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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH

THE SCO GROUP, Plaintiff/Counterclaim-Defendant v. INTERNATIONAL BUSINESS MACHINES CORPORATION, Defendant/Counterclaim-Plaintiff	**SCO'S MEMORANDUM IN OPPOSITION TO IBM'S MOTION FOR PARTIAL SUMMARY JUDGMENT ON ITS COUNTERCLAIM FOR COPYRIGHT INFRINGEMENT (EIGHTH COUNTERCLAIM)** Case No. 2:03CV0294DAK Honorable Dale A. Kimball Magistrate Judge Brooke C. Wells

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The SCO Group, Inc. ("SCO") respectfully submits this Memorandum in Opposition to IBM's Motion for Partial Summary Judgment on IBM's Counterclaim for Copyright Infringement (the Eighth Counterclaim).

PRELIMINARY STATEMENT

IBM's Eighth Counterclaim and its motion for summary judgment on that counterclaim are thinly veiled attempts to try to retaliate against SCO for seeking to enforce its contractual and intellectual property rights with respect to UNIX.

IBM's motion puts at issue sixteen programs in Linux that IBM licensed for free use under the GNU General Public License and Lesser General Public License (collectively, the "GPL"). IBM thus made its allegedly copyrighted material freely available for SCO's (and others') copying and distribution. IBM concedes that the GPL would authorize SCO's use of the programs, but claims both that SCO has "repudiated" the GPL (and thus cannot invoke it) and that SCO breached the GPL (and thus immediately "forfeited" its authorization). IBM's arguments to limit the scope and applicability of that authorization fail on several grounds.

First, SCO has not "repudiated" (or "renounced") the GPL. There is no question that the GPL expressly authorized third parties, including SCO, to distribute IBM's allegedly copyrighted code. The argument IBM advances here, without citation to any authority, is that SCO has retroactively lost its authorization to copy the programs at issue by asserting certain affirmative defenses in this litigation. SCO's assertion of defenses regarding the enforceability of supposed GPL restrictions does not constitute a repudiation. SCO also states that "IBM's claims are barred by license" (that is, the GPL) and that SCO has acted "within the contractual rights granted to it concerning software made freely available by IBM under the GPL." There is no basis in fact or law for the type of retroactive copyright liability that IBM seeks to impose.

Second, SCO has not "forfeited" (let alone immediately and without notice) its GPL copying rights by charging for its Intellectual Property License for Linux (the "UNIX License"), beginning in August 2003. IBM asserts that SCO has thereby "collected, and attempted to collect, royalties and licensing fees from Linux users in excess of the fees permitted by the GPL." IBM Mem. ¶ 66. But what IBM attacks are SCO's licenses for its UNIX rights and releases of potential claims for the infringement of those rights – not licenses of Linux. Neither the GPL nor any other agreement gives IBM the right to dictate how much or how little SCO may charge for the use of its own intellectual property, or for the release of claims.

In addition to the factually incorrect bases for its motion, moreover, IBM misapprehends the language and operation of the GPL. Even if the facts of SCO's conduct were different:

- Nothing in the GPL prohibits a licensee from imposing "further restrictions" on a third party's use of GPL-licensed material that the third party did not receive from that licensee. SCO has sold its license for UNIX software <u>only</u> to those who acquired a Linux operating system from someone other than SCO; and

- The GPL does not prohibit a licensee from collecting a royalty or licensing fee on verbatim (as opposed to <u>modified</u>) copies of GPL-licensed material.

Indeed, IBM proposes an interpretation of the GPL that would substantially interfere with licensees' enforcement of their intellectual property rights, and that would implicate the antitrust laws by allowing competitors to agree as to the respective nature and amount they may charge for distribution of Linux, let alone for licensing of their own intellectual property.

SCO has complied with the GPL as a matter of law and therefore is entitled to invoke those provisions of the license that plainly entitled SCO to copy and use IBM's programs as it did. The foregoing grounds themselves warrant denial of IBM's motion for summary judgment. Moreover, as a matter of equity, IBM comes to the Court with unclean hands: IBM seeks to enforce its alleged copyrights having itself misappropriated SCO's proprietary source code, and having improperly hacked into SCO's website to obtain the very evidence that is the supposed basis for IBM's motion.

SCO'S RESPONSE TO IBM's "STATEMENT OF UNDISPUTED FACTS"

1. SCO copied and distributed the Linux kernel and other related Linux software for years prior to 2003, when SCO discovered that IBM and others had misappropriated SCO's copyrighted UNIX code by contributing it to Linux without SCO's approval. Promptly after this discovery, SCO suspended all sales and marketing of its entire Linux product line. Declaration of Erik W. Hughes (11/30/04) ("Hughes Decl.") ¶ 3.

2. In light of the legal issues arising from the misappropriation, SCO began offering its Intellectual Property License for Linux (the "UNIX License") for sale beginning on August 5, 2003. Hughes Decl. ¶ 6. The UNIX License is a license of SCO's UNIX software, not a license or sublicense of Linux or of any IBM-copyrighted work. Declaration of Chris Sontag (11/30/04) ("Sontag Decl.") ¶ 30. SCO has never attempted to license or sublicense Linux or any IBM copyrighted work, or any other GPL-licensed code. Id. (SCO therefore disputes IBM Statement of Undisputed Facts ("IBM St.") ¶ 66.) None of the documents listed in paragraph 66 of IBM's "Statement of Undisputed Facts" represents an attempt to collect royalties or licensing fees for Linux or any IBM product:

a. SCO's May 2003 letters to Fortune 1000 companies (IBM Ex. 28) stated that SCO intended to protect and enforce its "UNIX intellectual property" and did not attempt to license Linux or any IBM work;

b. SCO's May 14, 2003 press release (IBM Ex. 29) warned that "SCO's own UNIX software code is being illegally copied into Linux" and did not attempt to license Linux or any IBM work;

c. SCO's July 21, 2003 press release (IBM Ex. 30) announced that SCO would soon be offering "UnixWare® licenses" for the specific purpose of resolving intellectual property issues arising from the unauthorized contributions of SCO's proprietary code into Linux, and nowhere in this release did SCO make any attempt to license Linux or any IBM work;

