (making this distinction in the context of a copyright claim based on the unauthorized use of a computer program, and noting that plaintiff's claim "is actually based not on the physical possession of plaintiffs' programs itself (sic), but defendants' derivative use of the programs").

In this case, plaintiffs' conversion claim fails for several reasons. The plaintiffs failed to meet the first element of a claim for conversion. The copy of the program that Castro took did not belong to the plaintiffs, it belonged to Broadway. See [Krause v. Titleserv, Inc.](#), 402 F.3d 119, 124 (2d Cir. 1995) (holding that [\*43] client who purchased a copy of a computer program from a consultant owned the copy of the program); [Aymes v. Bonelli](#), 47 F.3d 23, 25-6 (2d Cir. 1995) (holding that where defendants purchased a copy of a computer program from plaintiff, defendants were rightful owners of that copy of the program). Further, defendant Castro's use of Davella's source code did not prohibit plaintiffs from using the code, because defendant Castro took a copy of the code, and plaintiffs still had the original code. Finally, the situation in this case leans more toward the facts of [Logicom](#), in which the plaintiffs' claim was based not on the physical possession of plaintiffs' programs themselves, but instead on defendants' derivative use of the programs. [Logicom](#), 2004 U.S. Dist. LEXIS 15668, 2004 WL 1781009, at \*17 (S.D.N.Y. Aug. 10, 2004). Based on this distinction, the court in [Logicom](#) held that plaintiffs' claim for conversion was preempted by federal copyright law. *Id.*

Accordingly, the plaintiffs' claim for conversion is dismissed.

### 3. Unfair Competition

To prevail on an unfair competition claim, a plaintiff must prove that: (1) his product is entitled to protection; (2) defendant's unauthorized use of the product is likely to cause [\*44] confusion; and (3) defendant's unauthorized use of the product was in bad faith. See [Jeffrey Milstein, Inc. v. Greger, Lawler, Roth, Inc.](#), 58 F.3d 27 (2d Cir. 1995); [Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.](#), 199 Misc. 786, 101 N.Y.S.2d 483 (N.Y. Sup. 1950), affirmed by 279 A.D. 632, 107 N.Y.S.2d 795 (1st Dept. 1951); [Leader](#)

[Enterprises v. Television Fashion Fair](#), 80 N.Y.S.2d 186, 188 (N.Y. Sup. 1947).

Some courts have held that when a state law claim for unfair competition is related to a misappropriation claim, the state law is preempted by the federal copyright laws. [Davis v. Trojer](#), 2001 U.S. Dist. LEXIS 10193, 2001 WL 829872, at \*3 (S.D.N.Y. July 20, 2001) (citing [Warner Bros. Inc. v. American Broadcasting Companies, Inc.](#), 720 F.2d 231, 247 (2d Cir. 1983); [Arden v. Columbia Pictures Industries, Inc.](#), 908 F. Supp. 1248, 1264 (S.D.N.Y. 1995)). Still, at least one court has held that unfair competition claims based on misappropriation are not preempted by federal copyright law, because unfair competition claims require the plaintiff to prove an "extra element" beyond what is required by federal copyright law. Unfair competition under New York law requires a showing as to the likelihood of confusion between [\*45] the plaintiff's product and the defendant's product. [Silverstein v. Penguin Putnam, Inc.](#), 2003 U.S. Dist. LEXIS 5487, 2003 WL 1797848, at \*8 (S.D.N.Y. April 4, 2003).

The issue of preemption does not need to be decided in this case because plaintiffs' claim fails for other reasons. Plaintiffs' claim that defendants' taking of the program and the back-up tape containing the program were "acts of illegal competition by use of a competitors' (sic) confidential and federally protected business secrets." (Pls.' Am. Compl. P 51.) Plaintiffs' proof is not sufficient to support an unfair competition claim. In order to prevail on an unfair competition claim, a plaintiff must also make a showing that the defendant's unauthorized use of the program was likely to cause confusion. [Kane v. Comedy Ptnrs.](#), 2003 U.S. Dist. LEXIS 18513, 2003 WL 22383387, at \*8 (S.D.N.Y. Oct. 26, 2003) (dismissing plaintiff's unfair competition claims where plaintiff could not prove reasonable likelihood of confusion). Based on plaintiffs' failure to prove that defendants' unauthorized use of the program caused confusion in the marketplace, plaintiffs' claim is dismissed.

### 4. Tortious Interference

The two causes of action premised on tortious interference are "tortious interference [\*46] with contract," and "tortious interference with prospective contract or business relations." [Lennon v. Seaman](#), 63 F. Supp. 2d 428, 433 (S.D.N.Y. 1999). Plaintiffs' complaint alleges both. (Pls.' Am. Compl. P 58, P 64.)

a. *Tortious Interference with Contractual Relations*

The elements of a claim for tortious interference with contractual relations are: "i) the existence of a valid contract between the plaintiff and a third party; ii) defendant's knowledge of the contract; iii) defendant's intentional inducement of the third party to breach the contract or otherwise render performance impossible; and iv) damages to the plaintiff." *Lennon v. Seaman*, 63 F. Supp. 2d 428, 433 (S.D.N.Y. 1999) (citing *Kronos, Inc. v. AVX Corp.*, 612 N.E.2d 289, 81 N.Y.2d 90, 94, 95, 595 N.Y.S.2d 931(1993)). An actual breach of the contract is required. *Lennon*, 63 F. Supp. 2d at 433 (citing *NBT Bancorp Inc. v. Fleet/Norstar Fin. Group, Inc.*, 664 N.E.2d 492, 87 N.Y.2d 614, 620, 641 N.Y.S.2d 581 (1996)); see also *D'andrea v. Rafla-Demtrious*, 146 F.3d 64, 65-66 (2d Cir. 1998)).

In this case, plaintiff Davella, through his company JBS, contracted with the third party Broadway Famous on November 1, 1986. (Pls.' Ex. D.) [\*47] The contract involved the licensing of the JBS computer program involved here as well as the regular maintenance of that computer program. With respect to the second factor of knowledge of the contract, while it is likely that Castro knew of Broadway's contract, it is not necessary to decide this, because there is no evidence that Castro or Unique intentionally induced Broadway Famous to breach any contract with Davella or JBS. See *Lennon v. Seaman*, 63 F. Supp. 2d 428, 433 (S.D.N.Y. 1999) (citing *Kronos, Inc. v. AVX Corp.*, 612 N.E.2d 289, 81 N.Y.2d 90, 94, 595 N.Y.S.2d 931 (1993)). Plaintiff Davella testified that he lost Broadway as a client when Broadway's then-president stated that he was going to hire an in-house programmer to do the computer work. Accordingly, plaintiffs' claim for tortious interference with contractual relations is dismissed.

b. *Tortious Interference with Prospective Contract or Business Relations*

A claimant alleging tortious interference with prospective contract or business relations must demonstrate that "(1) it had a business relationship with a third party; (2) the defendant knew of that relationship and intentionally interfered with it; (3) the defendant [\*48] acted solely out of malice, or used dishonest, unfair, or improper means; and (4) the defendant's interference caused injury to the relationship." *Advance Relocation & Storage Co., Inc. v. Local 814, Int'l Brotherhood of Teamsters, AFL-CIO*, 2005 U.S. Dist.

LEXIS 6835, 2005 WL 665119, at \*12 (E.D.N.Y. March 22, 2005) (citing *Carvel Corp. v. Noonan*, 350 F.3d 6, 17 (2d Cir. 2003) (citations omitted)). As discussed above, there is no evidence that the defendants intentionally interfered with plaintiffs' relationship between Broadway Famous and JBS. It can reasonably be inferred from all the testimony in this case that when Broadway had the right to stop using JBS, it had the right of exclusive and continued use of the program which it bought from JBS in 1986. Broadway hired a new company to do its computer programming and maintenance work in 1988. Defendant Castro was working for that company (USS). There is no evidence of interference, much less malice or dishonesty, relating to Broadway's decision to terminate the service of JBS in 1988. Accordingly, the plaintiffs' claim for tortious interference with prospective contract or business relations is dismissed.

5. *Misappropriation of a Trade Secret*

As part of the sixth [\*49] cause of action, the plaintiffs allege that Castro's copying of the rental program constituted "tortious misuse of... trade secrets." (Pls.' Am. Compl. at P 64.) The plaintiffs also allege that "the stolen tape" contained a copy of Davella's program, and accordingly, Castro misappropriated a trade secret by delivering the tape to Party Rental. (*Id.* at P 24.)

A party claiming misappropriation of a trade secret must prove that: "(1) it possessed a trade secret, and (2) defendant is using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means." *Bear, Sterns Funding, Inc. v. Interface Group-Nevada, Inc.*, 361 F. Supp. 2d 283, 2005 WL 639419, at \*18 (S.D.N.Y. 2005); *Fabkom, Inc. v. R.W. Smith & Assocs.*, 1996 U.S. Dist. LEXIS 13686, 1996 WL 531873, at \* 6 (S.D.N.Y. Sept. 19, 1996). A trade secret is a confidential "formula, pattern, device or compilation of information which is used in one's business, and which gives [the business] an opportunity to obtain an advantage over competitors who do not know or use it." *Bear, Sterns Funding*, 361 F. Supp. 2d 283, 2005 WL 639419, at \*19 (citing *Ashland Management v. Janien*, 624 N.E.2d 1007, 82 N.Y.2d 395, 407, 604 N.Y.S.2d 912 (1993) (quoting Restatement [\*50] (First) of Torts § 757 cmt. b); *Lehman v. Dow Jones & Co.*, 783 F.2d 285 (2d Cir. 1986); *Medinol Ltd. v. Boston Scientific Corp.*, 346 F. Supp.2d 575, 607 (S.D.N.Y.2004)). Trade secret claims are not preempted by copyright law because the requirement that the

plaintiff prove that the defendant used the trade secret in breach of a duty constitutes the "extra element" that distinguishes trade secret causes of action from pure copyright causes of action. [Computer Associates Int'l, Inc. v. Altai, Inc.](#), 982 F.2d 693, 717 (2d Cir. 1992).

Generally, computer programs are protectable as trade secrets under New York law. [Altai](#), 982 F.2d at 717; [Fabcom](#), 1996 U.S. Dist. LEXIS 13686, 1996 WL 531973, at \*6 (citations omitted). To determine whether a particular work qualifies as a trade secret, the court must consider six factors: "(1) the extent to which the information is known outside of [the claimant's] business; (2) the extent to which it is known by employees and others involved in [the] business; (3) the extent of measures taken by [the claimant] to guard the secrecy of the information; (4) the value of the information to [the claimant] and [claimant's] competitors; (5) the amount of effort or money expended by [the claimant] [\*51] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others." [Fabcom](#), 1996 U.S. Dist. LEXIS 13686, 1996 WL 531973, at \*6 (citing *Restatement of Torts*, § 757 cmt. b; [Integrated Cash Management Serv., Inc. v. Digital Transactions, Inc.](#), 920 F.2d 171, 173 (2d Cir. 1990); [Eagle Comtronics, Inc. v. Pico, Inc.](#), 89 A.D.2d 803, 803-04, 453 N.Y.S.2d 470, 472 (4th Dep't 1982)).

In this case, the plaintiffs offered testimony and evidence that Castro copied the source code and menu screens from Davella's program. However, since any user of the program is privy to the menu screens, the menu screens can not be considered trade secrets. Accordingly, the Court will consider the plaintiffs' trade secret cause of action only with regard to defendants' misappropriation of Davella's source code and sale of the tape containing Davella's program.

On the first factor, it can reasonably be inferred from the evidence that the source code for plaintiffs' program was not intended to be known outside of JBS, except when authorized by the plaintiffs. On the second factor, the extent to which JBS employees knew the source code, Davella testified that JBS is a small company, [\*52] and that most people in the office were aware of the work plaintiff was doing. (Tr. at 46.) The third factor concerns the degree to which the plaintiffs took measures to guard the secrecy of the code. Plaintiffs offered no direct testimony on this point; however, the JBS contract with

Broadway Famous reveals that plaintiffs took some measures to protect the secrecy of the product. The contract explicitly states that "the Client [Broadway] will not solicit any program that we have installed and maintained at the Client for the purposes of selling the software without the written agreement of the Consultant [JBS]." (Defs.' Ex. D, P 4.) Based on this language, it can be inferred that the plaintiffs wanted to maintain control over outside access to the rental program. On the fourth factor, Davella testified that at the time he was working on the program, there was no other program like it. (Tr. at 21.) He testified that he spent several months before writing the program just working with Broadway, in order to understand the party rental business and their needs. (*Id.*) Davella later sold the program to another party rental company called Service Party Rental (*Id.* at 75), suggesting that [\*53] there was a market beyond Broadway for the program, and supporting the contention that by using a program like the one plaintiff designed, party rental companies could gain an advantage in the marketplace. The fifth factor requires considering the amount of effort or money put in to developing the program. Again, Davella testified that he spent between seven and nine months working closely with Broadway developing the program to meet their specific needs, and that at the time, no other program like it existed. (*Id.* at 21.) He testified that he then spent another three months actually creating the software (*Id.* at 74.) In total, Davella spent close to a year producing the rental program. Finally, the sixth factor concerns the ease or difficulty with which the code could be acquired or copied by others. Plaintiffs offered no testimony on this factor, and defendant Castro did not testify as to how easy or difficult it was for him to access the source code from plaintiffs' program.

On the whole, examination of the plaintiffs' program according to the six factors outlined in [Fabkom](#) suggests that the source code from plaintiffs' program was a trade secret. Accordingly, the Court must move [\*54] to the second stage of analysis, in which the plaintiffs are required to prove that Castro was "using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means." [Bear, Sterns Funding, Inc. v. Interface Group-Nevada, Inc.](#), 361 F. Supp. 2d 283, 2005 WL 639419, at \*18 (S.D.N.Y. March 21, 2005); [Fabkom, Inc. v. R.W. Smith & Assoc., Inc.](#), 1996 U.S. Dist. LEXIS 13686, 1996 WL 531873, at \* 6 (S.D.N.Y. Sept. 19, 1996). The plaintiffs proved that Castro took the program while working for Broadway, in

violation of Broadway's contract with JBS. The contract states that Broadway agreed not to "solicit any program that [JBS] installed and maintained at [Broadway] for the purposes of selling the software without the written agreement of [JBS]." (Defs.' Ex. D, at 2.) Additionally, Castro's theft of the back-up tape that contained the plaintiffs' program, along with Broadway's customer data, constitutes a discovery by improper means.

Based on the foregoing, the Court finds that plaintiffs prevail on the claim for misappropriation of a trade secret. The remaining issue however is what, if any, damages plaintiffs are entitled to recover based on this tort.

#### V. Damages

##### A. Misappropriation of a Trade [\*55] Secret

[New York General Obligations Law § 15-108](#) provides that when a release is given to "one of two or more persons liable or claimed to be liable in tort for the same injury,"

it does not discharge any of the other tortfeasors from liability for the injury or wrongful death unless its terms expressly so provide, but it reduces the claim of the releasor against the other tortfeasors to the extent of any amount stipulated by the release or the covenant, or in the amount of the consideration paid for it, or in the amount of the released tortfeasor's equitable share of the damages under article fourteen of the civil practice law and rules, whichever is the greatest.

[N.Y. Gen. Oblig. Law § 15-108](#) (McKinney 1999).

The defendants argue that because plaintiffs received \$ 20,000 as part of the settlement with Party Rental in exchange for releasing Party Rental and James McManus from this action, the plaintiffs cannot collect again. The plaintiffs contend that the law does not apply to this action because this is a contract action. (Pls.' Trial Mem. of Law at unnumbered page 4.) Misappropriation of a trade secret is not a contract claim. In the alternative, the plaintiffs argue that the value [\*56] of the software is \$ 75,000, and defendants should pay \$ 55,000, an amount equivalent to the value of the software less the \$ 20,000 plaintiffs received in payment from Party Rental. (Pls.'

Pre-Trial Summary of Claims at 2, 5.)

N.Y. General Obligations Law applies to the misuse of a trade secret claim, which is a tort claim. The extent to which Party Rental's settlement and payment discharges Castro and Unique from liability rests on the degree to which the injury allegedly caused by Party Rental is the "same injury" caused by Unique and Castro. See [N.Y. Gen. Oblig. Law § 15-108](#) (McKinney 1999). Here the injury is the same. In the complaint, plaintiffs assert every cause of action against all of the original named defendants, including Party Rental and McManus, jointly and severally. Further, the terms of the settlement specify that the agreement was reached "in full settlement of the action," in other words, the settlement provision did not apportion damages among the defendants. (Pls.' Ex. 14.) Accordingly, because plaintiffs collected \$ 20,000 from defendants Party Rental and McManus in exchange for their release from the action, defendants Unique and Castro can not be held liable [\*57] for the full amount of damages awarded in connection with the misuse of trade secret claim. [N.Y. Gen. Oblig. Law § 15-108](#). See also [Screen Gems--Columbia Music, Inc. v. Metlis & Lebow Corp.](#), 453 F.2d 552, 554 (2d Cir. 1972).

Castro and Unique can only be held liable to the extent that plaintiffs' damages for the state law cause of action exceeds \$ 20,000.00. There is no evidence that the plaintiffs suffered damages in excess of \$ 20,000.00 as a result of theft of the plaintiffs' trade secret. Since the record is devoid of any proof as to damages, plaintiffs are awarded nothing in money damages on the misuse of trade secret claim.

##### B. Copyright Infringement

###### 1. Statutory Damages and Attorney's Fees

The Court finds that the plaintiffs have prevailed on the copyright cause of action. Plaintiffs request damages in the amount of \$ 75,000.00 per defendant, based on the alleged value of the program, plus \$ 5,000 per defendant per year for each year defendants have been in possession of the program, plus interest. (Pls.' Am. Compl. PP 65-66.) Plaintiffs also seek an award of attorney's fees, costs, and disbursements. (*Id.* P 6 of Wherefore Clause.)

[Section 504](#) of the Copyright Act allows the [\*58] plaintiff to seek actual damages plus any additional profits earned by the infringer or statutory damages as outlined in [section 504\(c\)](#). See [17 U.S.C. § 504](#). In

addition, the court has discretion to increase the award of statutory damages where the infringement was committed willfully. *See id.* [§ 504\(c\)\(2\)](#). The court may also award reasonable attorney's fees to the prevailing party. *See id.* [§ 505](#).

However, the court may not award statutory damages or attorney's fees where the copyright owner did not register the work prior to the infringement. [17 U.S.C. § 412\(2\)](#) (prohibiting the award of statutory damages and attorney's fees where "any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work"). *See also* [Softel, Inc. v. Dragon Medical & Scientific Communs.](#), 1992 U.S. Dist. LEXIS 9502, 1992 WL 168190, at \*29 (S.D.N.Y. June 30, 1992), *overturned on other grounds*, [118 F.3d 955 \(2d Cir. 1997\)](#). Here, the copyright infringement occurred before plaintiff Davella filed the copyright registration in November 2001. Accordingly, the plaintiffs are not entitled [\*59] to statutory damages or attorney's fees.

## 2. Actual Damages

The plaintiffs are entitled to actual damages, which is an amount equal to the plaintiffs' lost profits plus the infringer's profits attributable to the infringement. *See* [17 U.S.C. § 504](#). The award of a plaintiff's lost profits seeks to compensate the owner for any harm he suffered by reason of the infringement. *On Davis v. Gap, Inc.*, [246 F.3d 152, 159 \(2d Cir. 2001\)](#). The award of an infringer's profits seeks to insure that the infringer not benefit from his wrongdoing. *Id.*

In this case, the plaintiffs seek actual damages in the amount of \$ 75,000.00 per defendant, plus \$ 5,000 for each year each defendant has been in possession of the allegedly stolen material, in addition to interest. (Pls.' Am. Compl. PP 65-66.) The plaintiffs offered no evidence to support this claim of actual damages. Plaintiff Davella testified that the fair market value of the software in 1999 was \$ 75,000, but he did not explain how he arrived at this calculation, nor did he offer any evidence that JBS lost potential customers based on defendant Castro's infringement. (Tr. at 102, 106). Accordingly this valuation is inadequate proof.

