

BEWARE WHAT YOU PLEAD

By: Jim Astrachan

When I was growing up in a New York suburb an ice cream parlor sold a \$50 sundae aptly named the "Kitchen Sink". Ice cream did not come to the table in a sink; instead, every conceivable ingredient was added. It quickly became a mess of icy sludge not to be reordered. Reminds me sometimes of complaints filed by some lawyers who toss in the kitchen sink. In a copyright action, this can become a real hazard.

In a copyright action, the ability to recover attorneys' fees and costs is a two edged sword, often with a razor's edge. This is because attorneys' fees are to be awarded to defendants on an even-handed basis with plaintiffs. And while plaintiffs must meet certain statutory requirements involving registration of their works to receive an award of attorneys' fees, defendants need not.

How a plaintiff pleads its case can determine whether it will trigger the ability of a court to award attorney's fees and, if it does so and its case is a loser, it is likely to be on the wrong side of the award. In a copyright case, this can be very costly as a non-prevailing plaintiff learned last year in the First Circuit Court of Appeals.

The appellant learned this lesson the hard way after it sued the publisher McGraw-Hill, who sold it a subsidiary engaged in licensing a software program called MAPSI. After the price had been set, the buyer asked that MAPSI predecessor software programs, all of which were obsolete, be tossed into the sale and McGraw-Hill agreed. McGraw-Hill did not increase the purchase price when it added these obsolete programs to the transferred assets. Unfortunately for McGraw-Hill's lawyer, she also added a program called AIM to the agreement which was not obsolete and generated millions for McGraw-Hill. Although the draft sales agreement was reviewed three times by McGraw-Hill executives before execution, they missed the fact that AIM had been added.

When McGraw-Hill realized it had sold AIM it claimed that under New York law inclusion in the sale was merely a scrivener's error and that it still owned the rights to the AIM program. The buyer sued McGraw-Hill alleging that it had breached its contract to sell AIM and that McGraw-Hill's ongoing use of AIM violated the buyer's copyright, which it claimed it owned due to the sale.

At this point the buyer should have considered very carefully whether the inclusion of a count for copyright infringement might cost it \$225,000 in McGraw-Hill's legal fees. Or to put it another way, would a cause of action for breach of contract alone have brought the plaintiff to the same place without the additional risk of paying defendant's legal fees.

The trial court decided to hold the copyright infringement count in abeyance and first try the contract claim. The only issue presented to the jury was whether the inclusion of AIM in the purchase agreement was a scrivener's error and not the agreement of the parties. A jury saw it McGraw-Hill's way, deciding that only a mistake in drafting would cause McGraw-Hill to transfer

a multi-million dollar product for no money. The court then entered judgment for McGraw-Hill on all counts including the copyright infringement claim. Next, because of the inclusion of the copyright infringement claim, the court awarded legal fees to McGraw-Hill on the grounds that "plaintiff's claim of copyright infringement was objectively unreasonable and improperly motivated." You could just hear the smack of the open-handed head slap.

The ruling was appealed and affirmed noting that an award of attorney's fees and costs rests in the trial court's discretion, and that there is no formula to be applied. Instead, while there may be other factors to consider, an important factor is the objective unreasonableness of the losing side's position.

Nor did the appellate court agree with the plaintiff's contention that because the trial court only considered the state law breach of contract claim, the court should not have awarded attorney's fees and costs. The plaintiff was wrong for the following reason: The state law claim was decided on the basis of a determination of ownership. The jury concluded that McGraw-Hill, and not the plaintiff, owned AIM. Thus, the jury had determined an element essential to the copyright claim, as ownership of the copyright is one of the elements the plaintiff must prove to prevail. Simply because the trial court tried only the state law claim did not exorcise the copyright infringement claim from the case.

The appellate court also concluded that if the plaintiff had never asserted a copyright claim it would be "hard to describe this as a civil action under the [copyright] statute", being the basis for an award of attorneys' fees and costs. Hard? More like impossible, but because a copyright claim was made the litigated issue, ownership was a condition precedent to that

claim, even if that claim was not tried. The trial court was not incorrect in entering judgement on the copyright count.

This case emphasizes a rule we are careful to try and follow, and that is if you are not sure how strong your copyright claim is, don't plead it. You can get hurt. Assert another cause of action such as breach of contract if you can. Here, the plaintiff tossed the kitchen sink at McGraw-Hill and not only lost but had to pay McGraw-Hill \$225,000 in lawyers' fees and costs.

The statute that allows an award of attorneys' fees to a prevailing party is a strange duck in that while a prevailing copyright plaintiff is often ineligible for an award of attorneys' fees, a prevailing defendant is always eligible. This follows because of the statute's requirement that a plaintiff register the copyright prior to the infringement. It's good to keep this in mind.

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