d. SCO's August 5, 2003 press release (IBM Ex. 31) announced the availability of the UNIX License, which permits "the use of SCO's intellectual property" in Linux distributions, and this release does not reflect any attempt by SCO to license Linux or any IBM work;

e. SCO's August 10, 2003 agreement with Computer Associates (IBM Ex. 32) granted a "license to use SCO UNIX rights" on a Linux operating system, and did not license Linux or any IBM work;

f. SCO's October 14, 2003 invoice to Leggett & Platt (IBM Ex. 33) for an "IP Compliance License" does not even mention Linux and did not license Linux or any IBM work;

g. SCO's December 19, 2003 agreement with Questar (IBM Ex. 34) granted a license to use "SCO IP rights," which were defined as SCO's UNIX rights and expressly excluded Linux, and did not license Linux or any IBM product;

h. SCO's December 22, 2003 press release (IBM Ex. 35) announced "new initiatives to enforce and protect the company's intellectual property rights," and this release does not reflect any attempt by SCO to license Linux or any IBM product;

i. SCO's December 19, 2003 template letter (IBM Ex. 36) restated SCO's belief that SCO's proprietary code had been illegally copied into Linux, and this release does not reflect any attempt by SCO to license Linux or any IBM product;

j. SCO's January 16, 2004 letter to Lehman Brothers Holdings (IBM Ex. 37) stated that legal action would be considered unless Lehman purchased a UNIX License, and this letter does not reflect any attempt by SCO to license Linux or any IBM product;

k. SCO's March 1, 2004 agreement with Everyones Internet (IBM Ex. 38) granted a license to use SCO's proprietary UNIX code, and did not grant a license for Linux or any IBM product;

l. SCO's March 3, 2004 suit against AutoZone (IBM Ex. 39) alleges infringement of SCO's UNIX copyrights and does not reflect any attempt by SCO to license Linux or any IBM product;

m. In August 2004, SCO contemplated raising the price of its UNIX License (as noted in IBM Ex. 40), and SCO did not attempt to license Linux or any IBM product;

n. SCO's SCOSource division sells the UNIX License (as indicated in IBM Ex. 41), and neither this division nor any other part of SCO has ever attempted to license Linux or any IBM product.

3. SCO determined to offer its UNIX License, beginning in August 2003, only because IBM had misappropriated SCO's proprietary source code and contributed hundreds of thousands of lines of that code into Linux. Hughes Decl. ¶ 6.

4. All sixteen of IBM's allegedly copyrighted programs at issue in this motion were licensed to SCO under the GPL. IBM Mem. at 12 ¶ 61.

5. Under the GPL, a licensee may charge a fee for its distribution of GPL-licensed software. GPL Preamble ¶¶ 2, 4; GPL ¶ 1. Indeed, companies such as Red Hat and SuSe built businesses based on the sale and service of Linux-based software. Red Hat's founder Robert Young, for example, has stated that "many people prefer to purchase Official Red Hat Linux in a box for $50 when they could download it for free or buy unofficial CD-ROM copies of Red Hat for as little as $2." Robert Young Interview, http://www.press.umich.edu/jep/04-03/young.html.

6. Section 1 of the GPL authorizes the general public to copy and distribute verbatim copies of the source code of the licensed program, subject to certain notice publication requirements. GPL § 1. SCO complied with all of these requirements in all of its Linux distributions. Hughes Decl. ¶ 9. IBM does not contend otherwise.

7. Section 3 of the GPL authorizes the general public to copy and distribute verbatim copies of the licensed program in object code or executable form, subject to the condition that it be accompanied by the source code or by an offer to provide the source code. GPL § 3. SCO complied with these conditions in all of its Linux distributions. Hughes Decl. ¶ 9. IBM does not contend otherwise.

8. Section 3 of the GPL does not prohibit a licensee from charging "royalty or licensing fees" on the licensed works. Section 3 does not even mention fees or royalties at all. GPL § 3. (SCO therefore denies IBM St. ¶ 65.)

9. Section 2 states that, if a licensee modifies the licensed work, the modified work must be licensed at no charge. GPL § 2. IBM does not allege that SCO modified any of the sixteen subject works; IBM relies on SCO's verbatim copying of these works. IBM Mem. at 6-12, 19; Declaration of Kathleen Bennett ("Bennett Decl.") ¶¶ 9, 11. In fact, SCO never modified any of these works. Sontag Decl. ¶ 31. In contrast to section 2 (which authorizes the copying of modified works), section 1 (which authorizes verbatim copying) does not require no-charge licensing.

10. In addition, even though the GPL would not have prohibited SCO from doing so, SCO has not sought to collect royalties or licensing fees for any of IBM's allegedly copyrighted works. Hughes Decl. ¶ 9; Sontag Decl. ¶ 30.

11. IBM has also claimed that, in violation of section 6 of the GPL, SCO has imposed "further restrictions" on a third party's use of licensed material. However, section 6 refers exclusively to situations where the third party has received the GPL-licensed material from the licensee. SCO has not attempted to sell the UNIX License to anyone who received a Linux distribution from SCO. Hughes Decl. ¶ 8. (SCO therefore disputes IBM St. ¶ 64.)

12. The GPL says that a licensee's use of licensed material beyond the scope of the License will "automatically terminate" the licensee's rights under the License, but it does not say when such a termination becomes effective, and it provides no mechanism by which the licensee

is put on notice of an alleged unauthorized use of the licensed material. GPL § 4. (SCO therefore disputes IBM St. ¶ 63.)

13. Fifteen of the sixteen alleged IBM programs at issue in this motion were included verbatim in SCO Linux Server 4.0. The remaining one (the omni print driver) was included verbatim in the Asia CD of SCO Open Linux 3.1.1. IBM Mem. at 5, 6-12, 19-20. IBM alleges that SCO thereafter "forfeited" its GPL rights by attempting to sell the UNIX License, and that SCO infringed its copyrights by (1) distributing SCO Linux Server 4.0, IBM Mem. at 5 ¶ 26, and (2) making SCO Linux Server 4.0 and SCO Open Linux 3.1.1 available for public download via the internet. Id. at 5-12 ¶¶ 27-60.