In *On Davis v. Gap, Inc.*, [246 F.3d 152, 159 \(2d Cir. 2001\)](#), [\*60] the court held that in a case where the copyright owner proves that the defendant has infringed

his work, and that a license to make such use of the work had a fair market value at the time of infringement, the copyright owner is entitled to an award of some damages, even where the owner has not shown that the infringement caused him lost sales, lost opportunities to license, or diminution in the value of the copyright. [Gap, Inc.](#), [246 F.3d 152 at 164-166](#). In *Gap, Inc.*, the court stated that "finding the fair market value of a reasonable license fee may involve some uncertainty," but that to deny the owner damages in a case in which the owner has shown fair market value but has not proven loss of sales or licenses to third parties "would be that in such circumstances an infringer may steal with impunity." *Id.* [at 166](#).

Nevertheless, in this case, plaintiffs failed to even prove at a minimum that the program license had a fair market value at the time of the infringement. Plaintiff Davella testified that the fair market value of the program in 1999 was \$ 75,000, but this amount is entirely speculative and unreasonable, given that plaintiffs licensed the work to Broadway for \$ 25,000 in [\*61] 1986. The value of a computer program naturally diminishes over time. Moreover, the program was tailored to the individual needs of a single customer-Broadway. Additionally, Castro sold this version of the program, which plaintiff Davella acknowledged had added features (Tr. at 89), for \$ 20,000 in 1999. However, it is only reasonable to infer—since this was an unauthorized and unlawful transaction—that a substantial portion of that value was for the business information on those programs belonging to Broadway. The purchaser- Party Rental- is an acknowledged competitor of Broadway.

Further, plaintiffs only submitted as evidence ten percent of the JBS program, and from this ten percent, the plaintiffs made no showing as to which elements were copyrightable. The Court will not engage in speculation as to the percentage of the JBS program that was copyrightable, or the percentage of the JBS program that was actually copied. It was the plaintiffs' burden to prove damages by a preponderance of the evidence. They have failed to do this. Based on plaintiffs' failure to adequately prove damages, the plaintiffs are awarded nothing for the copyright violation of the JBS rental program.

## 3. Injunction [\*62] and Impoundment

The plaintiffs seek to enjoin defendants from copying, distributing, selling, or providing any party with

copies of the JBS program, or any elements associated with the program. (*Id.* P 1, P 2 of Wherefore Clause.) The plaintiffs also request the issuance of an order for the seizure and impoundment of all copies of the JBS program, in any form, in the defendants' possession or under their control. (*Id.* P 3 of Wherefore Clause.)

[Section 502](#) of the Copyright Act authorizes the court to grant a final injunction on such terms as it deems reasonable to prevent or restrain infringement of a copyright. [17 U.S.C. § 502](#). Additionally, [Section 503](#) of the Copyright Act authorizes the court, as part of a final judgment or decree, to order the destruction or other reasonable disposition of all materials found to have been made or used in violation of the copyright owner's exclusive rights. [17 U.S.C. § 503](#).

I find that plaintiffs are entitled to the return of all programs containing any portion or portions of the JBS program that are in defendants' possession or, alternately, that are in the possession of a third party known to the defendants. Defendants are enjoined from any further [\*63] use of any program or programs containing any copyrighted portion of the JBS program at issue in this action.

*CONCLUSION*

IT IS HEREBY ORDERED, ADJUDGED AND DECREED, that defendants Castro and Unique be

prohibited from any future use of any portions of the party rental program that belong to the plaintiffs by virtue of their copyright registration in the program.

IT IS HEREBY FURTHER ORDERED, ADJUDGED AND DECREED, that defendants Castro and Unique are directed to turn over to the plaintiffs any computer programs in their possession that contain copyrighted elements of the plaintiffs' rental program, including any programs that use the plaintiffs' source code and/or menu screens. Defendants are also directed to obtain and turn over to plaintiffs any such programs that, to their knowledge, are presently in the possession of third parties.

The Clerk of the Court is directed to enter judgment against defendants Unique Software Support Corporation and Alan Castro as provided herein, with costs, and mark this case as closed.

SO ORDERED.

Dated: Central Islip, New York

May 26, 2005

/s/ E. Thomas Boyle

United States Magistrate Judge

G

Not Reported in F.Supp.2d, 2007 WL 2900599 (E.D.Tex.)  
(Cite as: 2007 WL 2900599 (E.D.Tex.))

## H

Only the Westlaw citation is currently available.

United States District Court,  
E.D. Texas,  
Sherman Division.  
LELAND MEDICAL CENTERS, INC., Plaintiff,  
v.  
Floyd R. WEISS, et al., Defendants.

No. 4:07cv67.  
Sept. 28, 2007.

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### **ORDER REGARDING DEFENDANTS' MOTIONS TO STRIKE DANIEL JACKSON DON D. BUSH**, United States Magistrate Judge.

\*1 A number of motions have been filed by Defendants challenging the expert report and testimony of Plaintiff's expert, Daniel Jackson (Dkts. 212, 219, 224, and 281). The parties request that the Court exercise its broad discretion under *Daubert* and [Federal Rule of Evidence 702](#) to determine whether Jackson's opinions are reliable and supported.

#### **STANDARD**

An expert's testimony must be reliable at each and every step or else it is inadmissible. "The reliability analysis applies to all aspects of an expert's testimony: the methodology, the facts underlying

the expert's opinion, the link between the facts and the conclusion, et alia." *Knight v. Kirby Inland Marine Inc.*, 482 F.3d 347, 355 (5th Cir.2007) (quoting *Heller v. Shaw Indus. Inc.*, 167 F.3d 146,155 (3rd Cir.1999)).

Federal Rule of Civil Procedure 702 in part provides that a qualified expert may testify in order to assist the trier of fact to understand the evidence or to determine a fact in issue if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case. [FED.R.EVID. 702](#). When evaluating expert testimony, the overarching concern is whether or not it is relevant and reliable. See *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993).

In general, a copyright infringer is liable for either statutory damages or the copyright owner's actual damages and any additional profits of the infringer. [17 U.S.C. § 504\(a\)](#). "The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." [17 U.S.C. § 504\(b\)](#). Actual damages are the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement. 4 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright*, § 14.02, at 4-14 (2005); see also *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 512 (9th Cir.1985).

As to profits, the statute provides further "[i]n establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." [17 U.S.C. § 504\(b\)](#). For the

Not Reported in F.Supp.2d, 2007 WL 2900599 (E.D.Tex.)  
 (Cite as: 2007 WL 2900599 (E.D.Tex.))

purposes of 17 U.S.C. § 504(b), “gross revenues” include only “gross revenues reasonably related to the infringement, not unrelated revenues.” *On Davis v. The Gap, Inc.*, 246 F.3d 152, 160 (2nd Cir.2001). Speculation should play no role in determining the amount of actual damages sustained. See *Abeshouse v. Ultragraphics, Inc.*, 754 F.2d 467, 470 (2nd Cir.1985).

“Gross revenue,” as defined in 17 U.S.C. § 504 (b), “does not mean the infringer's gross revenue from all of its commercial endeavors.” *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 511 n. 9 (4th Cir.2002). Instead, “a copyright owner is only entitled to present the gross revenue for the infringer's line of business or project related to the infringement.” *Id.* The copyright holder must establish the existence of a causal link between the infringement and the infringer's gross revenue before the burden-shifting provisions of § 504(b) will apply. *Bonner v. Dawson*, 404 F.3d 290, 294 (4th Cir.2005). Failure to require a causal link is nothing more than allowing expression of any “pie in the sky” damage model. See generally *Polar Bear Productions, Inc. v. Timex*, 384 F.3d 700 (9th Cir.2004).

### JACKSON'S PROFIT ANALYSIS

\*2 Jackson's report sets forth his opinions on actual damages as well as profits. Profit (loss of profit) damages must be established with “reasonable certainty.” *Tex. Instruments Incorp. v. Teletron Energy Mgmt.*, 877 S.W.2d 276, 281 (Tex.1994). Such damages may not be based on evidence that is speculative, uncertain, contingent, or hypothetical. *Carter v. Steverson & Co.*, 106 S.W.3d 161, 165-66 (Tex.App.-Houston [1st Dist.] 2003, pet. denied). A plaintiff must adduce evidence from which the jury can reasonably estimate the amount. *Davis v. Small Bus. Inv. Co.*, 535 S.W.2d 740, 743 (Tex.Civ.App.-Texarkana 1976, writ ref'd n.r.e.). While some uncertainty as to the amount of damages is permissible, uncertainty as to the fact of damages will defeat recovery. *Id.* In this case, since there are no gross revenues generated by

the Bariatric Hospital, Jackson has opined that an acceptable measure of recovery is in effect an anticipated revenue stream based on Bariatric's pro forma projections.

The genesis of this controversy is one piece of paper depicting a design. According to Jackson this one piece of paper translates into a multi-million dollar damage award. According to Jackson's report, total damages represent a 15 to 30 fold increase in any profit for any hospital that Leland has ever been associated with, taking into consideration, license fees, management fees and profit participation. Naturally, all Defendants challenge the methodology.

Jackson's analysis as to “disgorgement of profits” begins with the concession that the hospital has never generated gross revenues. He uses a “2006 Budget” for the hospital prepared by Foundation as his starting point. Jackson states that gross revenues are projected to be approximately \$50,000,000; collected revenues of \$30,000,000 after “deductions”; and earnings before interest, taxes, depreciation and amortization in excess of \$10,000,000. He states that, each succeeding year, the hospital would most likely generate at least these levels of revenues and profits.

Jackson states that he performed two analyses in trying to reach an opinion as to fair market value. He states that when gross revenue will be recognized in the future, courts have relied upon the fair market value of the property as the most appropriate “proxy for gross revenues.” He cites two cases, evidently provided by counsel for this analysis. In *Van Bouck & Associates v. Darmik, Inc.*, 329 F.Supp.2d 924 (E.D.Mich.2004), the court awarded actual damages and profit damages to the copyright claimant. Interestingly, the case cited by Jackson finds that the actual damages should have been the amount the architect would have charged the infringers for the design. As to the award of profits, the court applied a fair market value test to the *residence* to determine the appropriate gross revenue when the house had not been sold.

Without commenting on whether the test meets the reasonable certainty test, the court notes that there was evidence from appraisers as to offers for the house as well as the listing price. Whether such evidence is even admissible as to fair market value need not be addressed for the purposes of this order. As a general rule in Texas, unaccepted offers to purchase are not competent evidence of fair market value. *Hanks v. Gulf Colo. & S.F. Ry.*, 159 Tex. 311, 320 S.W.2d 333, 336 (Tex.1959). However, *Van Bouck* does not support Jackson's methodology or conclusions as to market value. It doesn't even come close. Determining market value of real estate is far less conjectural than projecting the value of a business not yet operating with no facility and no revenue.

\*3 Jackson also cites *Associated Residential Design, LLC v. Moloky*, 226 F.Supp.2d 1251 (D.Nev.2002). In that case, the home owners were the infringers of Associated's design. However, the home had not been sold. The court held that profits recoverable under § 504(b) can be divided into two categories: direct and indirect. *Id.*; see also *Mackie v. Rieser*, 296 F.3d 909, 914 (9th Cir.2002). The court held that even though direct profits could not be demonstrated, Associated could sue for indirect profits. *Associated*, 226 F.Supp.2d at 1255. The court held indirect profits involve "revenue that has a more attenuated nexus to the infringement." *Id.* (citing *Mackie*, 296 F.3d at 914). The court further noted that although indirect profits may be recovered by a copyright holder, those claims are frequently unsuccessful because profits must be "attributable to the infringement." *Id.* (citing § 504(b); 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.03[A] (2002) (explaining that, "[i]t does not suffice for a plaintiff to imagine *fantastic success*, if only the defendant had not gotten in the way") (emphasis added)). "(A) copyright holder must proffer sufficient non-speculative evidence to support a causal relationship between the infringement and the profits generated indirectly from such an infringement." *Id.* (citing *Mackie*, 296 F.3d at 915-16). The court

noted "(a)lthough the Molotkys have not sold their home, it is possible that they have 'profited' from its construction. That is, the value of the home could be greater than the cost to build it. In this sense, the Molotkys may have realized revenue from the construction of the home. We believe that this view is in line with Congress' intent in drafting § 504(b)." *Id.* at 1256.

*Associated* does not support Jackson's methodology or conclusions. Other courts have also required that the plaintiff demonstrate a nexus between infringement and indirect profits. See, e.g., *Mackie*, 712 F.2d at 915; *Univ. of Colo. Found. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1375 (Fed.Cir.1999) (holding that the plaintiff has the "burden" to demonstrate a nexus between the infringement and the indirect profits before apportionment can occur); *Bus. Trends Analysts, Inc. v. Freedomia Group, Inc.*, 887 F.2d 399, 404 (2nd Cir.1989) (holding that a plaintiff can recover indirect profits in the form of "value received from an infringing product used to enhance commercial reputation" if it first demonstrates that "the amount of an award is based on a factual basis rather than undue speculation") (internal quotation marks omitted); see also *Estate of Vane v. The Fair, Inc.*, 849 F.2d 186, 189-90 (5th Cir.1988) (affirming district court's refusal to award indirect profits damages allegedly resulting from infringing use of photographic slides in advertising); cf. *Taylor v. Meirick*, 712 F.2d 1112, 1122 (7th Cir.1983) (noting in direct profits context that "[i]f General Motors were to steal your copyright and put it in a sales brochure, you could not just put a copy of General Motors' corporate income tax return in the record and rest your case for an award of infringer's profits.").

\*4 When financial records sufficiently detailed to show an infringer's sales are not available, expert testimony may be used to develop either such proof or, as Leland attempted, proof of profits, rather than sales. But it is the trial court's role to evaluate this testimony. *Vane*, 849 F.2d at 186. In *Vane*, the Fifth Circuit noted that the expert's testimony was flawed

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because the expert's loss of profit calculation did not account for that portion in the calculation that was attributable to the infringing matter. *Id.* Where a business is not established, Texas precedent has long taken a dim view of trying to determine profits. *Southwest Battery Corp. v. Owen*, 131 Tex. 423, 115 S.W.2d 1097 (Tex.1938). Companies are free to create speculative, optimistic, and conjectural projections and to rely upon them in making business decisions. However, the mere existence of similar projections created by a company other than the plaintiff does not obviate the need for courts to apply the “reasonable certainty” test, nor does it indicate conformity with this legal standard. See generally *Ramco Oil & Gas Ltd. v. Anglo-Dutch (Tenge) L.L.C.*, 207 S.W.2d 801 (Tex.App.-Houston (14th Dist.) 2006, pet. denied).

Here Jackson's “Field of Dreams” analysis seems to be premised on the concept of build it and they will come. Yet, he fails to account for revenue not attributable to the hospital design. In fact, he wrongly concludes that it is the Defendants' burden to figure out what revenue is attributable to the infringing act. The plaintiff has the burden to demonstrate a nexus between the infringement and indirect profits. See *Straus v. DVC Worldwide, Inc.*, 484 F.Supp.2d 620 (S.D.Tex.2007). According to his report all revenue no matter how generated should be taken into account as indicia of profits. Therefore, revenue from physician charges, pathology studies, room charges, lab fees, x-ray charges, MRI or CT scan studies, meals, needles, glucose, anesthesia, medicines, gowns, disposable diapers, foot protectors, and surgical supplies-to name a few-all are attributable to Leland's creative design. Adopting Jackson's methodology is tantamount to holding that people who come to the bariatric hospital do so for the design, not to get rid of excess fat. His report in most respects is pure conjecture and speculation, so much so that the analysis should stop here. However, read on.

In Texas, courts have long favored the comparable sales approach when determining the market

value of real estate property. *City of Harlingen v. Estate of Sharboneau*, 48 S.W.3d 177, 182 (Tex.2001); *United States v. 320.0 Acres of Land*, 605 F.2d 762, 798 (5th Cir.1979). Although many cases arise in the context of a condemnation, the approach in appraising a property to determine value for a loan or collateral is no different than that of a condemnation. Under this approach, “[c]omparable sales must be voluntary, and should take place near in time to the condemnation, occur in the vicinity of the condemned property, and involve land with similar characteristics.” *City of Harlingen*, 48 S.W.3d at 182; see also *United States v. Trout*, 386 F.2d 216, 223 (5th Cir.1967). Furthermore, “[c]omparable sales need not be in the immediate vicinity of the subject land, so long as they meet the test of similarity.” *City of Harlingen*, 48 S.W.3d at 182. Finally, “if the comparison is so attenuated that the appraiser and the fact-finder cannot make valid adjustments for these differences, a court should refuse to admit the sale as comparable.” *Id.*; see also *Kraft*, 77 S.W.3d at 808.

\*5 Although Jackson's resume is long and presumptively impressive, it contains no information which demonstrates that he has any certification or experience in determining market value of real property. The two cases noted in his report which he uses to support his market value theory involve a determination of market value of real property, not business value. Somehow he extrapolates the holdings in these two cases to support his proposition that business value using a market approach is also appropriate. He states that he has calculated the fair market value of the hospital. However, his calculation totally fails to use comparable property analysis or any other accepted real property appraisal technique. He then goes on to state that (to) determine the fair market value of an operating entity it is necessary to perform a valuation of that business enterprise. Of course, all agree that the hospital is not an operating entity.

Throughout his analysis, Jackson continues to mix “apples and oranges” in his assessment. Al-

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though he acknowledges in a market business analysis that the proper approach is to look at comparable properties, his analysis looks at two “primary data sources.” He first cites *The Hospital M & A Market: Five Year Review & Outlook*. Then he states that he downloaded all transactions available through Capital IQ which fall into the industry groups of Specialty Hospitals. From this, he extrapolates “reasonable multiples” for the bariatric hospital. From this, he determines an implied valuation in the range of 30.2 million to 73.7 million. Again, there is no indication of what comparable he examined, if at all. In the end analysis, the Fifth Circuit has cautioned against the very approach that Jackson has used. Any damage model based on speculative revenues and operating profit from an unbuilt facility, is in an of itself, inherently speculative. *Carbo Ceramics, Inc. v. Keefe*, 166 Fed. Appx. 714 (5th Cir.2006) (citing *Metallurgical Industries, Inc. v. Fourtek, Inc.*, 790 F.2d 1195 (5th Cir.1986)).

The income approach to value proceeds on the premise that a buyer of income-producing property is primarily interested in the income its property will generate. *Polk County v. Tenneco, Inc.*, 554 S.W.2d 918, 921 (Tex.1977). The income method involves estimating the future income of the property and applying a capitalization rate to that income to determine market value. *Id.*; *City of Dallas v. Redbird Dev. Corp.*, 143 S.W.3d 375, 384 (Tex.App.-Dallas 2004, no pet.). The capitalization rate is the rate of interest investors would require as a return on their money before they would invest in the income-producing property, taking into account all the risks involved in that particular enterprise. *City of Dallas*, 143 S.W.3d at 384.

Jackson's “income approach” analysis is flawed primarily for the reasons noted above. All revenues are attributed to the infringement of Leland's design. He first notes that the Foundation Defendants have not produced as much information as he would have hoped to analyze. He also notes that he has only one year of cash flow projections. He se-

lects a discount rate of 22% but provides no analysis except in an annotation to his chart of the components of this rate. His testimony is simply speculative, conjectural, and his methodology is flawed throughout.

\*6 An analysis of the hospital's real property value after completion minus construction costs is, in the Court's opinion, the proper manner to determine the type of profits Leland seeks when gross revenues are not available. See *Christopher Phelps & Associates, LLC v. Galloway*, 492 F.3d 532 (4th Cir.2007).<sup>FN1</sup> Jackson's testimony as to the fair market value of the hospital (for profit analysis) whether utilizing his “income analysis or his market analysis” is stricken.

FN1. This case as well as the *Van Brough* and *Associated* cases provide a blueprint of how to determine profits in real property when property has not been sold. One need not be an architect to understand the design.