14. SCO distributed SCO Linux Server 4.0 for only a few months, from November 19, 2002, until May 14, 2003. Hughes Decl. ¶¶ 2-3. A few months after determining that Linux was tainted with misappropriated SCO code, SCO suspended its sales of Linux products pending clarification of the intellectual property issues. Hughes Decl. ¶ 3. After May 14, 2003, SCO entered into no further obligations to sell SCO Linux Server 4.0 or any other Linux product. Id. SCO made limited post-May 14 sales to customers in consideration of its obligations to its customers. Id. ¶¶ 3-5; Sontag Decl. ¶¶ 12-14. The last sale of Linux Server 4.0 was on May 31, 2004. Hughes Decl. ¶ 4. (SCO therefore disputes IBM St. ¶ 26.) All of SCO's Linux distributions (both prior to and after May 2003) were made under the GPL, with no charge of any nature for royalties or licensing fees. Hughes Decl. ¶ 9.

15. In accordance with its obligations, SCO continued to provide its Linux customers with internet access to files containing Linux source code and enhancements thereto. SCO stored these files on its computers, which its customers could access via the internet. In

accordance with its agreement with the UnitedLinux consortium, SCO provided customers who purchased SCO Linux Server 4.0 with a password to enter at a log-in screen on SCO's download site so that only they would have access. Sontag Decl. ¶ 17-19. (Password protection was in place for three of the four URLs listed in the declaration of Kathleen Bennett that IBM submits in support of its motion; the remaining URL was for OpenLinux files and did not provide access to any files for SCO Linux Server 4.0. Id. ¶ 29.) The only way a non-customer could access the Linux Server 4.0 code was to bypass the password-protected security system by hacking into the system. Id. ¶¶ 20-21. In addition, the download site contained an explicit notice that access to the Linux Server 4.0 files was limited to SCO customers. Id. ¶ 28.

16. Between October 31 and December 1, 2003, IBM repeatedly accessed the SCO log-in site but did not obtain access to the SCO Linux Server 4.0 files. Id. ¶ 25. After news of a bug in the SCO site's security system was reported on internet websites, IBM exploited the bug to bypass the security system, hack into SCO's website, and download the very files IBM has now attached to its motion. Id. ¶¶ 22-27 (SCO therefore disputes IBM St. ¶ 27.)

17. The files that IBM hacked remained on SCO's website after August 5, 2003, because of SCO's pre-existing contractual obligations with its customers and with the UnitedLinux consortium. Sontag Decl. ¶ 17-19. Under the GPL, each time SCO distributed a copy of IBM's purported works in executable form, SCO was to provide the customer "with the complete corresponding machine-readable source code" on a "medium customarily used for software interchange" or with an offer to provide the code at cost. GPL § 3. SCO complied by making the source code available to its customers on its website. SCO will remove all Linux-related code from its website promptly after expiration of the last of its contractual commitments,

on December 31, 2004. Hughes Decl. ¶ 11; Sontag Decl. ¶ 17. SCO's "distribution" of any Linux products, even in this limited fashion, will cease by the end of 2004. Id.

18. Prior to the filing of its Second Amended Counterclaim on March 29, 2004, IBM never provided SCO with any notice of its claim that SCO's rights under the GPL had terminated or that SCO was infringing its copyrights. Hughes Decl. ¶ 12.

19. SCO never repudiated the GPL, and it always endeavored to comply with its GPL obligations. Hughes Decl. ¶ 9; IBM Ex. 23 (Sontag Deposition) at 213:21-214:1.

20. IBM contributed at least one of the sixteen subject programs to Linux in violation of its contractual obligations to SCO, Declaration of Michael Davidson (11/22/04) ("Davidson Decl.") ¶¶ 10-52 (submitted with SCO's Memorandum in Opposition to IBM's Motion for Summary Judgment on SCO's Contract Claims (Nov. 30, 2004)), and (as detailed above) it supports this motion with documents obtained through unauthorized access into SCO's website. Sontag Decl. ¶¶ 18-27.

21. IBM St. ¶¶ 1-4 repeat IBM's erroneous statements on the history of Linux from its earlier briefs. SCO disputes each of these statements based on the evidence and reasons set forth in its Memorandum in Opposition to IBM's Motion for Summary Judgment on its Tenth Counterclaim for Declaratory Judgment of Non-Infringement ¶¶ 8-14.

22. SCO disputes IBM St. ¶ 8 and all other statements to the extent they refer to "IBM Copyrighted Works" or suggest that the sixteen subject works are owned by IBM or that IBM's copyrights are valid, because IBM may have misappropriated some or all of these works

in violation of its agreements with SCO and, in any event, IBM may have assigned these works or failed to register them properly. SCO is conducting discovery on these issues.[1]

ARGUMENT

In order to prevail on its counterclaim, IBM bears the burden of proving that SCO violated the Copyright Act. See Allegro Corp. v. Only New Age Music, Inc., No. Civ. 01-790-HU, 2003 WL 23571745, at *10 (D. Or. Jan. 23, 2003) (Exh. A); Indep. Serv. Orgs. Antitrust Litig., 964 F. Supp. 1469, 1472 (D. Kan. 1997). This requires proof that SCO's actions were unauthorized. See Gates Rubber Co. v. Bando Chem. Indus., Ltd., 9 F.3d 823, 832 (10th Cir. 1993) ("Once the plaintiff has shown that it holds a valid copyright, it must next prove that the defendant unlawfully appropriated protected portions of the copyrighted work." (emphasis added)); Foresight Res. Corp. v. Pfortmiller, 719 F. Supp. 1006, 1011 (D. Kan. 1989) ("In general, a prima facie case of copyright infringement consists of proof that the plaintiff owns a valid copyright and the defendant has engaged in unauthorized copying.").