As to the remainder of Jackson's opinions as to gross revenue, the Court finds that his opinion does not assist the jury. There appears to be little dispute as to the gross revenues received by Huffman and Studio 5G. Presumably, Leland has admissible evidence of gross revenues. Jackson does not attempt to apportion the revenues but merely states that lost profits equal the total gross revenue to Huffman and Studio 5G. His testimony is not necessary on a matter not in dispute. This does not mean that Jackson cannot testify in rebuttal should Huffman and Studio 5G present evidence as to gross revenues which were not fairly disclosed in discovery or are significantly lower than what was previously anticipated by all parties.

#### ACTUAL DAMAGES

Actual damages are measured by “the extent to which the market value of the copyrighted work at the time of the infringement has been injured or destroyed by the infringement.” *Fitzgerald Publ'g Co., Inc. v. Baylor Publ'g Co., Inc.*, 807 F.2d 1110,

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1118 (2nd Cir.1986) (citation omitted). In appropriate circumstances, actual damages may be taken to be a reasonable license fee, that is, the fair market value of a license authorizing the defendant's use of the copyrighted work. See *On Davis v. Gap, Inc.*, 246 F.3d 152, 164-68 (2nd Cir.2001). This measure of damages contemplates “a negotiation between a willing buyer and a willing seller” and does not depend on whether the copyright infringer was *in fact* willing to negotiate for a license. *Id.* at 172. Rather, “[an] honest purchaser is hypothesized solely as a tool for determining the fair market value of what was illegally taken.” *Id.* See also *Thoroughbred Software Intern., Inc. v. Dice Corp.*, 488 F.3d 352 (6th Cir.2007). Actual damages are generally calculated with reference to the loss in the fair market value of the copyright, often measured by the profits lost as a result of the infringement. See, e.g., *Eales v. Env'tl. Lifestyles, Inc.*, 958 F.2d 876, 880 (9th Cir.1992), *cert. denied*, 506 U.S. 1001, 113 S.Ct. 605, 121 L.Ed.2d 541 (1992); see generally 3 *Nimmer* § 14.02[A], at 14-8 to 14-9.

According to Jackson, the appropriate measure of Leland's actual damages is the “royalty test” or “market value test.” Jackson does not rely on the royalty test because Leland has not licensed any third party to use its floor plan design in “isolation.” Jackson does concede that Leland provided a one-time floor design to Erdman & Associates in return for a licensing fee of \$180,000. However, Jackson states that this fee was also in addition to other remunerations that Leland expected to receive from development fees and management fees. Jackson notes another fee of \$75,000 for the Physician's Metroplex hospital design. Jackson mentions that there were other agreements associated with this license but does not specify the other agreements. Jackson also refers to the Trophy Club Physician's Hospital but states that the proposed fee never came to fruition. Jackson states that none of the license fees quoted are representative since Leland's modus operandi was to secure other benefits which were potentially more lucrative. However, Jackson's analysis is short sighted.

\*7 The question is not what Leland would have charged, just as it is not relevant what Foundation would have paid. The inquiry is an objective one into the resultant fair market value after negotiation between a willing buyer and seller. *Country Road Music, Inc. v. MP3.com, Inc.*, 279 F.Supp.2d 325 (S.D.N.Y.2003). For Jackson to discount this approach because Leland would not license without obtaining other financial incentives applies a subjective test, not an objective one.

Jackson claims that the market value test is the best method to measure Leland's damages. It is Leland's burden to demonstrate that his design had a fair market value. *On Davis v. The Gap, Inc.*, 246 F.3d at 166. However, mathematical precision is not required. *Stevens Linen Assocs. v. Mastercraft Corp.*, 656 F.2d 11, 14 (2nd Cir.1981). Although the Act itself does not define what constitutes actual damages, the primary measure of recovery is the extent to which the market value of the copyrighted work at the time of infringement has been injured or destroyed by the infringement. Failure to apply this measure in weighing actual damages is error. See generally *Fitzgerald Pub. Co., Inc. v. Baylor Pub. Co., Inc.*, 807 F.2d 1110 (2nd Cir.1986). Although courts allow an appropriate license fee to be taken into consideration on the issue of market value, this Court has found no cases to support what Jackson purports to do. Jackson appears to base his damage number of \$750,000 to \$1,250,000 on four factors: the financial incentives necessary to entice Leland to dispose of his interest in the West Texas hospital; the anticipated fees Leland would have earned on proposed projects; the efficiency in the design; and the anticipated profits to be earned by the Foundation defendants.

As to the category “Financial Incentives to Dispose of Leland's Interest,” the Court finds that this is not part of the actual damage rubric contemplated by the Act. What Leland would hope to earn as a profit interest in some other hospital bears no relationship to the market value diminution or injury to his single page schematic of a hospital. To argue

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that this is an element for consideration in actual damages circumvents the Copyright Act. *See generally Barrera v. Brooklyn Music, Ltd.*, 346 F.Supp.2d 400 (S.D.N.Y.2004). As to “fees,” Jackson takes into consideration Leland's desired profit participation in a hospital as well as Leland's desire to receive compensation as a manager of the hospital. These factors have nothing to do with the disputed copyright design. What was said concerning the first factor applies to this factor as well.

The Court finds that the efficiency of design consideration has some merit in analyzing the market value of the design. However, it is impossible from the report to comprehend what portion of the actual market value is attributable to efficiency.

As to Foundation's “profits,” the Court finds that such is merely speculative. In any event, Jackson has not demonstrated how Foundation's profits translate into his actual damage number. Nor has he provided any assurances that these profits were not taken into account in his profit analysis. If these profits are part and parcel of his disgorged profit analysis, then Leland is to some extent “double dipping” on the damages. Jackson appears to be doing exactly what 17 U.S.C. Section 504(b) proscribes.

\*8 Moreover, Jackson's testimony practically strips Leland of any causation claim. Leland has the burden to show that, but for Foundation's infringement, it would not have suffered a loss. *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir.1994). As Jackson notes, Leland and Foundation are essentially competitors. Leland would not have furnished its design without a right to participate in some level in profits as well as management. According to Jackson, Leland would not have participated in this hospital nor would Foundation have hired Leland on the terms Leland usually sought. At least many of the factors considered by Jackson in Leland's previous design and build experience would never have to come to fruition on this project. The Court finds that Jackson's testimony is not reliable and merely speculative as to actual damages and should be accordingly

stricken.

Defendants' various motions to strike (Dkts. 212, 219, 224, and 281) are therefore granted.

**SO ORDERED.**

**SIGNED this 27th day of September, 2007.**

E.D.Tex.,2007.

Leland Medical Centers, Inc. v. Weiss

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(E.D.Tex.)

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Analysis

As of: Feb 23, 2011

**PROPET USA, INC., Plaintiff, v. LLOYD SHUGART, Defendant.**

**CASE NO. C06-0186-MAT**

**UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF  
WASHINGTON**

**2007 U.S. Dist. LEXIS 69222**

**September 19, 2007, Decided  
September 19, 2007, Filed**

**SUBSEQUENT HISTORY:** Motion denied by [Propet USA, Inc. v. Shugart, 2007 U.S. Dist. LEXIS 81780 \(W.D. Wash., Oct. 24, 2007\)](#)

**PRIOR HISTORY:** [Propet USA, Inc. v. Shugart, 2007 U.S. Dist. LEXIS 68857 \(W.D. Wash., Sept. 18, 2007\)](#)

**CORE TERMS:** infringement, registration, actual damages, statutory damages, infringer's, limine, copyrighted, gross revenue, stolen, act of infringement, challenging, indirect, license, causal, nexus, supplemental briefing, subject matter jurisdiction, market value, attorney's fees, order to recover, post-registration, certificate, registered, asserting, remit, jurisdictional

**COUNSEL:** [\*1] For Propet USA Inc, Plaintiff: Bruce A. Kaser, LEAD ATTORNEY, VANTAGE LAW, ISSAQUAH, WA; James L Phillips, LEAD ATTORNEY, MILLER NASH LLP, SEATTLE, WA; Aubrey Anne Seffernick, MILLER NASH (SEA), SEATTLE, WA.

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For Lloyd Shugart, Counter Claimant: John E Whitaker, WHITAKER LAW GROUP, BAINBRIDGE IS, WA;

Philip P Mann, LEAD ATTORNEY, MANN LAW GROUP, SEATTLE, WA.

For Propet USA Inc, Counter Defendant: James L Phillips, MILLER NASH LLP, SEATTLE, WA.

**JUDGES:** Mary Alice Theiler, United States Magistrate Judge.

**OPINION BY:** Mary Alice Theiler

**OPINION**

**ORDER RE: PENDING MOTIONS IN LIMINE AND MOTION TO PROCEED FIRST AT TRIAL**

In the pretrial conference, the Court deferred ruling on defendant's motion in limine seeking to preclude plaintiff from challenging the registration of defendant's copyright applications now pending before the United States Copyright Office (Dkt. 84) and plaintiff's motion in limine to exclude evidence of defendant's actual damages (Dkt. 86). The Court also indicated that defendant's motion to proceed first (Dkt. 85) would be resolved by the jurisdictional issue raised [\*2] by his unresolved motion in limine. The parties submitted supplemental briefing on the jurisdictional and damages issues. (Dkts. 112-114.) Now, having considered the documents submitted in support and in opposition to the

pending motions, the Court hereby finds and ORDERS:

(1) Defendant has a number of applications for copyright registrations currently pending before the United States Copyright Office and seeks to preclude plaintiff from challenging the registration of those copyrights. However, as argued by plaintiff and as decided in other recent cases before this Court, the undersigned reads [17 U.S.C. § 411\(a\)](#) as reflecting that the absence of copyright registrations deprives this Court of subject matter jurisdiction over any associated claims of infringement. See [Corbis Corp. v. Amazon.com, Inc.](#), [351 F. Supp. 2d 1090, 1111-13 \(W.D. Wash. 2004\)](#) ("A district court does not have subject matter jurisdiction over an infringement claim until the Copyright Office grants the registration application and issues a certificate of registration.") and [Berry v. Penguin Group, Inc.](#), [448 F. Supp. 2d 1202, 1203 \(W.D. Wash. 2006\)](#) (same). Accordingly, defendant's motion in limine seeking to preclude [\*3] plaintiff from challenging the registration of defendant's copyright applications now pending before the United States Copyright Office (Dkt. 84) is DENIED. The Court clarifies that, in light of this ruling, defendant may only pursue claims of infringement as to copyrighted images for which he has a certificate of registration and must establish at trial the specific images for which the Copyright Office has granted copyright registration.

(2) Having resolved defendant's remaining motion in limine, the Court now addresses his request to proceed first at trial. The Court finds this request reasonable and appropriate given the issues to be resolved in this trial. As such, defendant's motion to proceed first (Dkt. 85) is GRANTED.

(3) In its motion in limine, plaintiff seeks to exclude evidence of defendant's actual damages, asserting his repeated failure to disclose this evidence. In the supplemental briefing provided, plaintiff challenges defendant's right, under [17 U.S.C. § 504\(a\)](#), to either "actual damages and any additional profits of the infringer," or to statutory damages. Plaintiff further asserts defendant's failure to support his Digital Millennium Copyright Act ("DMCA") or "Lost [\*4] or Stolen Photos" claims. Having considered all of the arguments raised, the Court DENIES plaintiff's motion (Dkt. 86) subject to the following:

(a) Actual Damages:

Pursuant to [17 U.S.C. § 504\(b\)](#), a "copyright owner

is entitled to recover the actual damages suffered by him or her as a result of the infringement[.]" "Actual damages are usually determined by the loss in the fair market value of the copyright, measured by the profits lost due to the infringement or by the value of the use of the copyrighted work to the infringer." [Polar Bear Prods. v. Timex Corp.](#), [384 F.3d 700, 708 \(9th Cir. 2004\)](#) (quoting [McRoberts Software, Inc. v. Media 100, Inc.](#), [329 F.3d 557, 566 \(7th Cir. 2003\)](#)). The copyright owner may pursue a lost license fee as actual damages. See, e.g., *id.*; [Thoroughbred Software Int'l, Inc. v. Dice Corp.](#), [488 F.3d 352, 359-60 \(6th Cir. 2007\)](#); [Davis v. Gap, Inc.](#), [246 F.3d 152, 166-67 \(2d Cir. 2001\)](#).

In this case, defendant points to the paid invoices as evidence of his actual damages. That is, he maintains his right to the original fee paid where plaintiff, or third parties to whom plaintiff distributed the images, utilized his copyrighted images outside of the claimed two-year [\*5] license period. The Court finds this method of proof sufficient to determine defendant's actual damages. However, the Court rejects defendant's assertion of his entitlement to the total amount plaintiff paid for all of the images during their business relationship, in his estimate \$ 185,000.00, from both plaintiff and any infringing third parties, for a total of \$ 370,000.00. Instead, defendant is limited to recovering actual damages for only those images shown by him to have been used in violation of the asserted license terms and for which he has obtained a copyright registration, and bears the burden of demonstrating the amount owing for those specific images.

(b) Additional Profits:

In addition to actual damages, a copyright owner may recover "any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." [17 U.S.C. § 504\(b\)](#). "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." *Id.* [\*6] However, because "it is implicit that the profits sought are those that arise from the infringement[,] . . . a copyright owner [seeking indirect additional profits] is required to do more initially than toss up an undifferentiated gross revenue number; the revenue stream must bear a legally significant

relationship to the infringement." [Polar Bear Prods.](#), 384 F.3d at 711. Therefore, "a plaintiff seeking to recover indirect profits must 'formulate the initial evidence of gross revenue duly apportioned to relate to the infringement[.]'" and "is bound to no more and no less than its statutory obligation to demonstrate a causal nexus between the infringement and the profits sought." *Id.* (quoting 4 [NIMMER ON COPYRIGHT § 14.03\[B\]](#), 14-39; other cited source omitted). "When an infringer's profits are only remotely and speculatively attributable to infringement, courts will deny recovery to the copyright owner." *Id.* (quoting 4 [NIMMER ON COPYRIGHT § 14.03](#), 14-34 and citing [Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.](#), 772 F.2d 505, 517 (9th Cir. 1985).)

In this case, defendant appears to seek indirect profits attributable to the infringement. (See Dkt. 113 at 3.) However, while acknowledging [\*7] his obligation to show a causal nexus between plaintiff's alleged infringement and the profits sought, defendant, to date, presents only evidence of plaintiff's gross revenue for the period in question. For the reasons described above, such a showing is insufficient. Accordingly, should defendant seek to pursue additional profits attributable to the infringement at trial, he will need to demonstrate a causal nexus between infringement of the specific images protected by a copyright registration and the profits sought.

(c) Statutory Damages:

As noted above, under [17 U.S.C. § 504\(a\), \(c\)](#), a copyright owner may elect to recover statutory damages, instead of actual damages and any additional profits. However, in order to recover statutory damages, the copyrighted work must have been registered prior to the commencement of the infringement, unless the registration is made within three months after the first publication of the work. [17 U.S.C. § 412](#); [Polar Bear Prods.](#), 384 F.3d at 708 n.5 ("Because Polar Bear did not register its copyright before infringement, it can recover only actual damages and profits under [§ 504\(b\)](#), not statutory damages under [§ 504\(c\)](#)."). "[T]he first act of infringement [\*8] in a series of ongoing separate infringements 'commence[s]' one continuing 'infringement' under [Section 412\(2\)](#)." [Parfums Givenchy v. C & C Beauty Sales](#), 832 F. Supp. 1378, 1393-95 (C.D. Cal. 1993) (citing cases finding same, including [Johnson v. University of Virginia](#), 606 F. Supp. 321, 325 (D. Va.

[1985](#)), wherein the court stated: "The court notes, however, that the alleged post-registration infringements involve only photographs which were first used by defendants prior to registration. Consequently, those alleged post-registration infringements 'commenced' prior to registration, and thus pursuant to [§ 412](#), they provide no basis for allowing statutory damages or attorney's fees."); accord 2 [NIMMER ON COPYRIGHT § 7.16\[C\]\[I\]](#).

Defendant contends his right to statutory damages, asserting his ability to show that, because a number of his images were still within the alleged two-year licence period before the effective registration date of April 10, 2006, acts of infringement commenced after that date. Therefore, as conceded by defendant, in order to recover statutory damages, he will bear the burden of proving, with respect to each specific image for which he has a copyright registration, [\*9] that plaintiff's first act of infringement of that image occurred after April 10, 2006. Accordingly, unless defendant can prove that a specific image or images were registered before (or within three months) of the alleged infringement, he will not be able to recover statutory damages or attorney fees.

(d) DMCA Claim:

In its supplemental brief, plaintiff contests defendant's ability to prove his DMCA claim. However, other than noting that the Court has discretion to reduce or remit an award of damages under [17 U.S.C. § 1203\(c\)\(5\)\(A\)](#) based on a finding of an innocent violation of the DMCA, the parties do not appear to disagree as to the remedies available for proof of a violation. Therefore, to the extent defendant proves a DMCA violation at trial, he will be entitled to an award of statutory damages as provided for in [17 U.S.C. § 1203\(c\)\(3\)](#)<sup>1</sup> and the Court will, as noted by plaintiff, retain the discretion to reduce or remit such an award as deemed appropriate.

1 Defendant cites only the statutory damages provisions of the DMCA in his trial brief and memorandum on damages. (See Dkt. 111 at 7 and Dkt. 113 at 7.)

(e) Lost or Stolen Photos:

Plaintiff disputes the existence of any lost or stolen [\*10] photos and, therefore, defendant's right to any damages associated with such a claim. Defendant asserts plaintiff's refusal to return some 975 images and points to

the liquidated damages clause in the Film Delivery Memo in dispute in this case as entitling him to the invoiced amount for each such image. Alternatively, should the trier-of-fact find the Film Delivery Memo unconscionable or otherwise non-binding, plaintiff offers an estimated \$ 500.00 fair market value for each of his images. However, because the parties have done little to elucidate the claim as to any lost or stolen photos, the Court finds itself unable to render a ruling at this time on the issue of any possible damages. Accordingly, the Court reserves a

ruling on this issue.

(4) The Clerk is directed to send copies of this Order to counsel for plaintiff and defendant.

DATED this 19th day of September, 2007.

Mary Alice Theiler

United States Magistrate Judge

**I**



Cited

As of: Feb 23, 2011

**GARY L. SMITH, Plaintiff, V. ALEC RUSH, BADFISH PRODUCTIONS, LLC.,  
Defendants.**

**No. C04-2280Z**

**UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF  
WASHINGTON**

**2006 U.S. Dist. LEXIS 27412**

**April 7, 2006, Decided**

**April 7, 2006, Filed**

**CORE TERMS:** actual damages, speculation, license fee, market value, reconsideration, hypothetical, determinative, infringement, self-serving, copyrighted, photograph

**COUNSEL:** [\*1] Gary L Smith, Plaintiff, Pro se, INEZ, KY.

**JUDGES:** Thomas S. Zilly, United States District Judge.

**OPINION BY:** Thomas S. Zilly

**OPINION**

MINUTE ORDER

The following Minute Order is made by direction of the Court, the Honorable Thomas S. Zilly, United States District Judge:

(1) The Court DENIES Plaintiff's Motion for Reconsideration, docket no. 35. "Motions for reconsideration are disfavored." Local Rule CR 7(h). Plaintiff has failed to show "manifest error in the prior ruling" or "new facts or legal authority which could not have been brought to its attention earlier with reasonable diligence." *See id.*

In his motion for reconsideration, Mr. Smith argues that "what a photographer would have charged to license copyrighted photographs" is admissible evidence in a suit for infringement, relying upon [Fournier v. Erickson, 242 F.Supp.2d 318, 336-37 \(S.D.N.Y. 2003\)](#). *Fournier* admitted this type of evidence despite defendants' objection that it was "too unreliably self-serving and speculative to be material to the question of actual damages." *Id. at 336*. *Fournier* noted that "the amount of damages may not be based on undue speculation," but went on to state that [\*2] "speculation can be minimized by evidence of sales figures for [the copyright owner's] past work" and "evidence from the negotiations indicating what the parties considered a reasonable charge." *Id. at 337*. *Fournier* noted that the jury would be instructed that the copyright owner's "assertions about what he would have charged are not determinative of actual damages but, rather, one of various pieces of evidence informing that determination." *Id.*

In the present case, the only evidence in support of Mr. Smith's "actual damages" is his declaration statement that he would charge \$ 100 per month per photograph as a license fee. Thus, Mr. Smith is asking the Court to consider this self-serving evidence as determinative of his actual damages. *Fournier* would not have allowed such evidence to be admitted in the absence of other evidence

of actual damages. Furthermore, the Ninth Circuit has defined "actual damages" as "the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement." [\*Mackie v. Rieser\*, 296 F.3d 909, 917 \(9th Cir. 2002\)](#). This "market value" test is "an objective, not a subjective, analysis" [\*3] of damages. *Id.* "A hypothetical lost license fee" may be awarded, "provided the amount is not based on undue speculation." [\*Polar Bear Prods., Inc. v. Timex Corp.\*, 384 F.3d 700, 709 \(9th Cir. 2004\)](#) (en banc) (hypothetical fee

supported by expert witness testimony from a certified public accountant as to fair market value). The Court concludes that Mr. Smith's suggested hypothetical lost license fee is based on undue speculation.