Given SCO's undisputed reliance on the GPL, IBM bears the burden of proving that SCO violated that license. See Allegro, 2003 WL 23571745, at *10 ("To prevail on their counterclaim of copyright infringement under a license, defendants must prove 1) ownership of copyright, and 2) 'copying' of protectible expression beyond the scope of the license."); see also Graham v. James, 144 F.3d 229, 236 (2d Cir. 1998) (noting that "the copyright owner bears the burden of

[1] One of the subject programs, for example, is Linux Kernel S390 Support, IBM St. ¶ 17, even though IBM apparently has assigned "all of IBM's modifications to the kernel for use with IBM's S/390 mainframe computers" to the Free Software Foundation. Moglen, FSF Statement on SCO v. IBM, http://gnu.cdpa.nsysu.edu.tw/philosophy/sco-statement.html. Another subject program is Journaled File System ("JFS"), IBM St. ¶ 14, which appears to be a derivative of the JFS in UNIX. See Davidson Decl. ¶¶ 10-52.

proving that the defendant's copying was unauthorized under the license"); Stenograph L.L.C. v. Bossard Assocs., Inc., 144 F.3d 96, 99 (D.C. Cir. 1998) (explaining copyright plaintiff must prove defendant's copying of protected expression exceeded scope of "the license possessed by the defendant").

I. THE GPL AUTHORIZED SCO TO DISTRIBUTE LINUX, INCLUDING ANY CONTRIBUTIONS MADE BY IBM OF COPYRIGHTED MATERIAL

Although in certain respects "the language of the GPL is opaque and it contains many ambiguities," Radcliffe, SCO v. IBM Part Deux, http://www.alwayson-network.com/comments, it clearly grants the public at large "freedom to distribute copies" of the licensed software and to "charge for this service if you wish." GPL Preamble ¶ 2. Section 1 of the GPL authorizes the public to "copy and distribute verbatim copies" of source code licensed thereunder, subject only to certain notice publication requirements. GPL § 1. SCO complied with these requirements, Hughes Decl. ¶ 9, and thus was entitled to copy any material IBM licensed under the GPL.

Section 1 also permits the charging of fees for transfer of the software and for warranty protection. IBM appears to contend that the GPL's express grant of permission to charge transfer and warranty fees should be read as a prohibition of all other types of fees. It is well established that this type of reasoning is unreliable and even "dangerous" in the construction of contracts and statutes. Ford v. United States, 273 U.S. 593, 612 (1927); Seneca-Cayuga Tribe of Okla. v. Nat'l Indian Gaming Comm'n, 327 F.3d 1019, 1034-35 & n.26 (10th Cir. 2003). Section 2(b), which prohibits licensing fees where the licensee distributes modified works, shows that the drafters knew how to write a fee prohibition where such was intended.

The GPL also authorizes a party to copy and distribute the licensed works verbatim in object code or executable form under the terms of section 1, as long as the party accompanies it with the source code or with an offer to provide the source code. GPL § 3. It is undisputed that SCO complied fully with this condition. Hughes Decl. ¶ 9. GPL section 3 allows a licensee to comply by "offering access to copy from a designated place" (such as an internet site).

SCO complied with all of the GPL's requirements and therefore was authorized to distribute all sixteen of the works allegedly copyrighted by IBM that IBM contributed to Linux.

II. SCO DID NOT REPUDIATE OR BREACH THE GPL

IBM asserts that SCO "forfeited" its rights under the GPL by "repudiating" and "breaching" the GPL. IBM is wrong on both points as a matter of law.

A. SCO Did Not "Repudiate" the GPL

IBM contends (without citations) that SCO was not authorized to copy and distribute IBM's allegedly copyrighted material because, IBM contends, SCO has since "repudiated" the GPL. SCO has not "repudiated" the GPL.

"A repudiation occurs when a party to a contract makes an overt communication of intention or an action which renders performance impossible or demonstrates a clear determination not to continue with performance." Amoco Oil Co. v. Premium Oil Co., 313 F. Supp. 2d 1233, 1238 (D. Utah 2004) (quotations and citation omitted); see also Lantec Inc. v. Novell, Inc., 306 F.3d 1003, 1014-15 (10th Cir. 2002). Put another way, a party "repudiates" a contract when it "refuses to perform and communicates that refusal distinctly and unqualifiedly to the other party." Dow Chem. Co. v. United States, 226 F.3d 1334, 1344 (Fed. Cir. 2000). IBM does not even allege that SCO has made any such refusal, far less communicated any such refusal to anyone. In fact, in the very materials IBM cites, SCO Vice President Christopher Sontag confirms that, with respect to the GPL, SCO "treated it as an obligation for which it needed to abide by," and SCO "made our best efforts to abide by all of the obligations of the GPL agreement." IBM Ex. 23 at 213:21-214:1. On this basis alone, IBM's "repudiation" argument fails.

IBM also misapprehends the significance of the assertions SCO has made in its pleadings regarding the enforceability of the GPL. IBM ignores those assertions that directly contradict its characterization of SCO's supposed "repudiation": SCO asserts as its Fourth Affirmative Defense that "IBM's claims are <u>barred</u> <u>by</u> <u>license</u>" (IBM's 2d Am. Countercl. at 19 (emphasis added)), and as its Eleventh Affirmative Defense that "SCO has acted legally and properly <u>at</u> <u>all</u> <u>relevant</u> times and IBM is therefore barred from any relief whatsoever" (<u>id.</u> at 20 (emphasis added)). In a portion of SCO's Response to IBM's Third Set of Interrogatories that IBM does not cite, SCO explains that it has acted "within the contractual rights granted to it concerning software made freely available by IBM under the GPL." Plaintiff SCO's Response to IBM's Third Set of Interrogatories at 20 (Apr. 19, 2004). SCO thus has not <u>remotely</u> stated that any licensee who relies on the GPL is liable for copyright infringement.

IBM also ignores the context in which SCO has made its forward-looking assertions regarding the enforceability of the GPL. In its Seventh Counterclaim, IBM asserts a state law claim for breach of contract based on the GPL. In response, SCO asserted the following affirmative defenses:

- "The GPL is selectively enforced by the Free Software Foundation such that enforcement of the GPL by IBM or others is waived, estopped or otherwise barred as a matter of equity." SCO's Am. Answer to IBM's Am. Countercl. at 16 (Mar. 11, 2004); <u>accord</u> SCO's Answer to IBM's 2d Am. Countercl. at 20 (Apr. 23, 2004); Plaintiff SCO's Response to IBM's Third Set of Interrogatories at 39; and

- "The General Public License ('GPL') is unenforceable, void and/or voidable, and IBM's claims based thereon, or related thereto, are barred." SCO's Answer to IBM's

> 2d Am. Countercl. at 20; accord Plaintiff SCO's Response to IBM's Third Set of Interrogatories at 38.

In addition, in response to IBM's claim for "Breach of the GNU General Public License" (IBM's 2d Am. Countercl. at 33), SCO "denies the applicability or enforceability of the GPL" (SCO's Answer to IBM's 2d Am. Countercl. at 16). Indeed, SCO submits that the interpretation of the GPL that IBM proposes in its instant motion is unenforceable for several reasons. But SCO has not asserted, either literally or in the context of its responsive pleadings, that the GPL did not authorize the licensees thereunder to copy and distribute the licensed material. Such defensive assertions in litigation do not remotely qualify as a party's decision to "repudiate" the contract at issue. In sum, none of SCO's assertions could reasonably be construed to preclude SCO from arguing (and proving) that, under the GPL, SCO was authorized to copy and distribute the material at issue.

IBM's argument would fail, moreover, even if the Court accepted IBM's mischaracterization of SCO's assertions. IBM at most points to instances of permissible pleading in the alternative. See Fed. R. Civ. P. 8(e)(2); see, e.g., Lawser v. Poudre Sch. Dist., 171 F. Supp. 2d 1155, 1158 (D. Colo. 2001) (Rule 8(e)(2) "specifically provides that a party may plead in the alternative, even where the alternative claims are inconsistent"). Nor has IBM even claimed that it changed its position or relied on any of SCO's statements. See Estate of Harris v. Harris, 218 F.3d 1140, 1153 (10th Cir. 2000).

B. SCO's Licensing Activities Did Not Violate the GPL

IBM contends that SCO immediately, and without notice from anyone, "forfeited" its GPL rights by attempting to "license Linux." In fact SCO has never sought to license Linux (or any IBM program contained therein). In addition, regardless of how SCO's UNIX License is characterized, the sale of this claims-settlement license did not breach the GPL.

1. SCO Has Been Collecting Licensing Fees Only for Its Own Code

SCO has not sought any fees or royalties for any material legitimately licensed under the GPL. The product to which IBM objects is SCO's UNIX License, which is a license and release that SCO has entered into with third parties to authorize use of UNIX and to release such parties from any potential liability arising from the unauthorized use of UNIX in a Linux operating system. That SCO's action is directed at protecting its UNIX rights is reflected in the legal actions, press releases, and letters about which IBM complains. IBM Br. ¶¶ 66(a)-(d), (h)-(j), (l)-(n). IBM may not approve of such activities, but they do not constitute a Linux "license fee or royalty." IBM points to nothing in the GPL – and there is nothing – that expressly or impliedly forbids actions aimed at enforcing a party's intellectual property rights.

IBM claims that SCO has sold Linux licenses to several companies. IBM Br. ¶¶ 66(e)-(g), (k). What IBM refers to is SCO's charging licensing fees for the use of its own UNIX software, by non-SCO customers. Sontag Decl. ¶ 30. IBM also omits to mention that the agreements contain releases of claims because they settle SCO's potential legal claims against the licensee. Id. The licenses include a covenant not to sue and a waiver of any copyright infringement claims that SCO might have against the licensee. Id.

IBM has wrongly claimed, for example, that SCO has sold a Linux license to Leggett & Platt, even though IBM's Exhibit 33, an invoice for the license in question, does not contain the word Linux anywhere in the document. IBM also points to the license that SCO sold to Questar, but that is only a license granting Questar permission "to use SCO IP Rights" for business purposes in connection with the use of a Linux operating system. That license (IBM Ex. 34 ¶ 2.1) defines "SCO IP Rights" as "SCO's intellectual property rights in any and all past, current or future versions or portions of the SCO's software products commonly known as UNIX System V and/or UnixWare" concurrent with run-time use of Linux. Id. ¶ 1.11. The definition explicitly excludes Linux from its scope: "Except as expressly provided herein, SCO IP Rights shall not include any right to copy, distribute, modify or alter Linux Software." Id. ¶ 1.11.

The licensing clauses of all of the UNIX Licenses are worded similarly. Sontag Decl. ¶ 30. SCO has not attempted to "license Linux" or to collect Linux or IBM-program "royalties and licensing fees." Hughes Decl. ¶ 3. Thus, IBM's contention that SCO breached the GPL fails because its underlying premise – that SCO is licensing Linux – is incorrect.

2. SCO Has Otherwise Complied with the GPL

SCO did not breach the GPL by selling its UNIX license. The Court is to interpret a copyright license agreement in accordance with general principles of contract construction. See Miller v. Glenn Miller Prods., 318 F. Supp. 2d 923, 934 (C.D. Cal. 2004) ("Courts apply general principles of contract interpretation when interpreting the terms and scope of a licensing agreement."); Mendler v. Winterland Prod., Ltd., 207 F.3d 1119, 1121 (9th Cir. 2000) (applying such principles in interpretation of copyright license). A copyright license includes implied covenants of good faith and fair dealing. First Nationwide Bank v. Fla. Software Servs., Inc., 770 F. Supp. 1537, 1542 (M.D. Fla. 1991); SAS Inst., Inc. v S & H Computer Sys., Inc., 605 F. Supp. 816, 827-28 (M.D. Tenn. 1985). Under well-established doctrine, the Court should construe the agreement to avoid a harsh or unreasonable result, or a forfeiture. 5 M. Kniffin, Corbin on Contracts § 24.22 (Rev. Ed. 1998) ("Corbin"); 13 R. Lord, Williston on Contracts § 32.11 (4th ed. 2000); Restatement (2d) of Contracts § 227(1) ("Restatement of Contracts"). When the terms of a contract are "indefinite, uncertain and susceptible of two constructions," the "contract should be construed as not creating a forfeiture." Hasbro, Inc. v. Catalyst USA, Inc., 367 F.3d 689, 693 (7th Cir. 2004).