(2) The Clerk is directed to send a copy of this Minute Order and of the docket sheet in this case to Plaintiff.

Filed and entered this 7th day of April, 2006.

**J**

LEXSEE



Positive

As of: Feb 23, 2011

**UNILOC USA, INC. AND UNILOC SINGAPORE PRIVATE LIMITED,  
Plaintiffs-Appellants, v. MICROSOFT CORPORATION, Defendant-Cross  
Appellant.**

**2010-1035, 2010-1055**

**UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

**2011 U.S. App. LEXIS 11**

**January 4, 2011, Decided**

**PRIOR HISTORY:** [\*1]

Appeal from the United States District Court for the District of Rhode Island in Case No. 03-CV-0440, Judge William E. Smith.

[Uniloc USA, Inc. v. Microsoft Corp., 640 F. Supp. 2d 150, 2009 U.S. Dist. LEXIS 89813 \(D.R.I., 2009\)](#)

**DISPOSITION:** AFFIRMED-IN-PART, REVERSED-IN-PART, VACATED-IN-PART, and REMANDED.

**CASE SUMMARY:**

**PROCEDURAL POSTURE:** Appellant patentee sought review of a decision from the United States District Court for the District of Rhode Island, granting appellee software company's motion for judgment as a matter of law (JMOL) of non-infringement and no willful infringement, and in the alternative, granting a new trial on infringement and willfulness. Patentee appealed the grant of a new trial on damages. The software company cross-appealed denial of JMOL on invalidity.

**OVERVIEW:** The patent at issue involved a system to deter copying of software. The accused product was a feature offered by the software company to protect several of its software programs. After a full trial, a jury found that the patent was valid, the software company

engaged in willful infringement, and the patentee was due \$388 million in damages. The district court denied JMOL of invalidity, granted JMOL of non-infringement, granted JMOL of no willfulness, and granted in the alternative a new trial on infringement and willfulness. On review, the court reversed the grant of JMOL of non-infringement because it concluded that the jury's verdict on infringement was supported by substantial evidence. However, willfulness was not supported. The court also reversed the district court's alternative grant of a new trial on infringement. The court went on to find that the jury's damages award was fundamentally tainted by the use of the 25 percent rule of thumb which it held, as a matter of Federal Circuit law, to be a legally inadequate methodology. Thus, a new trial on damages was warranted. Finally, it agreed that the jury verdict of no invalidity was supported by substantial evidence.

**OUTCOME:** The court reversed the district court's grant of JMOL of non-infringement, affirmed the district court's grant of JMOL of no willfulness, affirmed the district court's grant of a new trial on damages, vacated the district court's grant of an alternative motion for new trial on infringement, and affirmed the district court's denial of JMOL of invalidity. The case was remanded for proceedings consistent with the opinion.

**CORE TERMS:** microsoft, licensee, algorithm, license,

user, infringement, software, market value, patent, new trial, activation, royalty, summation, generating, registration, royalty rate, remote, rule of thumb, hash, patentee, output, negotiation, hypothetical, input, calculation, checksum, non-infringement, invalidity, invention, billion

**LexisNexis(R) Headnotes**

***Patent Law > Infringement Actions > Burdens of Proof  
Patent Law > Jurisdiction & Review > Standards of Review > Substantial Evidence***

[HN1]To prove patent infringement, the plaintiff bears the burden of proof to show the presence of every element or its equivalent in the accused device. The underlying infringement issue is a question of fact reviewed for substantial evidence.

***Civil Procedure > Trials > Judgment as Matter of Law > Postverdict Judgments***

***Patent Law > Jurisdiction & Review > Standards of Review > De Novo Review***

[HN2]The United States Court of Appeals for the Federal Circuit's review of a district court's grant of judgment as a matter of law (JMOL) is governed by regional circuit law. The United States Court of Appeals for the First Circuit reviews a district court's denial of JMOL after a jury verdict de novo, asking whether the evidence points so strongly and overwhelmingly in favor of the moving party that no reasonable jury could have returned a verdict adverse to that party. The reviewing court may not evaluate the credibility of witnesses, resolve conflicts in testimony, or evaluate the weight of the evidence, but must view the evidence in the light most favorable to the non-moving party.

***Patent Law > Infringement Actions > Claim Interpretation > Means Plus Function***

[HN3]The literal scope of a properly construed means-plus-function limitation does not extend to all means for performing a certain function. Rather, the scope of such patent claim language is sharply limited to the structure disclosed in the specification and its equivalents. Nevertheless, in determining equivalence under [35 U.S.C.S. § 112](#), para. 6, the range of permissible equivalents depends upon the extent and nature of the

invention. More particularly, when in a claimed "means" limitation the disclosed physical structure is of little or no importance to the claimed invention, there may be a broader range of equivalent structures than if the physical characteristics of the structure are critical in performing the claimed function in the context of the claimed invention.

***Civil Procedure > Trials > Jury Trials > Province of Court & Jury***

***Evidence > Testimony > Experts > Credibility > General Overview***

***Evidence > Testimony > Experts > Daubert Standard***

[HN4]In common with the other circuits, First Circuit law does not allow the district court in a jury trial to evaluate the credibility of witnesses, resolve conflicts in testimony, or evaluate the weight of the evidence. Under Daubert, the district court must exercise its "gatekeeper" function in ensuring that scientific testimony is relevant and reliable. It is decidedly the jury's role to evaluate the weight to be given to the testimony of dueling qualified experts.

***Civil Procedure > Trials > Jury Trials > Province of Court & Jury***

***Civil Procedure > Judgments > Relief From Judgment > Motions for New Trials***

***Civil Procedure > Appeals > Standards of Review > Abuse of Discretion***

[HN5]The United States Court of Appeals for the Federal Circuit's standard of review over a district court's grant of a motion for new trial is governed by regional circuit law. In the First Circuit, a new trial is only appropriate when the outcome is against the clear weight of the evidence such that upholding the verdict will result in a miscarriage of justice. In contrast to judgment as a matter of law (JMOL), in considering a motion for a new trial, the district court may independently weigh the evidence. A district judge cannot displace a jury's verdict merely because he disagrees with it or because a contrary verdict may have been equally supportable. Trial judges do not sit as thirteenth jurors, empowered to reject any verdict with which they disagree. Nevertheless, the district court is entitled to deference in granting a new trial motion, and the United States Court of Appeals for the First Circuit only overturns the grant of a new trial if the district court has abused its discretion. As the Supreme Court has noted, trial judges have the unique opportunity to consider the evidence in the living courtroom context,

while appellate judges see only the cold paper record.

***Patent Law > Remedies > Collateral Assessments > Increased Damages***

[HN6]To establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. This is an objective inquiry. In addition, a patentee must show that this risk was either known or so obvious that it should have been known to the accused infringer. This is a subjective inquiry. If the accused infringer's position is susceptible to a reasonable conclusion of no infringement, the first prong cannot be met.

***Patent Law > Remedies > Collateral Assessments > Increased Damages***

[HN7][35 U.S.C.S. § 284](#) provides that on finding infringement of a valid patent, damages shall in no event be less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. In litigation, a reasonable royalty is often determined on the basis of a hypothetical negotiation, occurring between the parties at the time that infringement began. A reasonable royalty is the predominant measure of damages in patent infringement cases. The 25 percent rule of thumb is a tool that has been used in some cases to approximate the reasonable royalty rate that the manufacturer of a patented product would be willing to offer to pay to the patentee during a hypothetical negotiation. The Rule suggests that the licensee pay a royalty rate equivalent to 25 per cent of its expected profits for the product that incorporates the intellectual property at issue.

***Evidence > Testimony > Experts > Daubert Standard***

[HN8]In *Daubert*, the Supreme Court assigned to the district courts the responsibility of ensuring that all expert testimony must pertain to scientific, technical, or other specialized knowledge under [Fed. R. Evid. 702](#), which in turn required the judge to determine that the testimony was based on a firm scientific or technical grounding. Expert testimony which does not relate to any issue in the case is not relevant and, ergo, non-helpful.

***Patent Law > Remedies > Damages > Measures***  
***Patent Law > Remedies > Damages > Reasonable***

***Royalties***

[HN9]The United States Court of Appeals for the Federal Circuit holds as a matter of Federal Circuit law that the 25 percent rule of thumb used in some cases to approximate the reasonable royalty rate for measuring patent infringement damages is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue.

***Evidence > Procedural Considerations > Burdens of Proof > Allocation***

***Evidence > Testimony > Experts > Admissibility***

***Patent Law > Remedies > Damages > General Overview***

[HN10]In a patent infringement case, the patentee bears the burden of proving damages. To properly carry this burden, the patentee must sufficiently tie the expert testimony on damages to the facts of the case. If the patentee fails to tie the theory to the facts of the case, the testimony must be excluded.

***Evidence > Testimony > Experts > Daubert Standard***

***Patent Law > Remedies > Damages > General Overview***

[HN11]One major determinant of whether an expert should be excluded under *Daubert* is whether he has justified the application of a general theory to the facts of the case. Consistent with this conclusion, with respect to patent infringement damages, the United States Court of Appeals for the Federal Circuit has held that any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute.

***Patent Law > Remedies > Damages > Reasonable Royalties***

[HN12]With respect to determining patent infringement damages, the United States Court of Appeals for the Federal Circuit has held that a patentee cannot not rely on license agreements that are radically different from the hypothetical agreement under consideration to determine a reasonable royalty.

***Patent Law > Remedies > Damages > Reasonable Royalties***

[HN13]With respect to determining patent infringement

damages, there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case. The 25 percent rule of thumb as an abstract and largely theoretical construct fails to satisfy this fundamental requirement. The rule does not say anything about a particular hypothetical negotiation or reasonable royalty involving any particular technology, industry, or party. Relying on the 25 percent rule of thumb in a reasonable royalty calculation is far more unreliable and irrelevant than reliance on parties' unrelated licenses, which has been rejected. It is of no moment that the 25 percent rule of thumb may be offered merely as a starting point to which the Georgia-Pacific factors are then applied to bring the rate up or down. Beginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusion.

***Evidence > Testimony > Experts > Admissibility  
Patent Law > Remedies > Damages > Measures  
Patent Law > Remedies > Damages > Reasonable  
Royalties***

[HN14]To be admissible, expert testimony opining on a reasonable royalty rate must carefully tie proof of infringement damages to the claimed invention's footprint in the market place. The United States Court of Appeals for the Federal Circuit has sanctioned the use of the Georgia-Pacific factors to frame the reasonable royalty inquiry. Those factors properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue. The court's rejection of the 25 percent rule of thumb is not intended to limit the application of any of the Georgia-Pacific factors. In particular, factors 1 and 2--looking at royalties paid or received in licenses for the patent in suit or in comparable licenses--and factor 12--looking at the portion of profit that may be customarily allowed in the particular business for the use of the invention or similar inventions--remain valid and important factors in the determination of a reasonable royalty rate. However, evidence purporting to apply to these, and any other factors, must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations that would have taken place in light of those facts and circumstances at the relevant time.

***Patent Law > Remedies > Damages > Measures***

***Patent Law > Remedies > Damages > Reasonable  
Royalties***

[HN15]The entire market value rule allows a patentee to assess infringement damages based on the entire market value of the accused product only where the patented feature creates the basis for customer demand or substantially creates the value of the component parts. This rule is derived from Supreme Court precedent requiring that the patentee must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative, or show that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.

***Civil Procedure > Appeals > Reviewability >  
Preservation for Review  
Evidence > Procedural Considerations > Objections &  
Offers of Proof > Objections***

[HN16][Fed. R. Evid. 103\(a\)](#) notes that error may not be predicated upon a ruling which admits or excludes evidence unless a timely objection or motion to strike appears of record. Once the court makes a definitive ruling on the record admitting or excluding evidence, either at or before trial, a party need not renew an objection or offer of proof to preserve a claim of error for appeal.

***Patent Law > Remedies > Damages > Measures***

[HN17]With respect to determining patent infringement damages, precedents from the Supreme Court and the United States Court of Appeals for the Federal Circuit do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate. For the entire market value rule to apply, the patentee must prove that the patent-related feature is the basis for customer demand.

***Patent Law > Infringement Actions > Burdens of Proof  
Patent Law > Infringement Actions > Defenses > Patent  
Invalidity > Validity Presumption***

[HN18]The statutory presumption of patent validity can be overcome only by showing invalidity by clear and convincing evidence, even where allegedly invalidating prior art was not before the patent office.

***Patent Law > Infringement Actions > Defenses > Patent Invalidity > Grounds***

[HN19]The proper framework for challenging the validity of a patent is not for the accused to show that it is practicing the prior art, but to show that every element of the patent claims reads on a single prior art reference.

***Patent Law > Infringement Actions > Defenses > Patent Invalidity > Fact & Law Issues***

***Patent Law > Infringement Actions > Defenses > Patent Invalidity > Grounds***

***Patent Law > Nonobviousness > Evidence & Procedure > Fact & Law Issues***

[HN20]In patent cases, though obviousness is a question of law, the United States Court of Appeals for the Federal Circuit gives the jury its usual deference on the underlying factual questions. What the prior art shows is a question of fact.

**COUNSEL:** DONALD R. DUNNER, Finnegan, Henderson, Farabow, Garrett and Dunner, LLP, of Washington, DC, argued for plaintiff-appellant. With him on the brief were DON O. BURLEY; ERIK R. PUKNYS and AARON J. CAPRON, of Palo Alto, California. Of counsel on the brief were PAUL J. HAYES and DEAN G. BOSTOCK, Mintz, Levin, Cohn, Ferris, Glovsky & Popeo PC, of Boston, Massachusetts.

FRANK E. SCHERKENBACH, Fish and Richardson P.C., of Boston, Massachusetts, argued for defendant-cross appellant. With him on the brief were KURT L. GLITZENSTEIN; JOHN W. THORNBURGH, of San Diego, California and LAURA R. BRADEN, of Washington, DC.

**JUDGES:** Before RADER, Chief Judge, LINN and MOORE, Circuit Judges.

**OPINION BY:** LINN

**OPINION**

Linn, *Circuit Judge*.

Uniloc USA, Inc. and Uniloc Singapore Private Limited (collectively, "Uniloc") appeal from the decision of the United States District Court for the District of Rhode Island granting Microsoft Corporation's ("Microsoft") motion for judgment as a matter of law ("JMOL") of non-infringement and no willful

infringement [\*2] of asserted claims of Uniloc's [U.S. Patent No. 5,490,216](#) ("['216 patent](#)"), and, in the alternative, granting a new trial on infringement and willfulness. [Uniloc USA, Inc. v. Microsoft Corp., 640 F. Supp. 2d 150 \(D.R.I. Sept. 29, 2009\)](#) ("[Uniloc II](#)"). Uniloc also appeals the district court's alternative grant of a new trial on damages. Microsoft cross-appeals the district court's denial of its motion for JMOL of invalidity of the ['216 patent](#). *Id.* at 179-83.

Because the jury's verdict on infringement was supported by substantial evidence, this court reverses the district court's grant of JMOL of non-infringement; this court also reverses the district court's alternative grant of a new trial on infringement as an abuse of discretion. Because the jury's verdict on willfulness was not supported by substantial evidence, this court affirms the district court's grant of JMOL of no willfulness; the district court's alternative grant of a new trial for willfulness is thus rendered moot. Because the jury's damages award was fundamentally tainted by the use of a legally inadequate methodology, this court affirms the grant of a new trial on damages. Finally, because the district court did not abuse [\*3] its discretion in determining that the jury verdict of no invalidity of the ['216 patent](#) was supported by substantial evidence, we affirm the district court's denial of Microsoft's motion for JMOL of invalidity.

I. Background

Commercial software manufacturers like Microsoft lose significant sales as a result of the "casual copying" of software, where users install copies of a software program on multiple computers in violation of applicable software license conditions. Uniloc's ['216 patent](#) was an early attempt to combat such software piracy. There is no dispute as to the actual functioning of Uniloc's patented invention and Microsoft's accused products. The following background information is taken from the district court's opinion. [Uniloc II, 640 F. Supp. 2d 150](#).

A. The ['216 Patent](#)

Uniloc's ['216 patent](#) is directed to a software registration system to deter copying of software. The system allows the software to run without restrictions (in "use mode") only if the system determines that the software installation is legitimate. A representative embodiment functions as follows. First, a user intending to use the software in "use mode" enters certain user

information when prompted, which may [\*4] include a software serial number and/or name and address information. An algorithm on the user's computer (a "local licensee unique ID generating means") combines the inputted information into "a registration number unique to an intending licensee" (a "local licensee unique ID"). ['216 patent](#), Abstract. The user information is also sent to the vendor's system, which performs the identical algorithm (a "remote licensee unique ID generating means") to create a "remote licensee unique ID" for the user. When the application boots again, a "mode switching means" compares the local and remote licensee unique IDs. If they match, the program enters into "use mode." If they do not match, the program enters into "demo mode," wherein certain features are disabled. Figure 8 from the ['216 patent](#) shows the fifth preferred embodiment:

[SEE Fig. 8. IN ORIGINAL]

['216 patent](#), Fig. 8.

Uniloc asserts only independent claim 19:

9. A remote registration station incorporating *remote licensee unique ID generating means*, said station forming part of a *registration system* for licensing execution of digital data in a *use mode*, said digital data executable on a platform, said system including *local licensee unique* [\*5] *ID generating means*, said system further including *mode switching means* operable on said platform which permits use of said digital data in said use mode on said platform only if a licensee unique ID generated by said local licensee unique ID generating means has matched a licensee unique ID generated by said remote licensee unique ID generating means; and wherein said remote licensee unique ID generating means comprises software executed on a platform which includes the algorithm utilized by said local licensee unique ID generating means to produce said licensee unique ID.

['216 patent](#), col. 15 l.21 -- col. 16 l.9 (emphasis added).

#### B. The Accused Product

The accused product is Microsoft's Product Activation feature that acts as a gatekeeper to Microsoft's Word XP, Word 2003, and Windows XP software programs. Upon receipt of Microsoft's retail software program, the user must enter a 25-character alphanumeric product key contained within the packaging of Microsoft's retail products. If the Key is valid, the user is asked to agree to the End User License Agreement ("EULA"), by which the licensor-licensee relationship is initiated.

At about this time, the software creates a Product ID ("PID") [\*6] and a Hardware ID ("HWID") on the user's computer. The PID is formed from the combination of the Product Key, information from the software CD, and a random number from the user's computer. The HWID is generated from information about the user's computer. The user may use the software without initiating Product Activation, but such use is temporally limited (50 startups of Office and 30 days use of Windows until basic functions like saving and printing are deactivated) and functionally limited (no updates can be downloaded and installed). If the user elects to initiate Product Activation, the software sends a digital license request to Microsoft over the internet, which includes: the PID, the HWID, and additional activation information. At Microsoft's remote location, this information is entered into one of two software algorithms: the MD5 message digest algorithm ("MD5") for Office products and the SHA-1 secure hash algorithm ("SHA-1") for Windows products.

1

1 As discussed in the animation referred to, *infra*, the only differences between MD5 and SHA-1 are the added logical operation group and shifting step in SHA-1. Throughout this litigation, the two algorithms have been treated as [\*7] functionally identical for infringement purposes. For ease of presentation, this opinion discusses only the MD5 algorithm, but it is uncontested that the same analysis applies to both.