In arguing that SCO breached the GPL, IBM relies on GPL section 2, which states that, if a licensee modifies the licensed work, the modified work must be "licensed at no charge." GPL § 2(b). IBM does not even allege that SCO modified any of the programs; rather, IBM stresses that SCO copied the works verbatim. IBM Mem. at 6-12, 19; Bennett Decl. ¶¶ 9, 11. In fact SCO never modified any of these works. Sontag Decl. ¶ 31. In contrast to section 2 (which authorizes the copying of modified works), the GPL's section 1 (which authorizes verbatim copying) does not expressly require no-charge licensing.[2] Even where (unlike here) section 2 does apply, the GPL disclaims any intent to "claim rights or contest your rights to work written entirely by you." GPL § 2. Section 2 is inapplicable here, and it does not preclude SCO from enforcing its rights to UNIX. (In addition, the "at no charge" clause of section 2 is illegal and thus unenforceable. See Part II.C.2, below.)

[2] See, e.g., R. Epstein, Why Open Source Is Unsustainable, FT.com (Oct. 21, 2004), at http://news.ft.com (Oct. 21, 2004) (noting that with respect to the language in Section 2, "as a straight interpretive matter, it only states what the obligation of each programmer is with his own private improvements"); D. Kennedy, A Primer on Open Source Licensing Legal Issues: Copyright, Copyleft and Copyfuture, 20 St. Louis U. Pub. L. Rev. 345, 363 (2001) ("If a licensee distributes modifications of a program, source code must be made available and there is to be no fee other than copying and similar charges." (emphasis added)).

IBM also contends that SCO has violated section 6 by imposing "further restrictions" by "collecting royalties or licensing fees" for Linux. IBM Mem. at 13, 22. IBM's argument fails for several independently sufficient reasons. Section 6 states:

> "Each time you redistribute the Program (or any work based on the Program), the recipient automatically receives a license from the original licensor to copy, distribute or modify the Program subject to these terms and conditions. You may not impose any further restrictions on the recipients' exercise of the rights granted herein."

Section 6 thus applies only to restrictions placed by the licensee on third parties to whom the licensee has distributed the GPL-licensed program.

IBM repeatedly quotes the second part of section 6 without quoting the first part, which says that section 6 applies "Each time you redistribute the Program." The section discusses the license that "the recipient" receives, and provides that the licensee "may not impose any further restrictions on the recipients' exercise of the rights granted herein." SCO has never attempted to collect licensing or royalty fees from anyone who received a Linux distribution from SCO, Hughes Decl. ¶ 8; Sontag Decl. ¶ 30, and IBM does not even purport to present any evidence to the contrary. SCO sold a UNIX License only to those who acquired a Linux operating system from another source. Hughes Decl. ¶¶ 8-9. SCO did not breach section 6.

Nor has SCO breached section 4 of the GPL, which states: "You may not copy, modify, sublicense, or distribute the Program except as expressly provided under this License." To the extent there is no breach of other sections of the GPL, such as Section 2 or 6, as argued above, there is no breach of Section 4, because SCO's distributions of IBM's programs were "as expressly provided under this License." Hughes Decl. ¶ 9. Moreover, Section 4 only deals with copying and distribution of GPL-licensed works; it does not and cannot be read to constitute an agreement by a licensee to refrain from charging for other products in which it holds a proprietary interest or to desist from enforcement of its intellectual property or contractual rights.

C. IBM's Proposed Interpretation of the GPL Would Impermissibly Interfere with Enforcement of Intellectual Property Rights and Would Raise Serious Antitrust Concerns

1. The GPL Should Not Be Read to Interfere with SCO's Right to Enforce Its Own Intellectual Property Rights

The above arguments easily suffice to resolve the pending motions, but there are additional reasons why IBM's position must be rejected. Nothing in the GPL expressly forbids a party from licensing its own software or entering into settlements to resolve potential infringement of such rights. Any construction of the GPL to do so should be rejected as inconsistent with the public policy in favor of protecting intellectual property, San Juan New Materials High Tech, Inc. v. Int'l Trade Comm'n, 161 F.3d 1347, 1363 (Fed. Cir. 1998); Concrete Mach. Co., Inc. v. Classic Lawn Ornaments, Inc., 843 F.2d 600, 612 (1st Cir. 1988), as well as the public policy favoring and encouraging settlements. Grady v. de Ville Motor Hotel, 415 F.2d 449, 451 (10th Cir. 1969); Grundberg v. Upjohn Co., 140 F.R.D. 459, 468 (D. Utah 1991); see also Justine Realty Co. v. Am. Nat'l Can Co., 976 F.2d 385, 391 (8th Cir. 1992).

2. The GPL Should Not Be Read to Allow a Competitor to Regulate What May Be Charged for an Intellectual Property License

By arguing that SCO breached the GPL by collecting "royalties and licensing fees in excess of the fees permitted by the GPL," IBM Mem. at 14, IBM seeks in essence an interpretation that the GPL fixes limits on the amounts that may be charged for unmodified works, even though the parties to the agreement are competitors. Agreements between competitors that fix a maximum price that may be charged for products are per se illegal under antitrust law. NYNEX Corp. v. Discon, Inc., 525 U.S. 128, 133 (1998); United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 218 (1940).

While SCO has shown above that section 2 of the GPL (the only GPL provision requiring licensing "at no charge") is inapplicable here, because this motion does not involve modified works, this provision is illegal and unenforceable. The general counsel for the Open Source Initiative acknowledges in his recent treatise: "There is also a problem that may prevent enforcement of the GPL's *at no charge* provision. It may be an illegal restraint of trade in some countries. Ordinarily, companies are allowed to set their own prices, and it is improper for a GPL licensor to restrain that in any way." L. Rosen, Open Source Licensing 132 (2004), available at http://www.phptr.com/content/images/0131487876/samplechapter/0131487876_ch06.pdf.

It is a "well settled principle that where a contract is susceptible of two interpretations, preference will be given to the interpretation which does not violate the law." Bd. of Dirs. and Officers, Forbes Fed. Credit Union v. Nat'l Credit Union Admin., 477 F.2d 777, 784 (10th Cir. 1973); accord NLRB v. Local 32B-32J Serv. Employees Int'l Union, 353 F.3d 197, 202 (2d Cir. 2003); Guthart v. White, 263 F.3d 1099, 1104 (9th Cir. 2001). Accordingly, the Court should not construe the GPL as IBM suggests.

D. The GPL Provides No Basis for IBM to Retroactively Seek Forfeiture of SCO's Right to Distribute GPL-Licensed Works

There is an additional flaw in IBM's position: a determination today that SCO has "repudiated" or breached the GPL does not serve as a basis upon which retroactively to declare SCO's actions to constitute an infringement of copyright. IBM's burden is to prove that, at the time SCO copied and distributed IBM's allegedly copyrighted work, SCO was not authorized to do so. See Allegro, 2003 WL 23571745, at *10 (counterclaim-plaintiff must prove copying "beyond the scope of the license."); Graham, 144 F.3d at 236 (alleged copyright owner must prove that the "copying was unauthorized under the license"); Stenograph, 144 F.3d at 99 (explaining copyright plaintiff must prove defendant's copying of protected expression exceeded scope of "the license possessed by the defendant"); Berger v. Computer Info. Pub'g, Inc., No. 84 Civ. 0331 (JFK), 1984 WL 595, at *2 (S.D.N.Y. July 2, 1984) (Exh. B) (action for copyright infringement lies "once a licensing contract expires," and not for conduct when the authorization "was still in effect"). That is, "anyone who is authorized by the copyright owner to use the copyrighted work in a way specified in the [Copyright Act] or who makes a fair use of the work is not an infringer of the copyright with respect to such use." Sony Corp. of Am. v. Universal City Studio, Inc., 464 U.S. 429, 433 (1984) (emphasis added).

The copyright cases expressly discussing the issue have rejected the "retroactive infringement" argument IBM advances here. In MCA Television, Ltd., v. Public Interest Corp., 171 F.3d 1265 (11th Cir. 1999), for example, the court explained:

> The notion that MCA had the power retroactively to rescind the contract makes a mockery of that contractual agreement and would put any contracting party in PIC's position in terror of upsetting the licensor in any way for fear of being declared in breach, having the contracted-for licenses "retroactively revoked," and being sued both for breach of contract and in copyright for statutory damages that can far outweigh contractually negotiated licensing fees.

Id. at 1274 n.8; see also Jacob Maxwell, Inc. v. Veeck, 110 F.3d 749, 753 (11th Cir. 1997) (holding that one party's breach does not automatically rescind a contract simply because that breach might give the other party the right to rescind); 3 Melvin B. Nimmer, Nimmer on Copyright § 10.15[A] at 10-120 (2004) ("[T]he license is terminated and the copyright proprietor may hold his former grantee liable as an infringer for subsequent use of the work. Failing such rescission . . . the grant continues in place ... until such time as the copyright owner exercises his entitlement to rescind.").

This is consistent with the law's general disfavor of a forfeiture. United States v. Alpine Land & Reservoir Co., 291 F.3d 1062, 1077 (9th Cir. 2002). The rule across jurisdictions is that "when the terms of a contract are, or, by any act of parties under the contract, become indefinite, uncertain and susceptible of two constructions, and by giving them one construction one of the parties would be subject to forfeiture, and by giving them the other no such forfeiture would be incurred and no injustice would be done to the other party, the contract should be construed as not creating a forfeiture." Hasbro, Inc. v. Catalyst USA, Inc., 367 F.3d 689, 693 (7th Cir. 2004).[3] A court will not deem a party to a contract to have "forfeited" its rights thereunder unless the contractual language at issue gave the party clear notice of the potential bases for such forfeiture. See, e.g., RW Power Partners, L.P. v. Va. Elec. & Power Co., 899 F. Supp. 1490, 1502-03 (E.D. Va. 1995) (declaring electric utility improperly terminated purchase agreement because forfeiture provisions, which permitted termination upon supplier's failure "to perform any of the obligations pursuant to this Agreement," did not "clearly state" that supplier's non-material breach would trigger forfeiture rights); see also Humphrey v. C.G. Jung Educ. Ctr. of Houston, Tex., 714 F.2d 477, 480 (5th Cir. 1983) ("Forfeitures clauses fail in the event they are ambiguously expressed.").

[3] See also Lippo v. Mobil Oil Corp., 776 F.2d 706, 713-16 (7th Cir. 1985) (stating that "contract language upon which a right to forfeiture is grounded [must] be strictly and narrowly construed"); Galvin v. S. Hotel Corp., 154 F.2d 970, 973-74 (4th Cir. 1946) (stating that "every violation of a contract containing forfeiture provision does not necessarily require an actual forfeiture of the defaulting party's rights").

The GPL says that a licensee's use of licensed material beyond the scope of the License will "automatically terminate" the licensee's rights under the License, but does not say when such a termination becomes effective. In the absence of any such provision, and in light of the governing interpretive standards (cited above), the only reasonable interpretation of the GPL is one which permits the licensee a reasonable time to wind down its activities based on the use of the licensed material. Cf. UCC § 2-309(1) (if no time period specified in contract, a reasonable time is implied); Jo-Ann, Inc. v. Alfin Fragrances, 731 F. Supp. 149, 160 (D.N.J. 1989) (terminated party must be given time "to make alternate arrangements or close its affairs in an economically proper manner"); Hamilton Tailoring Co. v. Delta Air Lines, Inc., 1974 WL 21756, 14 UCC Rep. Serv. 1310 (S.D. Ohio 1974) (Exh. C) (manufacturer must be allowed reasonable time to sell off inventory before termination became effective).

In Quinn v. City of Detroit, 23 F. Supp. 2d 741, 750 (E.D. Mich. 1998), for example, the court specifically rejected the licensor's argument that his revocation of the software license had immediate effect. The software at issue enabled the city-licensee to track ongoing cases. The court ruled that, without a transitional period to acquire and set up a replacement system, "the City would have been left helpless, with no way to update cases or access information in the manner necessary to properly monitor cases." Id. Therefore, with respect to "any agreement where hardship would result if sudden, immediate termination occurred," a reasonable time for transition is required. Id.