The functionality of the MD5 and SHA-1 algorithms is at the heart of this case. As the district court noted, Microsoft's expert, Dr. Wallach, provided a demonstrative animation, which gives a clear, detailed, and uncontested explanation of the functionality of these algorithms. The animation and the explanation of it given by Dr. Wallach at the trial (Trial Tr. 157:21-166:3, Mar. 31, 2009) may be downloaded at

<http://oralarguments.ca9.uscourts.gov/animation/Uniloc.2010-1035.Animation.pdf>. The first frame is explained below.

[SEE ILLUSTRATION IN ORIGINAL]

First, A, B, C, and D are 32-bit numbers and F, G, H, and I are logical operations into which the numbers B, C, and D are entered. For example,  $F(x, y, z) = (x \text{ AND } y) \text{ OR } ((\text{NOT } x) \text{ AND } z)$ . Thus, if B, C, and D are 0, 1, 1, respectively,  $F(0, 1, 1) = 1$ . The result is that three 32-bit numbers are compressed into a single 32-bit number.

Second, the resulting number is added to A using modular addition. Modular addition is a way of adding that resets the count [\*8] of a sum after a certain threshold number is reached. The most familiar example is the American A.M./P.M. clock system. If a three hour movie begins at 11:00 A.M., it will end at 2:00 P.M. This is an example of mod12 addition: one first adds  $11+3=14$  then subtracts 12 to get 2. Modular addition, or modulo-addition, is used throughout the MD5 algorithm.

Third, M1, the first component of the source message being hashed, is modulo-added to the result from step 2.

Fourth, additive constant  $K_i$  is modulo-added to the result from step 3.

Fifth, the resulting number is "circular shifted" (according to Microsoft) or "left shifted" (according to Uniloc); the shift is depicted by the green box with the three arrows in the diagram. Because the actual functionality is not disputed, we will refer to it as "circular shifting" for the purposes of this opinion. Inserting into the shifter the binary number  $0100\ 1011$ <sup>2</sup> (which is the binary equivalent of 75), and shifting it by 1 place would yield  $1001\ 0110$  (which is the binary equivalent of 150). The result of this operation is a multiplication by two for each single unit shift. If the number is again shifted (or if the original shift was by 2 places), the [\*9] output becomes  $0010\ 1101$  (which is the binary equivalent of 45). Because a single 8-bit string cannot represent numbers larger than 255 (1111 1111), such numbers are represented in mod255; thus the 300

expected from multiplying 150 by 2, becomes 45 in mod255 (300-255).

2 For demonstration purposes, we use an 8-bit number, though the MD5 algorithm uses a 32-bit number. Four of the characters are italicized to demonstrate the effect of the circular shifter.

Sixth, the resulting number is then modulo-added to initial value B, which final number becomes the new value B'. Initial value C becomes new value D', D becomes A', and A becomes B'. The hashing algorithm is then run again using these new values (A', B', C', D') in place of the old (A, B, C, D) and the second component of the message (M2) in place of the first (M1). After sixteen rounds of this, a different logical function,  $G(x, y, z)$  is used, and the same message string is input in a different order. The function G is used for sixteen rounds, followed by sixteen rounds of function H and sixteen rounds of function I. The end result is a "license digest," i.e. "a shortened fixed-bit output," [Uniloc II, 640 F. Supp. 2d at 157](#), derived [\*10] from the original message.

Microsoft encrypts this digest, and sends it along with the original data back to the user's computer. The software on the user's computer decrypts the message and recovers the "license digest." It then inputs the original data (i.e. the PID, HWID, and additional activation information) and enters it into the same MD5 or SHA-1 algorithm used by Microsoft's computers, resulting in a local "license digest." Microsoft's Product Activation software compares the local license digest and the remote license digest; if they match, the software product is activated. If they do not, the software returns to pre-Product Activation mode.

### C. Procedural History

In the first iteration of this case, the district court issued a claim construction ruling, construing several terms that are relevant to the instant appeal. [Uniloc USA, Inc. v. Microsoft Corp., 447 F. Supp. 2d 177 \(D.R.I. 2006\)](#) ("*Uniloc I Claim Construction*"). These appear below.

"Licensee unique ID"	"A unique identifier associated with a licensee." <a href="#">Id. at 189</a> .
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"Local licensee unique ID generating means" and	Means plus function. "Function: to generate a local or remote licensee unique ID" and "Structure: a summation algorithm or a summer and equivalents thereof." <a href="#">Id. at 192.</a>
"Remote licensee unique ID generating means"	equivalents thereof." <a href="#">Id. at 192.</a>
"Use mode"	"A mode that allows full use of the digital data or software in accordance with the license." <a href="#">Id. at 198.</a>
"Mode switching means"	Means plus function. "Function: to permit the digital data or software to run in a use mode if the locally generated licensee unique ID matches with the remotely generated licensee unique ID." and "Structure: program code which performs a comparison of two numbers or a comparator and equivalents thereof." <a href="#">Id. at 200</a> (synonyms in the claim construction not relevant to the claim at issue are removed for simplicity).
"Registration system"	"A system that allows digital data or software to run in a use mode on a platform if and only if an appropriate licensing procedure has been followed." <a href="#">Id. at 203.</a>

The [\*11] district court granted summary judgment of non-infringement, [Uniloc USA, Inc. v. Microsoft Corp., No. 03-440, 2007 U.S. Dist. LEXIS 97491 \(D.R.I. Oct. 19, 2007\)](#), concluding that the algorithm used at Microsoft's remote station to generate a licensee unique ID was not identical to the algorithm used on the user's local station as required by the last limitation in the claim. *Id.* at 24.

On appeal, this court reversed and remanded the finding of non-infringement, holding that Uniloc had put

forth "extensive and by no means conclusory" evidence that Microsoft's Product Activation used the same algorithm at the local and remote sites (respectively, the "local licensee unique ID generating means" and "remote licensee unique ID generating means"), and that the issue of whether the accused products met this limitation should have gone to the jury. [Uniloc USA, Inc. v. Microsoft Corp., 290 Fed. App'x 337, 343 \(Fed. Cir. 2008\)](#) (non-precedential) ("*Uniloc I*"). In that appeal, Microsoft presented several alternative grounds for affirmance, including several arguments centered around the lack of any information in that is "uniquely associated

with the person" that results in a "licensee unique ID." Br. of Microsoft Corp. at [\*12] 37-53, *Uniloc I* (Mar. 19, 2008). This court held that "the licensee unique ID does not require personal information about the user," so long as it is "unique," and not "based solely on platform-related user information." *Uniloc I*, 290 Fed. App'x at 342-43. We explicitly noted that the specification of the '216 patent "leave[s] open the possibility that vendor-provided information, like Microsoft's Product Key, could be the basis for a 'licensee unique ID.'" *Id.* at 344. Microsoft also argued that Product Activation lacked a "licensee unique ID generating means." This court summarily rejected that argument, noting that "[w]e have considered these arguments [for affirmance on alternative grounds] and conclude they are without merit." *Id.* at 342.

On remand, the district court first rejected several *in limine* motions, including a motion by Microsoft to exclude any testimony by Uniloc's damages expert, Dr. Gemini, under *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 113 S. Ct. 2786, 125 L. Ed. 2d 469 (1993) and Federal Rule of Evidence 702, for his use of an allegedly arbitrary baseline rate of \$10-per-activation, and the use of a 25 percent rule of thumb. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F. Supp. 2d 147, 150-51 (D.R.I. Mar. 16, 2009) [\*13] ("*In Limine*"). After a full trial, the jury returned a verdict of infringement and no invalidity of claim 19 of the '216 patent, and found Microsoft's infringement to be willful. The jury awarded Uniloc \$388 million in damages. In post trial motions, Microsoft asked for: (1) JMOL of invalidity due to anticipation and obviousness; (2) JMOL of non-infringement of the "licensee unique ID generating means" and "registration system"/"mode switching means" limitations; (3) JMOL of non-infringement because Microsoft could not have directly infringed the system because claim 19 requires acts to be taken on the user's local computer over which Microsoft has no control; (4) JMOL of no willfulness; (5) a new trial on damages for the improper use of the 25% rule of thumb and the entire market value rule; and (6) in the alternative, a new trial on infringement and willfulness.

The district court, in a comprehensive and well-reasoned opinion, denied JMOL of invalidity, granted JMOL of non-infringement on the basis of both contested claim limitations, granted JMOL of no willfulness, granted a new trial on damages on the improper use of the entire market value rule, rejected

Microsoft's arguments regarding [\*14] the 25 percent rule of thumb as having been previously decided, *Uniloc II*, 640 F. Supp. 2d at 184 and n.42, and granted in the alternative a new trial on infringement and willfulness. The district court also considered and rejected Microsoft's contentions that it could not directly infringe the asserted claims. The details of the district court's opinion are discussed more fully below.

Uniloc appeals all but the denial of JMOL of invalidity, which Microsoft cross-appeals. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

## II. Discussion

### A. Infringement

[HN1]To prove infringement, the plaintiff bears the burden of proof to show the presence of every element or its equivalent in the accused device. *Lemelson v. United States*, 752 F.2d 1538, 1551 (Fed. Cir. 1985). The underlying infringement issue is a question of fact reviewed for substantial evidence. *Finisar Corp. v. DirecTV Group, Inc.*, 523 F.3d 1323, 1332 (Fed. Cir. 2008).

[HN2]This court's review of a district court's grant of JMOL is governed by regional circuit law. *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366, 1372 (Fed. Cir. 2005). The First Circuit reviews a district court's denial of JMOL after a jury verdict [\*15] de novo, asking whether "the evidence points so strongly and overwhelmingly in favor of the moving party that no reasonable jury could have returned a verdict adverse to that party." *Keisling v. Ser-Jobs for Progress, Inc.*, 19 F.3d 755, 759-60 (1st Cir. 1994). This court may not evaluate "the credibility of witnesses, resolve conflicts in testimony, or evaluate the weight of the evidence," but must view the evidence in the light most favorable to Uniloc. *Gibson v. City of Cranston*, 37 F.3d 731, 735 (1st Cir. 1994).

Microsoft argues that because there is no dispute about how the accused products work, infringement should be reviewed de novo. Br. of Microsoft Corp. at 18, 22-23 (citing *Athletic Alts., Inc. v. Prince Mfg., Inc.*, 73 F.3d 1573, 1578 (Fed. Cir. 1996) ("Where, as here, the parties do not dispute any relevant facts regarding the accused product but disagree over which of two possible meanings of Claim 1 is the proper one, the question of literal infringement collapses to one of claim

construction, and should thus be reviewed de novo.") and [General Mills, Inc. v. Hunt-Wesson, Inc.](#), 103 F.3d 978, 983 (Fed. Cir. 1997) (similar)). It is well-settled that infringement is a factual [\*16] issue, reviewed for substantial evidence. E.g. [Finjan, Inc. v. Secure Computing, Corp.](#), 626 F.3d 1197, 2010 U.S. App. LEXIS 23216 (Fed. Cir. Nov. 4, 2010); [Connell v. Sears, Roebuck & Co.](#), 722 F.2d 1542, 1546 (Fed. Cir. 1983). The cases cited by Microsoft involve a procedural posture not present in this case. As this court noted in [International Rectifier Corp. v. IXYS Corp.](#), 361 F.3d 1363, 1374 (Fed. Cir. 2004), the infringement issue in *General Mills* collapsed into claim construction because "the parties agreed with each other and the district court about how each of two competing claim constructions would apply to the undisputed structure of the accused invention." In other words, the parties conceded that under one claim construction there was infringement and under the other there was none, and were arguing only over which claim construction was appropriate. The infringement issue in *Althetic Alternatives* also came to this court with the same posture. See 73 F.3d at 1581 ("We conclude that Claim 1 of the '097 patent includes the limitation that the splay-creating string end offset distance take on at least three values, *i.e.*, a minimum, a maximum, and at least one intermediate value. We thus [\*17] affirm the district court's conclusion that Claim 1 does not literally read on the Vortex racket."). As discussed below, this case presents the opposite procedural posture; the claim construction itself is not contested, but the application of that claim construction to the accused device is. Thus, this court applies the traditional rule for review of jury verdicts of factual issues discussed above.

This case presents three primary infringement issues: 1) whether the accused products contain "licensee unique ID generating means"; 2) whether the accused products contain a "registration system" with a "mode switching means" that precludes full use of the software unless the outputs of the local and remote algorithms match; and 3) whether Microsoft can be liable for direct infringement when it has no control over the user's computer.

#### 1. "Licensee Unique ID Generating Means"

The '216 patent specification describes the licensee unique ID generating means as an algorithm that functions by "combin[ing] by addition the serial number 50 with the software product name 64 and customer

information 65 and previous user identification 22 to provide registration number 66." *Id.* col. 11 ll. 53-56. The [\*18] district court's construction of "licensee unique ID generating means" is undisputed on appeal: it is a means plus function claim, with the function being "to generate a local or remote licensee unique ID" and the structure being "a summation algorithm or a summer and equivalents thereof." [Uniloc I Claim Construction](#), 447 F. Supp. 2d at 192.

The district court determined that no reasonable jury could find that the accused products were summation algorithms, and granted JMOL of non-infringement. The district court gave seven reasons for its decision: (1) the "circular shifting and mixing functions fundamentally create a more secure result compared to an algorithm based in summation as the specification discloses," [Uniloc II](#), 640 F. Supp. 2d at 170; (2) summation is reversible and MD5 is irreversible and much more complicated, *id.* (citing [Business Objects, S.A. v. Microstrategy, Inc.](#), 393 F.3d 1366, 1370 (Fed. Cir. 2005)); (3) "MD5 achieves its function in a way an algorithm based in summation could not," *id.*; (4) the '216 patent contained only a narrow structural disclosure that is not entitled to a broad scope, [id.](#) at 171; (5) the documentary evidence presented by Uniloc did not show [\*19] what "the complex hashes in *this case* actually do, and whether that is equivalent to the 'by addition' structure Uniloc disclosed," [id.](#) at 172; (6) Uniloc did not put forth expert opinion interpreting the documents, except for Klausner's presentation of "factual information under the guise of opinion," [id.](#) at 172 and n.25 (citing [Centricut, LLC v. Esab Grp., Inc.](#), 390 F.3d 1361, 1369-70 (Fed. Cir. 2004), but noting that that case is "not a perfect fit"); and (7) "[t]he jury 'lacked a grasp of the issues before it,'" [id.](#) at 173 (citing [Tex. Instruments Inc. v. Cypress Semiconductor Corp.](#), 90 F.3d 1558, 1570 (Fed. Cir. 1996)) because it "ignored Dr. Wallach's admittedly complex explanation and embraced Mr. Klausner's" "incomplete, oversimplified and frankly inappropriate explanation," [id.](#) at 170 n.21.

Uniloc argues that a reasonable jury could have concluded that MD5 and SHA1 were summation algorithms within the meaning of the '216 patent, and that the district court erred in granting JMOL of non-infringement. The jury heard two sets of evidence in favor of Uniloc's contention that MD5 and SHA1 were summation algorithms. First, Dr. Klausner, Uniloc's expert, testified that MD5 makes a [\*20] digest of the

message it receives

by doing addition and multiplication in a series of rounds over and over again. It takes a piece of the input, adds and shifts it, takes another piece of the input, adds and shifts it. It does a number of other operations, what are called logical operations in mathematics. But the essence is it eventually adds each of the results of these piece-wise operations into a bucket or a hash, and that hash becomes the output of the algorithm.

He also testified that MD5 uses "two primary kinds of operations to do its work. One is addition, summing; and the other is what we call left shifting . . . [which is] actually nothing more than multiplication. . . [which] is nothing more than addition done over and over again." Klausner then identified the source code that was the basis of his understanding that MD5 performed addition, noting that "I'm not saying that that's all that MD5 does, but that's a significant portion of the MD5 algorithm." Second, the jury saw documentary evidence identifying MD5 as, or equating it to, a summation algorithm. For example, in Microsoft's Windows Protocols Master Glossary, one entry reads "**checksum**: A value that is the summation [\*21] of a byte stream. By comparing the checksums computed from a data item at two different times, one can quickly assess whether the data items are identical." That same document equates "hashes" and "checksums," and notes that "[w]ell-known hash algorithms for computer hashes include MD4, MD5, and SHA1." Other Microsoft documents also refer to the outcome of the MD5 algorithm as a "checksum." See Kenneth Pfeil, *Data Security and Data Availability in the Administrative Authority*, Microsoft TechNet, available at <http://technet.microsoft.com/en-us/library/cc722918.aspx> ("Hashing. Hashing is also referred to as MD5 checksum."). See also *Windows Driver Kit: Network Devices and Protocols: NDIS\_TASK\_IPSEC*, MSDN, updated document available at <http://msdn.microsoft.com/enus/library/f558990.aspx> ("MD5 Set by a miniport driver to indicate that its NIC can use the keyed MD5 algorithm for computing and/or validating a cryptographic checksum for an AH payload and/or ESP payload."). In addition, Uniloc relied on [U.S. Patent No. 6,263,432](#) ("[432 patent](#)"), which, in describing the procedure for generating a secure e-ticket, includes the following step:

In this example, each of the four fields in the [\*22] 'eticket' framework **302** and user extension **304** include data represented by the number '1' in step S1. The message Digest/Hash is represented by a summation [#x3c2] algorithm (equated to, or exemplary of, the MD5 protocol or other hashing algorithm). Hence, to calculate the Message Digest/Hash, a summation algorithm is implemented using all eight fields of data in step 2.

[432 patent](#) col. 9 ll.50-57.

Uniloc also argues that the district court improperly narrowed the claim construction on JMOL from "summation algorithm" to a "simple combination of inputs by addition," [Uniloc](#), 640 F. Supp. 2d at 170, which was improper under [Hewlett-Packard Co. v. Mustek Sys., Inc.](#), 340 F.3d 1314, 1320 (Fed. Cir. 2003).

Microsoft counters with three arguments. First, Uniloc's interpretation of "summation algorithm" would be so broad as to cover any algorithm with a plus sign, and would be akin to adopting the rejected claim construction of licensee unique ID generating means as simply "an algorithm." Microsoft argues that such a broad reading is inconsistent with the patent, which disclosed only the specific structure where "the algorithm, in this embodiment, combines by addition," [216 patent](#), col. 11 ll.53-56. [\*23] Second, Microsoft notes that its expert, Dr. Wallach, established that the algorithms as a whole are not "summation algorithm[s]" because neither circular shifting nor the logical operations of MD5 and SHA1 are addition-based, and that his testimony was unrebutted, because the district court prevented Uniloc's expert, Dr. Klausner, from opining that MD5 and SHA1 were summation algorithms within the scope of claim 19 of the [216 patent](#). Finally, Microsoft contrasts the purpose of MD5 and SHA1--to irreversibly scramble the data so that the inputs cannot be derived--with the purpose of the summation algorithms in the [216 patent](#), to put data together by addition.

As this court held in [Uniloc I](#), 290 Fed. App'x at 342, there was substantial evidence for a jury to conclude that the output of the MD5 and SHA1 algorithms was a licensee unique ID. Thus, both MD5 and the summation algorithm in the [216 patent](#) perform the same function of generating a licensee unique ID. It is also undisputed that

MD5 and SHA1 use some addition to perform this function. [Uniloc II](#), 640 F. Supp. 2d at 168. Thus, the issue is whether the additional structural components of MD5 and SHA1 preclude a reasonable jury from [\*24] finding that they are "summation algorithm[s]." This court agrees with Uniloc that they do not.

First, the breadth of claim 19 is not as narrow as Microsoft argues and the district court concluded. [HN3]"The literal scope of a properly construed means-plus-function limitation does not extend to all means for performing a certain function. Rather, the scope of such claim language is sharply limited to the structure disclosed in the specification and its equivalents." [J&M Corp. v. Harley-Davidson, Inc.](#), 269 F.3d 1360, 1367 (Fed. Cir. 2001). Nevertheless, in determining equivalence under § 112 ¶ 6, "the range of permissible equivalents depends upon the extent and nature of the invention." [IMS Tech., Inc. v. Haas Automation, Inc.](#), 206 F.3d 1422, 1436 (Fed. Cir. 2000) (citing [Tex. Instruments, Inc. v. ITC](#), 805 F.2d 1558, 1563 (Fed. Cir. 1986)). "More particularly, when in a claimed 'means' limitation the disclosed physical structure is of little or no importance to the claimed invention, there may be a broader range of equivalent structures than if the physical characteristics of the structure are critical in performing the claimed function in the context of the claimed invention." *Id.* The structural [\*25] disclosure in the '216 patent is not limited to simple addition in the colloquial sense of adding numbers together and nothing more. In the sixth embodiment, from which the summation structure was derived, the algorithm "combines by addition the serial number 50 with the software product name 64 and customer information 65 and previous user identification 22 to provide registration number." '216 patent col. 11 ll.54-57. This "combination by addition" necessarily incorporates an initial step of converting the information into a common format to be added, which requires more than simple addition. Moreover, there is no indication that the summation structure was critical to the '216 patent's licensee unique ID generating means algorithm's function of generating a licensee unique ID. In fact, the '216 patent repeatedly refers to the licensee unique ID generating means by the generic phrase, "an algorithm," e.g. '216 patent col.2 ll.65-66, and makes clear that the importance of the algorithm is only that it be "adapted to generate a registration number which is unique to an intending licensee." *Id.* col.2 ll.66-67. It may well be that the structural disclosure of the licensee unique ID generating

[\*26] means limitation is minimal because of the relative unimportance of the particular structure of that element. This does not, as Microsoft argues, result in pure functional claiming, nor expand the claim construction to Uniloc's proposed and rejected one of "an algorithm." Declining to limit the construction to simple addition does not also extend the claims to any algorithm that includes a plus sign; the construction retains its explicit limitation that the algorithm used be fairly capable of categorization as "a summation algorithm."

Second, a jury could reasonably determine that MD5 and SHA1 were not as radically different from the summation algorithm disclosed in the '216 as Microsoft and the district court determined them to be. Klausner testified that the "essence" of MD5 is that it "adds each of the results of [the logical operations and shifts] into a bucket or hash," and that addition is one of the "two primary kinds of operations [that MD5 performs]," and the second is left shifting, which he equated to multiplication, which he testified "is nothing more than addition done over and over again." To be sure, Microsoft's Dr. Wallach disagreed with Klausner's testimony, choosing [\*27] to focus on the logical functions, which he called the "heart and soul that makes MD5 what it is," and the circular shifter, both of which he opined were not "summation." However, Microsoft has not explained why all the steps of an algorithm must be summation steps in order for the algorithm to qualify as a summation algorithm. The jury could reasonably have believed that MD5 is a summation algorithm. As this court noted in *IMS Tech.*, "though two structures arguably would not be considered equivalent structures in other contexts, e.g., if performing functions other than the claimed function," they may nevertheless be equivalent under § 112 ¶ 6 when performing the same function. [206 F.3d at 1436](#). Here, the claimed function is the generation of a licensee unique ID, *see infra* section I.C, and if as Klausner testified, MD5 uses addition to perform this function, the enhanced functionality of MD5 in making the output more secure should not prevent it from being considered an equivalent structure. Microsoft's argument that because MD5 is irreversible it cannot be a summation algorithm--such that even if "you know the output of the algorithm, it is impossible even to guess any one input that [\*28] would create the output," Br. of Microsoft at 21--is likewise unconvincing, because the same is true of the most basic simple addition algorithm (e.g., it is impossible to identify the two numbers whose sum is 23).

Third, the district court improperly rejected Klausner's testimony as "incomplete, oversimplified and frankly inappropriate," justifying its rejection by Klausner's failure to discuss hashing, summation, or left-shifting in his expert report, and his analogizing of an MD5 digest to a Reader's Digest book. [Uniloc II, 640 F. Supp. 2d at 170 n.21](#). [HN4]In common with the other circuits, First Circuit law does not allow the district court in a jury trial to evaluate "the credibility of witnesses, resolve conflicts in testimony, or evaluate the weight of the evidence." [Gibson, 37 F.3d at 735](#). Under [Daubert](#), the district court must exercise its "gatekeeper" function in ensuring that scientific testimony is relevant and reliable. [Kumho Tire Co. v. Carmichael, 526 U.S. 137, 137, 119 S. Ct. 1167, 143 L. Ed. 2d 238 \(1999\)](#) (discussing [Daubert v. Merrell Dow Pharms., Inc., 509 U.S. 579, 113 S. Ct. 2786, 125 L. Ed. 2d 469 \(1993\)](#)). Here, the district court explicitly noted that Klausner was "qualified." [Uniloc II, 640 F. Supp. 2d at 172 n.25](#). It is decidedly the [\*29] jury's role to evaluate the weight to be given to the testimony of dueling qualified experts. [i4i Ltd. P'ship v. Microsoft Corp., 598 F.3d 831, 856 \(Fed. Cir. 2010\), cert. granted, 562 U.S. , 131 S. Ct. 647, 178 L. Ed. 2d 476 \(U.S. 2010\)](#) ("[I]t is not the district court's role under [Daubert](#) to evaluate the correctness of facts underlying an expert's testimony."). The district court's criticism of Klausner's use of the analogy of a digest to a "reader's digest" is also improper, because Microsoft did not object at trial and has used the same analogy in describing the output of SHA1 as a "hash digest, where *digest* indicates a shortened size, similar to *Reader's Digest* condensed books."

Klausner's testimony was certainly a simplification of the functioning of MD5, but neither the district court nor Microsoft demonstrate why it was "oversimplified," [Uniloc II, 640 F. Supp. 2d at 171 n.21](#), or even why it was inaccurate. Klausner recognized that summation was not all that MD5 did, but opined that it was "a significant portion of the MD5 algorithm."

Finally, Microsoft's attacks on the documentary evidence presented by Uniloc are unwarranted. In particular, the contemporaneous Microsoft documents that [\*30] define the output of MD5 as a "checksum," or "cryptographic checksum," or indicate that MD5 is indicative of a summation algorithm, ['432 patent](#) col. 9 ll.50-57, help to associate the MD5 procedure within the reasonable bounds of the word "summation." It is reasonable to consider MD5 a summation algorithm

where those skilled in the art refer to its output as a "hashsum" or an "MD5 sum." Dr. Wallach had the opportunity to respond at trial. For example, in discussing Microsoft's TechNet document, which included an entry, "Hashing. Hashing is also referred to as MD5 checksum," Dr. Wallach and Uniloc's attorney engaged in the following colloquy:

Q. Thank you. And so, then, apparently, you disagree that it would be fair to say that a -- that an MD5 is a checksum?

A. MD5 is a cryptographic checksum. It's a specialized kind of checksum.

Q. No, no, I didn't ask that question.

A. Yes, you did.

Q. I said would you agree that it would be fair to refer to the MD5 as just a checksum, as specifically done in Microsoft's document here?

A. Computer scientists would call MD5 a cryptographic checksum to distinguish it from other kinds of checksums.

Microsoft has failed to show why a reasonable jury could not [\*31] have rejected this distinction. Moreover, the district court's response to these documents is puzzling. The district court acknowledged that "[s]ome of these documents no doubt say that MD5 and SHA-1 are a type of hash, or checksum," but noted that the documents did not show what "the complex hashes in *this case* actually do," [Uniloc II, 640 F. Supp. 2d at 172](#). However, MD5 and SHA-1 *are* the complex hashes in this case.

For the above reasons, this court concludes that a reasonable jury could rely on Klausner's testimony and the documentary evidence to conclude that MD5 and SHA1 were "summation algorithm[s]" as that phrase is used in the context of the ['216 patent](#).

## 2. "Registration System" and "Mode Switching Means"

In the alternative, the district court granted JMOL of non-infringement because of Product Activation's failure to incorporate a "registration system" or "mode switching means" using the following constructions:

"Mode switching means"	Means plus function. "Function: to permit the digital data or software to run in a use mode if the locally generated licensee unique ID matches with the remotely generated licensee unique ID." and "Structure: program code which performs a comparison of two numbers or a comparator and equivalents thereof."
	<a href="#">Uniloc IClaim Construction, 447 F. Supp. 2d at 200</a>
	(synonyms in the claim construction not relevant to the claim at issue are removed for simplicity).
"Registration"	"A system that allows digital data or software to run in a use mode on a platform if and only if an appropriate licensing procedure has been followed." <a href="#">Id. at 202.</a>
"Use mode"	"A mode that allows full use of the digital data or software in accordance with the license." <a href="#">Id. at 198.</a>

These [\*32] constructions are undisputed on appeal. It is also undisputed that the relevant "license" in the definition of "use mode" is the EULA, to which the user agrees prior to initiation of Product Activation in the accused product. The crux of the question is whether the use of the accused products before Product Activation constitutes full use in accordance with the EULA.

Microsoft argues that the legal licensing occurred at the time the EULA was accepted by the user, and that whatever use this permitted was full use in accordance with the license. In other words, because the terms of the EULA only give the user the right to use the accused products with certain temporal and functional restrictions, such restricted use *is* "full use" under the terms of the EULA, and "fulfill[s] the seller's/licensor's obligations in relation to the sale or license of the right to execute the digital data or software in the use mode." ['216 patent](#) col. 2 ll.42-44. Microsoft contrasts its system with that disclosed in the ['216 patent](#), which it says is limited to

systems in which legal licensing and registration occur concurrently.

The district court agreed with Microsoft, holding that once the user agrees to [\*33] the EULA, "the user becomes a licensee, and can use the software in accordance with the terms of the license, and with the provided functionality . . . . Activation itself simply opens additional doors which were previously locked to the licensee." [Uniloc II, 640 F. Supp. 2d at 175-77.](#)

Microsoft's argument ultimately fails because it rests on the false factual premise that the functionality during the "grace period" between the EULA and Product Activation satisfies Microsoft's obligations under the EULA. This factual premise is false for three reasons. First, the EULA accompanying Microsoft Office states: "**Mandatory Activation.** You may not be able to exercise Your rights to the Software Product under this EULA after a finite number of product launches unless You activate Your copy of the Software Product in the

manner described during the launch sequence." This sentence indicates that "rights . . . under this EULA" are restricted unless the product is activated, and do not encompass some abstract right to full functionality. Consistently, the Windows EULA, in a clause discussing "**Mandatory Activation**" notes that "[t]he license rights granted under this EULA are limited to the first [\*34] thirty (30) days after you first install the Product unless you supply information required to activate your licensed copy." These "license rights granted under this EULA" are rights that had already been defined by the EULA without temporal or functional restrictions: "You may install, use, access, display and run one copy of the Product on a single computer," subject only to limitations on the number of processors and computers that may use the program. Second, both the Windows license ("Microsoft grants you the following rights provided that you comply with all terms and conditions of this EULA") and the Office license ("The license rights described in this Section are subject to all other terms and conditions of this EULA") are conditional. Both also note that Product Activation is "[m]andatory." Thus, unless the user activates the product, she is not entitled to the rights granted by the EULA. Finally, Klausner testified that unless the accused products are activated, they cannot receive product updates or upgrades. However, the Windows EULA allows a user to install "updates, supplements, add-on components, or Internet-based services components, of the Product that Microsoft may [\*35] provide to you or make available to you after the date you obtain your initial copy of the Product." Thus, in order to have "full use . . . in accordance with the license," the user must have access to these upgrades. This only occurs upon activation.

This court thus concludes that use during the "grace period" after agreement to the EULA and before Product Activation in the accused product does not constitute full use in accordance with the EULA. It is undisputed that Product Activation lifts all the grace period restrictions if and only if the information entered indicates a legitimate copy of Office or Windows.

Moreover, the ['216 patent](#) is not limited to the situation where activation and licensing are concurrent. In the preferred embodiment shown in Figures 2a-c, the registration system requires the user to view the license and to "continue" with the registration, far upstream of the activation. Until the user inputs confirmed payment details and plugs in a valid registration number, only the

"demo version" of the software will run. Once the user performs these steps, the registration system switches the software into the "full version." ['216 patent](#), Figs. 2a-c.

For the above reasons, [\*36] the jury had substantial evidence to find that Microsoft's Product Activation included a "registration system" and "mode switching means," and thus the district court erred in granting JMOL of non-infringement on the basis of this limitation.

### 3. Alternative Ground for Affirmance: Licensee Unique ID

Microsoft also argues as an alternative ground for affirmance of JMOL that the output of its MD5 and SHA1 algorithms was not a licensee unique ID as required by claim 19 of the ['216 patent](#) because it was not "associated with a licensee." This argument was sufficiently addressed and decided against Microsoft by this court in the prior appeal, and is thus law of the case here. [Uniloc I, 290 Fed. App'x at 345](#) (reversing summary judgment of non-infringement and holding that the output of Product Activation "generate[s] what might qualify as a licensee unique ID, the hash value").

### 4. Alternative Ground for Affirmance: Direct Infringement

Microsoft presents an alternative ground for affirmance of JMOL of non-infringement, on the basis that Uniloc failed to prove direct infringement because Microsoft did not supply or use the end-users' computers that implemented the local licensee unique ID generating [\*37] means and mode switching means. Microsoft relies primarily on [Cross Medical Products, Inc. v. Medtronic Sofamor Danek, Inc.](#), 424 F.3d 1293 (Fed. Cir. 2005), and a line of cases including [Muniauction, Inc. v. Thomson Corp.](#), 532 F.3d 1318 (Fed. Cir. 2008) and [BMC Res., Inc. v. Paymentech, L.P.](#), 498 F.3d 1373 (Fed. Cir. 2007). The district court rejected this argument in its JMOL opinion.

Microsoft's argument is severely hampered by the language of claim 19. Claim 19 is directed to "A remote registration station incorporating remote licensee unique ID generating means, said station forming part of a registration system . . . including local licensee unique ID generating means . . ." ['216 patent](#) col.15 ll.21-26. As we noted in *BMC*, "[a] patentee can usually structure a claim to capture infringement by a single party," by "focus[ing] on one entity." [498 F.3d at 1381](#). This is exactly what

Uniloc did in claim 19, which focuses exclusively on the "remote registration station," and defines the environment in which that registration station must function. It cannot be disputed that during each Product Activation, Microsoft "uses" a "remote registration station" that incorporates a "remote [\*38] licensee unique ID generating means," and this station forms part of a "registration system" that also includes a "local licensee unique ID generating means" and a "mode switching means." That other parties are necessary to complete the environment in which the claimed element functions does not necessarily divide the infringement between the necessary parties. For example, a claim that reads "An algorithm incorporating means for receiving e-mails" may require two parties to function, but could nevertheless be infringed by the single party who uses an algorithm that receives e-mails.

The claim here is thus distinguishable from those at issue in *Muniauction* and *BMC*, because here, only one party, Microsoft, makes or uses the remote registration station. See *Muniauction*, 532 F.3d at 1329; *BMC*, 498 F.3d at 1373. Nor is claim 19 analogous to the claim at issue in *Cross Medical*. There, the claim called for "[a] fixation device comprising . . . an anchor seat means which has a lower bone interface operatively joined to said bone segment." 424 F.3d at 1299 (citing U.S. Patent No. 5,474,555 col. 8 ll.33-41). This court construed "operatively joined" to mean that the interface and the bone must [\*39] be in contact, *id.* at 1305, and held that Medtronic did not infringe the claims because "Medtronic does not itself make an apparatus with the 'interface' portion in contact with bone," *id.* at 1311. Here, however, Microsoft *does* make and use the remote registration station in the environment required by the claims, when the MD5 and SHA1 generate a remote licensee unique ID. Moreover, this court agrees with the district court that "[a]ccepting Microsoft's argument that the local side of Claim 19 requires an end-user's participation, similar to the surgeons' participation in *Cross Medical*, would be akin to importing a method step into this software system--something the language of Claim 19 does not support." *Uniloc II*, 640 F. Supp. 2d at 162.

##### 5. New Trial on Infringement Issues

Citing the closeness of the questions presented on JMOL in this case, the district court also granted in the alternative Microsoft's motion for a new trial on infringement.

[HN5]This court's standard of review over a district court's grant of a motion for new trial is governed by regional circuit law. *WMS Gaming Inc. v. Int'l Game Tech.*, 184 F.3d 1339, 1361 (Fed. Cir. 1999). In the First Circuit, a new trial is only appropriate [\*40] when "the outcome is against the clear weight of the evidence such that upholding the verdict will result in a miscarriage of justice." *Ramos v. Davis & Geck, Inc.*, 167 F.3d 727, 731 (1st Cir. 1999). In contrast to JMOL, in considering a motion for a new trial, the district court may "independently weigh the evidence." *Jennings v. Jones*, 587 F.3d 430, 436 (1st Cir. 2009).

"[A] district judge cannot displace a jury's verdict merely because he disagrees with it or because a contrary verdict may have been equally supportable. As we have repeatedly observed, trial judges do not sit as thirteenth jurors, empowered to reject any verdict with which they disagree." *Id.* (internal citation omitted). Nevertheless, the district court is entitled to deference in granting a new trial motion, and the First Circuit only overturns the grant of a new trial if the district court has abused its discretion. *Id.* at 435 (citing *Gasperini v. Ctr. For Humanities, Inc.*, 518 U.S. 415, 435, 116 S. Ct. 2211, 135 L. Ed. 2d 659 (1996)). As the Supreme Court noted, "[t]rial judges have the unique opportunity to consider the evidence in the living courtroom context, while appellate judges see only the cold paper record." *Gasperini*, 518 U.S. at 438.

The [\*41] district court granted Microsoft's motion for a new trial on the infringement issues in the alternative to its JMOL motion, and did not present any analysis apart from its analysis of the JMOL infringement issues discussed above. This court is convinced that the district court's grant of a new trial on infringement has no more merit than the district court's grant of JMOL on infringement. Though it is a close issue, this is not a situation where the evidence falls within the zone where substantial evidence supports the verdict and the district court's discretion in granting a new trial trumps such evidence. This court thus reverses the district court's grant of a new trial on infringement for the same reasons as it reverses the grant of JMOL of non-infringement.

##### B. JMOL and New Trial for Willfulness

[HN6]"[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir.

[2007](#)) (en banc). This is an objective inquiry. *Id.* In addition, a patentee must show that this risk "was either known [\*42] or so obvious that it should have been known to the accused infringer." *Id.* This is a subjective inquiry.

The district court concluded that no reasonable jury could have found that Microsoft's conduct fell under either *Seagate* prong. [Uniloc II](#), 640 F. Supp. 2d at 176-77 (objective prong), 177-79 (subjective prong). If the accused infringer's position is susceptible to a reasonable conclusion of no infringement, the first prong of *Seagate* cannot be met. See [Cohesive Techs., Inc. v. Waters Corp.](#), 543 F.3d 1351, 1374 (Fed. Cir. 2008) ("Because 'rigid' was susceptible to a reasonable construction under which Waters's products did not infringe, there was not an objectively high likelihood that Waters's actions constituted infringement.").

Uniloc has failed to meet the threshold objective prong of *Seagate*. Uniloc has not presented *any* evidence at trial or on appeal showing why Microsoft, at the time it began infringement, could not have reasonably determined that MD5 and SHA1 did not meet the "licensee unique ID generating means," "licensee unique ID," or "registration system"/"mode switching means" limitations. Specifically, infringement of the "licensee unique ID generating means" limitation [\*43] is a complicated issue, made more so because "equivalence requires an intensely factual inquiry," [DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.](#), 567 F.3d 1314, 1337 (Fed. Cir. 2009). Uniloc's argument about copying is largely inapposite. See *id.* at 1336 ("[E]vidence of copying in a case of direct infringement is relevant only to *Seagate's* second prong."). As the district court noted, the facts here presented are "hardly the stuff of which objectively reckless unreasonable conduct is made." [Uniloc II](#), 640 F. Supp. 2d at 177.

Given this court's conclusion that Uniloc failed to show that a reasonable jury could find Microsoft's conduct objectively reckless on the evidence presented, this court need not address the subjective prong of *Seagate*. This court thus affirms the district court's grant of JMOL of no willfulness, and need not address the district court's alternative grant of a new trial on willfulness.

### C. New Trial on Damages

The jury here awarded Uniloc \$388 million, based on

the testimony of Uniloc's expert, Dr. Gemini. Dr. Gemini opined that damages should be \$564,946,803. This was based on a hypothetical negotiation between Uniloc and Microsoft and the *Georgia-Pacific* factors. [\*44] See [Georgia-Pacific Corp. v. U.S. Plywood Corp.](#), 318 F. Supp. 1116 (S.D.N.Y. 1970). Gemini began with an internal pre-litigation Microsoft document that stated:

Product keys are valuable for two major reasons. First, since Product Keys can be used to install a product and create a valid Product ID, you can associate a monetary value to them. An appraisal process found that a Product Key is worth anywhere between \$10 and \$10,000 depending on usage. Secondly, Product Keys contain short digital signature technology that Microsoft Research created. For these reasons, it is crucial that Product Keys are handled with maximum security.

*In Limine*, 632 F. Supp. 2d at 151 n.2. Gemini took the lowest value, \$10, and testified that this is "the isolated value of Product Activation." Gemini then applied the so-called "25 percent rule of thumb," hypothesizing that 25% of the value of the product would go to the patent owner and the other 75% would remain with Microsoft, resulting in a baseline royalty rate of \$2.50 per license issued. Gemini justified the use of the rule of thumb because it has "been accepted by Courts as an appropriate methodology in determining damages, in [his] experience, in other [\*45] cases." He then considered several of the *Georgia Pacific* factors, with the idea being "to adjust this 25% up or down depending on how [the *Georgia Pacific* factors] favor[] either party." At bottom, he concluded that the factors in favor of Uniloc and Microsoft generally balanced out and did not change the royalty rate. He then multiplied the \$2.50 royalty rate by the number of new licenses to Office and Windows products, 225,978,721, to get a final reasonable royalty of \$564,946,803. Gemini then "did kind of a check to determine whether that number was reasonable. It's obviously, you know, a significant amount of money. I wanted to check to make sure it was a reasonable number." The "check" was performed by "estimating the gross revenues for the accused products" by multiplying the 225,978,721 licenses by the average sales price per license of \$85. The resulting gross revenue value was \$19.28 billion. Gemini then calculated that his damages calculation resulted in a royalty rate over the gross

revenue of Office and Windows of approximately 2.9%. Gemini presented this information in a demonstrative pie chart to accompany his testimony. In response to Uniloc's attorney's question: "And [\*46] have you prepared a chart or a graph or a pie chart to show us this comparison?" Uniloc's attorney, Mr. Cronin stated, "Your honor, there's no objection," and Microsoft attorney Mr. Scherkenbach stated, "Right, there is no objection." Gemini then opined that "in my experience, and data I've seen as far as industry royalty rates for software, which are generally above -- on average, above 10% or 10, 11%, I felt that this royalty was reasonable and well within that range."

Microsoft had challenged the 25% rule *in limine* and attempted to exclude Mr. Gemini's testimony. The district court noted that "the concept of a 'rule of thumb' is perplexing in an area of the law where reliability and precision are deemed paramount," but rejected Microsoft's position because the rule has been widely accepted. The district court thus considered the use of the rule of thumb to be reasonable. *In Limine*, [In Limine](#), 632 F. Supp. 2d at 151. Microsoft contested Gemini's use of the entire market value rule "check" because Product Activation was not the basis of the consumer demand for Microsoft's Office and Windows products. The district court agreed with Microsoft, and granted a new trial on damages, because the "\$19 [\*47] billion cat was never put back into the bag" and the jury may have "used the \$19 billion figure to 'check' its significant award of \$388,000,000." *Uniloc II*, 640 F. Supp. 2d at 185.

On appeal, the parties present the court with three damages issues: 1) the propriety of using the 25 percent rule; 2) application of the entire market value rule as a "check"; and 3) excessiveness of damages. Because this court affirms the district court's conditional grant of a new trial on damages, this court need not reach the last issue.

#### 1. 25 Percent Rule

[HN7][Section 284 of Title 35 of the United States Code](#) provides that on finding infringement of a valid patent, damages shall "in no event [be] less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." In litigation, a reasonable royalty is often determined on the basis of a hypothetical negotiation, occurring between the parties at the time that infringement began. [Wang Labs Inc. v. Toshiba Corp.](#),

[993 F.2d 858, 869-70 \(Fed. Cir. 1993\)](#). A reasonable royalty is the predominant measure of damages in patent infringement cases. William C. Rooklidge and Martha K. Gooding, *When Hypothetical [\*48] Turns to Fantasy: The Patent Reasonable Royalty Hypothetical Negotiation*, BNA Insights Vol. 80:1983, at 701 n.10 ("*Hypothetical Negotiation*") (citing Price Water-house Coopers, A Closer Look: Patent Litigation Trends and the Increasing Impact of Nonpracticing Entities at 5 (2009)).

The 25 percent rule of thumb is a tool that has been used to approximate the reasonable royalty rate that the manufacturer of a patented product would be willing to offer to pay to the patentee during a hypothetical negotiation. Robert Goldscheider, John Jarosz and Carla Mulhern, *Use Of The 25 Per Cent Rule in Valuing IP*, 37 *les Nouvelles* 123, 123 (Dec. 2002) ("*Valuing IP*"). "The Rule suggests that the licensee pay a royalty rate equivalent to 25 per cent of its expected profits for the product that incorporates the IP at issue." *Id.* As explained by its leading proponent, Robert Goldscheider, the rule takes the following form:

An estimate is made of the licensee's expected profits for the product that embodies the IP at issue. Those profits are divided by the expected net sales over that same period to arrive at a profit rate. That resulting profit rate, say 16 per cent, is then multiplied by 25 per cent to [\*49] arrive at a running royalty rate. In this example, the resulting royalty rate would be 4 per cent. Going forward (or calculating backwards, in the case of litigation), the 4 per cent royalty rate is applied to net sales to arrive at royalty payments due to the IP owner.

*Id.* at 124. The underlying "assumption is that the licensee should retain a majority (i.e. 75 percent) of the profits, because it has undertaken substantial development, operational and commercialization risks, contributed other technology/IP and/or brought to bear its own development, operational and commercialization contributions." *Id.*

The rule was originally based on Goldscheider's observations of commercial licenses entered into by a "Swiss subsidiary of a large American company, with 18 licensees around the world, each having an exclusive

territory." *Id.* The rights transferred were a portfolio of patents and other intellectual property apparently related to the patented products. *Id.* The term of each of these licenses was for three years, with the expectation that the licenses would be renewed. *Id.* at 123. The licensees "faced strong competition," and "were either first or second in sales volume, and probably profitability, [\*50] in their respective market." *Id.*

According to its proponents, the veracity of the 25 percent rule has been "confirmed by a careful examination of years of licensing and profit data, across companies and industries." John C. Jarosz, Carla S. Mulhern and Michael Wagner, *The 25% Rule Lives On*, IP Law360, Sept. 8, 2010. Goldscheider published a further empirical study in 2002, concluding that across all industries, the median royalty rate was 22.6 percent, and that the data supported the use of the 25 percent rule "as a tool of analysis." *Valuing IP*, 37 *les Nouvelles* at 132-33. Additionally, in a 1997 study of licensing organizations, 25 percent of the organizations indicated that they use the 25 percent rule as a starting point in negotiations. Stephen A. Degnan & Corwin Horton, *A Survey of Licensed Royalties*, 32 *les Nouvelles* 91, 95 (June 1997).

The 25 percent rule has, however, met its share of criticism that can be broadly separated into three categories. First, it fails to account for the unique relationship between the patent and the accused product. See Gregory K. Leonard and Lauren J. Stiroh, *Economic Approaches to Intellectual Property Policy, Litigation, and Management*, 949 PLI/Pat [\*51] 425, 454-55 (Sept.-Nov. 2008) ("[The 25 percent rule] takes no account of the importance of the patent to the profits of the product sold, the potential availability of close substitutes or equally noninfringing alternatives, or any of the other idiosyncrasies of the patent at issue that would have affected a real-world negotiation."); Richard S. Toikka, *Patent Licensing Under Competitive and Non-Competitive Conditions*, 82 *J. Pat. & Trademark Off. Soc'y* 279, 292-93 (Apr. 2000) (arguing that it fails to "distinguish between monopoly and normal profit. . . . Thus for narrow patents, the rule may be overly generous to the patentee, and for broad patents it may be overly stingy"). Second, it fails to account for the unique relationship between the parties. See Ted Hagelin, *Valuation of Patent Licenses*, Tex. Intell. Prop. L.J. 423, 425-26 (Spring 2004) (noting that the rule should not be used in isolation because it fails to "account[] for the different levels of risk assumed by a licensor and

licensee"); *Hypothetical Negotiations* at 702 ("[T]he rule is unlikely to have any basis in the accused infringer's industry, in the technology involved in either the patent or the accused product [\*52] or service, or in the claimed invention's contribution to the infringing product or service."). Finally, the rule is essentially arbitrary and does not fit within the model of the hypothetical negotiation within which it is based. See Roy J. Epstein and Alan J. Marcus, *Economic Analysis of the Reasonable Royalty: Simplification and Extension of the Georgia-Pacific Factors*, 85 *J. Pat. & Trademark Off. Soc'y* 55, 574 (July 2003) ("[The 25% and the 5%] rules of thumb are best understood as special cases [] that may be appropriate to a given situation only by chance."); Roy J. Epstein, *Modeling Patent Damages: Rigorous and Defensible Calculations* (2003) (paper presented at the AIPLA 2003 Annual Meeting) at 22 available at [http://www.royepstein.com/epstein\\_aipla\\_2003\\_article\\_website.pdf](http://www.royepstein.com/epstein_aipla_2003_article_website.pdf) (last accessed Nov. 19, 2010) (arguing that the 25% rule "shortcut" "is essentially arbitrary. Because it is based on ex post results, it does not necessarily relate to the results of a negotiation that took place prior to the infringement").

The admissibility of the bare 25 percent rule has never been squarely presented to this court. Nevertheless, this court has passively tolerated its use where its acceptability [\*53] has not been the focus of the case, see e.g., *i4i Ltd.*, 598 F.3d 831; *Fonar Corp. v. General Elec. Co.*, 107 F.3d 1543, 1553 (Fed. Cir. 1997), or where the parties disputed only the percentage to be applied (i.e. one-quarter to one-third), but agreed as to the rule's appropriateness, *Finjan, Inc. v. Secure Computing Corp.*, slip op. No. 2009-1576, -1594 at 23, 626 F.3d 1197, 2010 U.S. App. LEXIS 23216 (Fed. Cir. Nov. 4, 2010). Lower courts have invariably admitted evidence based on the 25% rule, largely in reliance on its widespread acceptance or because its admissibility was uncontested. See *In Limine*, 632 F. Supp. 2d at 151 ("The '25% Rule' has been accepted as a proper baseline from which to start [a royalty] analysis." (internal citations omitted)); *GSI Grp., Inc. v. Sukup Mfg., Co.*, 641 F. Supp. 2d 732, 745 (C.D. Ill. 2008) (same); *i4i Ltd. P'Ship v. Microsoft Corp.*, 670 F. Supp. 2d 568, 592 (E.D. Tex. 2009), *aff'd on other grounds by* 598 F.3d 831 ("[i4i's expert] testified that it was customary within his field to apply a '25% rule of thumb' . . . . Thus, considering the foundation laid by [i4i's expert's] testimony, his application of the 25% rule was relevant and appropriate considered."); *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, Nos.

5:02-571, 5:04-84, 2007 WL 7083655 at \*13-14 (E.D. Ky. May 12, 2007) [\*54] ("While Lexmark does not believe the 'rule of thumb' approach is the most appropriate way to calculate 'reasonable royalty,' as SCC correctly notes, case law suggests it is one way of doing so" (citing [Standard Mfg. Co. v. United States](#), 42 Fed. Cl. 748, 766 (1999)); [Novozymes A/S v. Genencor Int'l, Inc.](#), 474 F. Supp. 2d 592, 606 (D. Del. 2007) ("While there is no particular analytical justification for [the rule of thumb], it has been used to estimate royalties."); [Inline Connection Corp. v. AOL Time Warner Inc.](#), 470 F. Supp. 2d 424, 432 n.38 (D. Del. 2007) (allowing 25% rule because its use was not disputed); [Bose Corp. v. JBL, Inc.](#), 112 F. Supp. 2d 138, 167 (D. Mass. 2000) ("Courts have found the 25%/75% approach to be a useful approach to arriving at a baseline royalty rate. . . . [The opposing expert] conceded that this approach is a common and reasonable one, though he has never used that approach in negotiating licenses" (citing [Standard Mfg.](#), 42 Fed. Cl. at 764)); [Standard Mfg.](#), 42 Fed. Cl. at 766 ("[T]he 25% rule or a close variant of it has been recognized by a number of other [\*55] federal courts as a 'rule of thumb' or 'typical' in the licensing field."); [Procter & Gamble Co. v. Paragon Trade Brands, Inc.](#), 989 F. Supp. 547, 612 (D. Del. 1997) ("Although the Court will consider the Rule-of-Thumb analysis in determining the royalty rate, this approach will not receive substantial weight."); [Secure Energy, Inc. v. Coal Synthetics, LLC](#), No. 4:08-CV-1719, 2010 U.S. Dist. LEXIS 41095, 2010 WL 1692076 at \*1 (E.D. Mo. Apr. 27, 2010) ("The parties agree that application of the 25% 'rule of thumb' is acceptable to determine a reasonably royalty case such as this."). See also [Paice LLC v. Toyota Motor Corp.](#), 609 F. Supp. 2d 620, 629-30 (E.D. Tex. 2009) (applying 25% rule without discussion); [EZ Dock, Inc. v. Schafer Sys., Inc.](#), No. 98-2364, 2003 U.S. Dist. LEXIS 3634, 2003 WL 1610781 (D. Minn. Mar. 8, 2003) (same). In at least one case, the district court admitted the evidence, but refused to give it substantial weight because, "neither expert testified as to the customary profit percentage used to set the royalty rates in licenses in other businesses" and because "[t]here was no testimony advocating the use of the [*sic*] this approach as an appropriate guidepost for the determination of a royalty rate under a *Georgia-Pacific* [\*56] analysis." [Procter & Gamble Co. v. Paragon Trade Brands, Inc.](#), 989 F. Supp. at 612.

[HN8]In [Daubert](#), 509 U.S. 579, 589, 113 S. Ct. 2786, 125 L. Ed. 2d 469 and [Kumho Tire](#), 526 U.S. 137,

[119 S. Ct. 1167](#), 143 L. Ed. 2d 238, the Supreme Court assigned to the district courts the responsibility of ensuring that all expert testimony must pertain to "scientific, technical, or other specialized knowledge" under [Federal Rule of Evidence \("FRE"\) 702](#), which in turn required the judge to determine that the testimony was based on a firm scientific or technical grounding. [Daubert](#), 509 U.S. at 589-90; [Kumho Tire](#), 526 U.S. at 148. "Expert testimony which does not relate to any issue in the case is not relevant and, ergo, non-helpful." [Daubert](#), 509 U.S. at 591 (citing 3 Weinstein & Berger ¶ 702[02], p. 702-18).

[HN9]This court now holds as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule of thumb is thus inadmissible under [Daubert](#) and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue.

[HN10]The patentee bears the burden of proving damages. [Lucent Techs., Inc. v. Gateway, Inc.](#), 580 F.3d 1301, 1324 (Fed. Cir. 2009). [\*57] To properly carry this burden, the patentee must "sufficiently [tie the expert testimony on damages] to the facts of the case." [Daubert](#), 509 U.S. at 591 ("An additional consideration under [Rule 702](#)--and another aspect of relevancy--is whether expert testimony proffered in the case is sufficiently tied to the facts of the case that it will aid the jury in resolving a factual dispute.") (citing [United States v. Downing](#), 753 F.2d 1224, 1242 (3d Cir. 1985)). If the patentee fails to tie the theory to the facts of the case, the testimony must be excluded. For example, in [General Electric Co. v. Joiner](#), 522 U.S. 136, 118 S. Ct. 512, 139 L. Ed. 2d 508 (1997), the Supreme Court allowed the exclusion of eight of Joiner's experts who opined that polychlorinated biphenyls ("PCBs") could cause cancer on the strength of several studies showing that mice receiving high doses of PCB developed cancer. The Supreme Court noted that "[t]he studies were so dissimilar to the facts presented in this litigation that it was not an abuse of discretion for the District Court to have rejected the experts' reliance on them," *id.* at 144-45, and affirmed the exclusion because Joiner had failed to tie the experts' opinions to the "seemingly far-removed [\*58] animal studies," *id.* at 144. Likewise, in [Kumho Tire](#), a products liability case arising out of a blown tire, the Supreme Court affirmed the exclusion of an expert opinion that argued that the

cause of the accident at issue was a defect in the tire, based on the expert's visual and tactile inspection of the tire. [526 U.S. at 153](#). The specific issue was not whether the visual and tactile inspection methodology was "reasonable[] *in general*," but whether "it was [reasonable to] us[e] such an approach . . . to draw a conclusion regarding *the particular matter to which the expert testimony was directly relevant*." [Id. at 153-54](#). "The relevant issue was whether the expert could reliably determine the cause of *this* tire's separation." [Id. at 154](#). The Court held that the expert had failed to reliably opine on this issue under *Daubert* because his general theory--"that in the absence of *at least two* of four signs of abuse . . . he concludes that a defect caused the separation," *id.* --did not take into account the facts of the particular tire at issue: that the tire "had traveled far enough so that some of the tread had been worn bald; it should have been taken out of service; it had been repaired [\*59] (inadequately) for punctures; and it bore some of the very marks that the expert said indicated, not a defect, but abuse through overdeflection." *Id.* In responding to the plaintiff's argument, "that a method of tire failure analysis that employs a visual/tactile inspection is a reliable method," based on "its use by other experts and to Carlson's [the expert in the case] long experience working for Michelin," the Court reaffirmed that "the question before the trial court was specific, not general. *Id.* The trial court had to decide whether this particular expert had sufficient specialized knowledge to assist the jurors 'in deciding the particular issues in the case.'" [Id. at 156](#). The Court held that he did not.

The bottom line of [Kumho Tire](#) and [Joiner](#) is that [HN11]one major determinant of whether an expert should be excluded under *Daubert* is whether he has justified the application of a general theory to the facts of the case. Consistent with this conclusion, this court has held that "[a]ny evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute." [ResQNet.com, Inc. v. Lansa, Inc.](#), 594 F.3d 860, 869 (Fed. Cir. 2010).

In [\*60] [ResQNet](#), [Lucent Technologies](#), 580 F.3d 1301, and [Wordtech Systems, Inc. v. Integrated Networks Solutions, Inc.](#), 609 F.3d 1308 (Fed. Cir. 2010), [HN12]this court determined that a patentee could not rely on license agreements that were "radically different from the hypothetical agreement under consideration" to

determine a reasonable royalty. [Lucent Techs.](#), 580 F.3d at 1327. See also [ResQNet](#), 594 F.3d at 870-72 (holding that evidence of royalty rates from licenses without a relationship to the claimed invention could not form the basis of a reasonable royalty calculation). In [Lucent Technologies](#), the patentee's expert relied in large part on "eight varied license agreements," four of which involved "PC-related patents," but either the specific subject matter of the patents was not explained to the jury or the license was "directed to a vastly different situation than the hypothetical licensing scenario of the present case," and four of which Lucent did not describe the relationship between the patented technology licensed therein and the licensee's products. See 580 F.3d at 1328-31. This court noted that the "licenses relied on by the patentee in proving damages [must be] sufficiently comparable [\*61] to the hypothetical license at issue in suit," [id. at 1325](#), and that the patentee's failure to do so "weighs strongly against the jury's award" relying on such non-comparable licenses, [id. at 1332](#). Similarly, in [ResQNet](#), the patentee's expert "used licenses with no relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels," looking at licenses that did not mention the patents and had no "other discernible link to the claimed technology." 594 F.3d at 870. This court rejected the expert's testimony, holding that the district court "must consider licenses that are commensurate with what the defendant has appropriated. If not, a prevailing plaintiff would be free to inflate the reasonable royalty analysis with conveniently selected licenses without an economic or other link to the technology in question." [Id. at 872](#). This court held that on remand, "the trial court should not rely on unrelated licenses to increase the reasonable royalty rate above rates more clearly linked to the economic demand for the claimed technology." [Id. at 872-73](#).

Similarly, in [Wordtech](#), the patentee "introduced thirteen patent licenses that it previously granted to third [\*62] parties for rights to some or all of the patents-in-suit" to argue to support the jury's damages determination. 609 F.3d at 1319. This court rejected eleven of the licenses because they were running royalty licenses (the patentee had only asked for a lump sum payment) and represented far lower rates than the jury returned. [Id. at 1320-21](#). This court rejected the remaining two licenses (both for lump sum payments) because "[n]either license describe[d] how the parties calculated each lump sum, the licensees' intended products, or how many products each licensee expected

to produce." [Id. at 1320](#).

The meaning of these cases is clear: [HN13]there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case. The 25 percent rule of thumb as an abstract and largely theoretical construct fails to satisfy this fundamental requirement. The rule does not say anything about a particular hypothetical negotiation or reasonable royalty involving any particular technology, industry, or party. Relying on the 25 percent rule of thumb in a reasonable royalty calculation is far more unreliable and irrelevant than reliance on parties' [\*63] unrelated licenses, which we rejected in *ResQNet* and *Lucent Technologies*. There, the prior licenses at least involved the same general industry and at least some of the same parties as the hypothetical negotiations at issue, and in *Wordtech* even involved licenses to the patents in suit entered into by the patentee-plaintiff. Lacking even these minimal connections, the 25 percent rule of thumb would predict that the same 25%/75% royalty split would begin royalty discussions between, for example, (a) TinyCo and IBM over a strong patent portfolio of twelve patents covering various aspects of a pioneering hard drive, and (b) Kodak and Fuji over a single patent to a tiny improvement in a specialty film emulsion.

It is of no moment that the 25 percent rule of thumb is offered merely as a starting point to which the *Georgia-Pacific* factors are then applied to bring the rate up or down. Beginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusion. This is reflected in *Lucent Technologies*, in which unrelated licenses were considered under *Georgia-Pacific* factor 1, [\*64] but this court held that the entire royalty calculation was unsupported by substantial evidence.

[HN14]To be admissible, expert testimony opining on a reasonable royalty rate must "carefully tie proof of damages to the claimed invention's footprint in the market place." [ResQNet, 594 F.3d at 869](#). This court has sanctioned the use of the *Georgia-Pacific* factors to frame the reasonable royalty inquiry. Those factors properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue. This court's rejection of the 25 percent rule of thumb is not intended to limit the application of any of the *Georgia-Pacific* factors. In

particular, factors 1 and 2--looking at royalties paid or received in licenses for the patent in suit or in comparable licenses--and factor 12--looking at the portion of profit that may be customarily allowed in the particular business for the use of the invention or similar inventions--remain valid and important factors in the determination of a reasonable royalty rate. However, evidence purporting to apply to these, and any other factors, must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations [\*65] that would have taken place in light of those facts and circumstances at the relevant time.

In this case, it is clear that Gemini's testimony was based on the use of the 25% rule of thumb as an arbitrary, general rule, unrelated to the facts of this case. When asked the basis of his opinion that the rule of thumb would apply here, Gemini testified: "[i]t's generally accepted. I've used it. I've seen others use it. It's a widely accepted rule." Upon further questioning, Dr. Gemini revealed that he had been involved in only four or five non-litigation related negotiations, and had recommended the 25% rule only once in a case involving a power tool. He did not testify that the parties here had a practice of beginning negotiations with a 25%/75% split, or that the contribution of Product Activation to Office and Word justified such a split. He did not base his 25 percent baseline on other licenses involving the patent at issue or comparable licenses. In short, Gemini's starting point of a 25 percent royalty had no relation to the facts of the case, and as such, was arbitrary, unreliable, and irrelevant. The use of such a rule fails to pass muster under *Daubert* and taints the jury's damages [\*66] calculation.

This court thus holds that Microsoft is entitled to a new trial on damages.

## 2. Entire Market Value Rule

As discussed above, Gemini performed "a check to determine whether" his \$564,946,803 royalty figure was reasonable by comparing it to his calculation of Microsoft's approximate total revenue for Office and Windows of \$19.28 billion. During trial, Gemini testified that his calculated royalty accounted for only 2.9% of Microsoft's revenue, and accented his point by reference to a prepared pie chart, showing Microsoft's \$19.28 billion in revenue with a 2.9% sliver representing his calculated royalty rate. He concluded that 2.9% was a reasonable royalty based on his experience that royalty

rates for software are "generally above -- on average, above 10% or 10, 11%."

[HN15]The entire market value rule allows a patentee to assess damages based on the entire market value of the accused product only where the patented feature creates the "basis for customer demand" or "substantially create[s] the value of the component parts." Lucent Techs., 580 F.3d at 1336; Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1549-50 (Fed. Cir. 1995). This rule is derived from Supreme Court precedent requiring [\*67] that "the patentee . . . must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative," or show that "the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature." Garretson v. Clark, 111 U.S. 120, 121, 4 S. Ct. 291, 28 L. Ed. 371, 1884 Dec. Comm'r Pat. 206 (1884). See also Lucent Techs., 580 F.3d at 1336-37 (tracing the origins of the entire market value to several Supreme Court cases including Garretson).

Microsoft argues that Uniloc employed the entire market value of Office and Windows by virtue of Gemini's pie chart, his comparison of his calculated royalty to the total revenue Microsoft earns through the accused products, and Uniloc's attorneys' belittlement of Microsoft's expert's royalty figure as representing only .0003% of total revenue. Microsoft argues that Uniloc's use of the entire market value rule was not proper because it is undisputed that Product Activation did not create the basis for customer demand or substantially create the value of the component parts. Microsoft [\*68] continues that Gemini's testimony tainted the jury's damages deliberations, regardless of its categorization as a "check."

Uniloc responds that: (1) Microsoft did not object at trial and so waived any evidentiary argument to Gemini's testimony and demonstratives; (2) the entire market value of the product can be used if the royalty rate is low enough; and (3) the \$19 billion figure was used only as a "check," and the jury was instructed not to base its damages determination on the entire market value, an instruction it should be presumed to have followed.

The district court agreed with Microsoft, and ordered a conditional new trial on damages. It noted that "Uniloc

conceded customers do not buy Office or Windows because of [Product Activation] and said it would not base a royalty calculation on the entire market value of the products." Uniloc II, 640 F. Supp. 2d at 184-85. As such, the use of the entire market value of Office and Windows in the form of the \$19 billion figure was "irrelevant" and "taint[ed]" the jury's damages award. Id. at 185. The district court also disagreed with Uniloc that Microsoft had waived its arguments to the entire market value, noting that "Microsoft objected [\*69] specifically under the entire market value rule to use of a demonstrative pie chart," and that "[t]he Court preliminarily allowed it but after hearing the testimony instructed counsel to stay away from the \$19 billion figure." Id.

This court agrees with Microsoft and the district court that Uniloc's use of the \$19 billion "check" was improper under the entire market value rule. First, regarding Uniloc's assertion that Microsoft has waived the issue, this court will not second-guess the district court's explicit recognition of Microsoft's objections to Gemini's testimony. [HN16]FRE 103(a) notes that "Error may not be predicated upon a ruling which admits or excludes evidence unless . . . (1) Objection. -- In case the ruling is one admitting evidence, a timely objection or motion to strike appears of record . . . . Once the court makes a definitive ruling on the record admitting or excluding evidence, either at or before trial, a party need not renew an objection or offer of proof to preserve a claim of error for appeal." The district court here explicitly noted that Microsoft's objection fell into the exception at the last line of FRE 103(a): "Although Microsoft did not continue to repeat an [\*70] objection, it made its position on this evidence sufficiently clear to preserve the instant challenge" to Gemini's use of the entire market value rule. Uniloc II, 640 F. Supp. 2d at 184 n.43. This is supported by Microsoft's *in limine* filings and Uniloc's response, where Uniloc explicitly said that it would not be relying on the entire market value of the accused products. This court thus agrees with the district court that Microsoft has not waived its objection.

Uniloc argues that the entire market value of the products may appropriately be admitted if the royalty rate is low enough, relying on the following statement in Lucent Technologies:

Simply put, the base used in a running

royalty calculation can always be the value of the entire commercial embodiment, as long as the magnitude of the rate is within an acceptable range (as determined by the evidence). . . . Microsoft surely would have little reason to complain about the supposed application of the entire market value rule had the jury applied a royalty rate of .1% (instead of 8%) to the market price of the infringing programs."

[580 F.3d at 1338-39](#). Just before this statement, however, this court held that one of the flaws in the [\*71] use of the entire market value in that case was "the lack of evidence demonstrating the patented method of the Day patent as the basis--or even a substantial basis--of the consumer demand for Outlook. . . . [t]he only reasonable conclusion supported by the evidence is that the infringing use of the date-picker tool in Outlook is but a very small component of a much larger software program." *Id.* at 1338. Thus, in context, the passage relied on by Uniloc does not support its position. [HN17]The Supreme Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate. See [Garretson](#), 111 U.S. at 121; [Lucent Techs.](#), 580 F.3d at 1336 ("In one sense, our law on the entire market value rule is quite clear. For the entire market value rule to apply, the patentee *must* prove that the patent-related feature is the basis for customer demand" (emphasis added, internal citations omitted)); [Rite-Hite](#), 56 F.3d at 1549 (same); [Bose Corp. v. JBL, Inc.](#), 274 F.3d 1354, 1361 (Fed. Cir. 2001) (same); [TWM Mfg. Co. v. Dura Corp.](#), 789 F.2d 895, 901 (Fed. Cir. 1986) ("The entire market value rule allows [\*72] for the recovery of damages based on the value of an entire apparatus containing several features, when the feature patented constitutes the basis for customer demand.").

This case provides a good example of the danger of admitting consideration of the entire market value of the accused where the patented component does not create the basis for customer demand. As the district court aptly noted, "[t]he \$19 billion cat was never put back into the bag even by Microsoft's cross-examination of Mr. Gemini and re-direct of Mr. Napper, and in spite of a final instruction that the jury may not award damages based on Microsoft's entire revenue from all the accused products in the case." [Uniloc II](#), 640 F. Supp. 2d at 185.

This is unsurprising. The disclosure that a company has made \$19 billion dollars in revenue from an infringing product cannot help but skew the damages horizon for the jury, regardless of the contribution of the patented component to this revenue. Uniloc exacerbated the situation in colloquies like the following on cross-examination of Microsoft's damages expert, in which it implied a relationship between the entire market value of the accused products and the patent:

Q [Uniloc]. [\*73] You understand that there are approximately \$20 billion in sales of infringing product, correct?

A [Napper]. That's the calculation by Mr. Gemini, yes, the entire market value of those products.

Q. And you understand your lump-sum max theory is \$7 million?

A. Yes.

Q. And that would be an effective royalty of approximately .000035%?

A. If one were inappropriately putting the entire market value of the products, that's what it would result in.

Q. Uniloc invents it, correct?

A. They have a patent, yes.

Q. And under your theory, Microsoft goes out and infringes a valid patent, right?

A. That's my assumption.

Q. Under your theory, Microsoft brings in billions in revenue and sales from the sales of the infringing product, to wit, approximately 20, correct?

A. The entire market value of those products, that's correct.

Q. And at the end of the day, the infringer, Microsoft, who violated the patent law, they get to keep 99.9999% of the box and the inventor, whose patent

they infringed, he gets the privilege of keeping .00003%?

A. When expressed as the entire market value of the products, that's correct.

Q. And that's reasonable to you?

A. Yes.

This is in clear derogation of the entire market value rule, because [\*74] the entire market value of the accused products has not been shown to be derived from the patented contribution.

Uniloc's final argument is that the use of the \$19 billion figure was only as a check, and the jury must be presumed to have followed the jury instruction and not based its damages calculation on the entire market value rule. This argument attempts to gloss over the purpose of the check as lending legitimacy to the reasonableness of Gemini's \$565 million damages calculation. Even if the jury's damages calculation was not based wholly on the entire market value check, the award was supported in part by the faulty foundation of the entire market value. Moreover, Uniloc's derision of Microsoft's damages expert by virtue of the .00003% of the entire market value that his damages calculation represented may have inappropriately contributed to the jury's rejection of his calculations. Thus, the fact that the entire market value was brought in as only a "check" is of no moment.

For the foregoing reasons, this court concludes that the district court did not abuse its discretion in granting a conditional new trial on damages for Uniloc's violation of the entire market value rule.

### 3. [\*75] Excessiveness of Damages

As an alternative ground for affirmance of the district court's alternative grant of a new trial on damages, Microsoft argues that the damages here were excessive. Because this court is affirming the district court's grant of new trial on damages, and because the two bases on which Uniloc's damages case was built have both been rejected, it would be premature to consider the excessiveness of damages that could arise on remand. This court thus expresses no opinion on the excessiveness or reasonableness of the damages awarded by the jury.

### D. Cross-Appeal

Microsoft also cross-appeals the district court's denial of its motion for JMOL of invalidity. Microsoft argues that under Uniloc's interpretation of the claim construction in its infringement case, claim 19 is invalid as anticipated or obvious over [U.S. Patent No. 4,658,093](#) ("093 reference") titled, "Software Distribution System."

Before this court addresses the merits, two procedural issues must be addressed. First, Microsoft argues that its burden for both the new trial and JMOL motions was to show invalidity simply by a preponderance of the evidence, because the '093 reference was not before the PTO. This argument [\*76] is based on a statement in [KSR Int'l Co. v. Teleflex Inc.](#), [550 U.S. 398, 426, 127 S. Ct. 1727, 167 L. Ed. 2d 705 \(2007\)](#) ("[T]he rationale underlying the presumption--that the PTO, in its expertise, has approved the claim--seems much diminished here [where the allegedly invalidating prior art was not before the patent office]."). Microsoft has made this argument before, and we held that [HN18]the statutory presumption of validity can be overcome only by showing invalidity by clear and convincing evidence, even where allegedly invalidating prior art was not before the patent office. See [i4i, 598 F.3d at 848, cert. granted 562 U.S. , 131 S. Ct. 647, 178 L. Ed. 2d 476 \(Nov. 29, 2010\)](#) (No. 10-290); [Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.](#), [725 F.2d 1350, 1359 \(Fed. Cir. 1984\)](#). Until changed by the Supreme Court or this court sitting en banc, that is still the law.

Second, Microsoft argues that the district court's grant of a new trial extended to validity even though the district court did not mention validity in the new trial section of its opinion. See [Uniloc II](#), [640 F. Supp. 2d at 183-86](#). Microsoft failed to raise this issue in its motion for a new trial, and this court finds no basis to conclude that the district court implicitly decided the issue. The issue [\*77] is thus not before this court and we do not reach it.

Turning then to the merits. Microsoft frames its validity arguments as follows: if claim 19 reaches far enough to read on Microsoft's Product Activation, then it necessarily extends far enough to read on the prior art '093 reference. Thus, Microsoft uses Product Activation as a proxy for the scope of claim 19 (under the assumption that the jury verdict of infringement is upheld and Product Activation infringes), and compares it to the

'093 reference. According to Microsoft, the prior art '093 reference discloses a software authorization process and system, which generates an authorization code from the following inputs: "a secret key identifier of the computer embodied in the hardware (SK), a random or nonrepeating number ®, the serial number, the software package name (H), the number of uses (N), and user billing information." [Uniloc II, 640 F. Supp. 2d at 181](#).

In the prior appeal, this court held that the licensee unique ID must be "a unique identifier associated with a licensee," but one "that cannot be based solely on platform-related user information." [Uniloc I, 290 Fed. App'x at 343-44](#). The question in this appeal is whether [\*78] no reasonable jury could have concluded that the inputs to the cryptographic hash function in the '093 reference are not sufficient to create an association with the licensee. The focus of the dispute on appeal, just as below, is whether random number R in the '093 reference is uniquely associated with a user. We think that it is not and that the '093 reference does not anticipate claim 19.

Uniloc argues that R is "platform-related" because it is generated by the user's computer. Microsoft argues that "platform-related" must be narrower than "generated by a computer," otherwise it could not infringe because the output of Product Activation (the PID) is also generated by a computer.

It is undisputed that R and SK, the only inputs that Microsoft argues are associated with the user, are generated by the computer.<sup>3</sup> In the prior appeal, this court noted that the licensee unique ID "cannot be based solely on platform related user information." [Id. at 343](#). This was based in part on Uniloc's distinction made during prosecution of the ['216 patent](#) between its invention and a prior art reference that "relie[d] for its security on a machine identification code unique to the machine." [Id. at 343-44](#). [\*79] The number R in the '093 reference does just what the distinguished prior art does: whatever association it creates does not identify the user, but rather it identifies the machine. In other words, the R in the '093 reference is platform-related, and thus cannot form the basis of the association between the output of the cryptographic hash function and the licensee. The same is true for SK, which is based on a computer-generated serial number.

3 The "user billing information" in the '093 reference is not an input into the hash function and is thus irrelevant in determining whether the

'093 reference discloses the "licensee unique ID" and "licensee unique ID generating means" elements of the ['216 patent](#).

Microsoft's argument that R is not platform-related though it is generated by a computer (without user input) is unconvincing for two reasons. First, [HN19]the proper framework for challenging the validity of a patent is not for the accused to show that it is practicing the prior art, but to show that every element of the patent claims reads on a single prior art reference. *See Zenith Elecs. Corp. v. PDI Comm. Sys., Inc.*, 522 F.3d 1348, 1363 (Fed. Cir. 2008) ("[M]ere proof that the prior art [\*80] is identical, in all material respects, to an allegedly infringing product cannot constitute clear and convincing evidence of invalidity. Anticipation requires a showing that each element of the claim at issue, properly construed, is found in a single prior art reference."). Second, although the *output* of the hash algorithm in Product Activation, the PID, is computer generated, the information that is *input* into the MD5 algorithm is associated with a user, in the form of the product key provided by the vendor. This court has held that it is reasonable to determine that such information creates an association with the user. [Uniloc I, 290 Fed. App'x at 343 n.4](#) ("The specification [of the ['216 patent](#)] certainly does allow for the use of vendor-provided information to generate a licensee unique ID."). As noted, *supra* section II.A.3, this court is bound by the first appeal that inputs associated with the licensee are sufficient to maintain the association in the *output* as well. *See also Uniloc I, 290 Fed. App'x at 344* ("Microsoft's Product Activation system inputs non-platform-related information unique to a user, such as a Product Key, to generate what might qualify as a licensee unique [\*81] ID."). Unlike the PID, the output of the hash algorithm in the '093 reference is "based solely on platform-related user information," *see id. at 343*, in the form of R and SK, neither of which are "vendor-provided," and both of which are generated by the user's computer. The PID is thus distinguishable from the output of the hash algorithm in the '093 reference, and a reasonable jury could have returned a verdict that the '093 reference does not disclose a "licensee unique ID" as required by claim 19 of the ['216 patent](#). This court thus affirms the district court's denial of JMOL of invalidity based on anticipation.

[HN20]Though obviousness is a question of law, this court gives the jury its usual deference on the underlying factual questions. What the prior art shows is a question

of fact. [Graham v. John Deere Co.](#), 383 U.S. 1, 17, 86 S. Ct. 684, 15 L. Ed. 2d 545 (1966). As discussed above, a reasonable jury could have found that the '093 reference failed to disclose a licensee unique ID. Microsoft has presented no convincing argument for why incorporating an input into the hash function that is associated with a user would have been obvious to one of ordinary skill in the art. This court thus affirms the district court's [\*82] denial of JMOL of invalidity on the basis of obviousness.

Conclusion

For the foregoing reasons, this court reverses the district court's grant of JMOL of non-infringement,

affirms the district court's grant of JMOL of no willfulness, affirms the district court's grant of a new trial on damages, vacates the district court's grant of an alternative motion for new trial on infringement, and affirms the district court's denial of JMOL of invalidity of claim 19 of the '216. The case is remanded for proceedings consistent with this opinion.

**AFFIRMED-IN-PART, REVERSED-IN-PART,  
VACATED-IN-PART, and REMANDED**

Costs

Each party shall bear its own costs.