The transition period would begin, moreover, only when the licensee knew or had received notice of its alleged breach of the license agreement. See Corbin § 24.22 (endorsing judicial precedent acknowledging "public policy" against forfeiture and construing a lease provision giving the landlord a termination right if the tenant breached to require notice and an opportunity for cure before the forfeiture would be effective); cf. UCC § 2-309(3), comment 8 (good faith calls for "such notification of the termination of a going contract relationship as will give the other party reasonable time to seek a substitute arrangement"); see also Bak-A-Lum Corp. of Am. v. Alcoa Bldg. Prods., 351 A.2d 349, 352 (N.J. 1976) (holding that a reasonable period of notice of termination of the distributorship, under all the circumstances, would have been twenty months). The GPL provides no mechanism by which the licensee is put on notice of an alleged unauthorized use of the licensed material.

In this case, given the absence of any such provision in the GPL, SCO did not receive "notice" from IBM that it had allegedly breached the GPL until IBM filed its Eighth Counterclaim, on March 29, 2004. IBM thus not only asks the Court to conclude that SCO forfeited its rights to copy and distribute IBM's allegedly copyrighted material, but also asks the Court to declare retroactively that SCO was obligated immediately to terminate that portion of its business that relates to the copying and distribution of material licensed under the GPL, upon SCO's supposed breach of the GPL of which IBM gave SCO no notice. SCO submits that, under the foregoing standards, no such "forfeiture" could apply.

Here, retroactive determinations are sought by IBM because SCO suspended its Linux distribution activities months before it began selling the UNIX License to allow parties to make use of SCO's UNIX intellectual property in connection with their use of Linux, and months before IBM registered any of the sixteen alleged copyrights. IBM Mem. at 3 ¶ 8. The few SCO Linux Server 4.0 sales thereafter (all based on what SCO believed to be obligations under pre-existing contracts) ceased six months ago: SCO's last sale of Linux Server 4.0 was on May 31, 2004, just two months after IBM filed its Eighth Counterclaim. Hughes Decl. ¶ 4. All Linux code will be taken off SCO's password-protected website at the end of 2004. Id. ¶ 11; Sontag Decl. ¶ 17. These actions were taken not because SCO is infringing any of IBM's copyright rights, but instead because of IBM's actions in violating SCO's proprietary rights through IBM's Linux activities. IBM's theory of retroactive infringement fails as a matter of law.[4]

III. IBM'S UNCLEAN HANDS PRECLUDE ITS MOTION

IBM's motion also fails for IBM's "unclean hands." As a general matter, the doctrine "closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however, improper may have been the behavior of the defendant." Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 814 (1945). The doctrine applies in the copyright context when the "plaintiff's transgression is of serious proportions and relates directly to the subject matter of the infringement action." Tempo Music, Inc. v. Myers, 407 F.2d 503, 507 & n.8 (4th Cir. 1969); see also 4 Nimmer, supra,

[4] Given SCO's voluntary suspension of its Linux business, the limited extent of SCO's copying after the alleged forfeiture, and the lack of notice, Hughes Decl. ¶¶ 3-5, 12, any breach was immaterial. A forfeiture provision should not cause a party to lose a "disproportionate" share of contractual benefits. Restatement of Contracts § 229 and comment B; see also Looney v. Farmers Home Admin., 794 F.2d 310, 314 (7th Cir. 1986) (reversing summary judgment enforcing forfeiture clause in land sale contract because "result seems inequitable and unnecessary"); Queens Boulevard Wine & Liquor Corp. v. Blum, 503 F.2d 202, 206-07 (2d Cir. 1974) (declining to enforce termination clause because breach did not injure lessor and enforcement would needlessly harm lessee, creditors, and investors and "would be grossly inequitable"). The courts apply the materiality standard in considering whether a "forfeiture" applies. See, e.g., RW Power, 899 F. Supp. at 1502-03 (declining to enforce forfeiture provision, which permitted termination upon supplier's failure "to perform any of the obligations pursuant to this Agreement," because the provision did not "clearly state" that supplier's non-material breach would trigger forfeiture rights). That is, the "risk of forfeiture" is "one factor to be considered in determining whether a breach of contract is material." Restatement of Contracts § 241 & E. Allan Farnsworth, Contracts §§ 8.12, 8.16 (2d ed. 1990). In the forfeiture context, materiality is a question of fact. Fusion, Inc. v. Neb. Aluminum Castings, 962 F. Supp. 1392, 1395 (D. Kan. 1997).

§ 13.09; 18 Am. Jur. 2d Copyright § 220.

A. IBM's Misappropriation of UNIX Code

The Tenth Circuit has recently affirmed the following tenet of the "unclean hands" doctrine: "Where a plaintiff interferes with the defendant's ability to comply with his or her responsibilities, a court of equity will not turn a bind eye to the net effect on the parties' equitable relationship." Worthington v. Anderson, 386 F.3d 1314, 1321-22 (10th Cir. 2004). The court further, and specifically, affirmed in that case that the "unclean hands" doctrine applies where "the plaintiff's own machinations had prevented the defendant from meeting the conditions of its licensing agreement." Id. at 1321; see, e.g., Tempo Music, 407 F.3d at 507-08 (applying doctrine of unclean hands in holding that it would be inequitable to permit the plaintiff to recover for copyright infringement that occurred, "in part at least," by the plaintiff's "dereliction"). It is also well established, in the intellectual-property context that the defense will apply if the claimant made "material false statement in connection with the property which he seeks to protect." Worden & Co. v. Cal. Fig Syrup Co., 187 U.S. 516, 528 (1903).

SCO determined to offer its UNIX License, beginning in August 2003, only because IBM had misappropriated SCO's proprietary source code and contributed thousands of lines of that code into Linux. Hughes Decl. ¶ 6. Indeed, based on the limited discovery to date, SCO has determined that among the material that IBM misappropriated and contributed to Linux is one of the very programs – the "Journaled File System" – for which IBM claims copyright in its instant motion. Davidson Decl. ¶¶ 10-52; compare SCO's Memorandum in Opposition to IBM's Motion for Summary Judgment on Its Tenth Counterclaim at 81 with IBM Br. at 8 ¶¶ 39-40.[5]

B. IBM's Unauthorized Access Into SCO's Website

Another well-established basis for the application of the doctrine in the context of the Copyright Act arises when the claimant has obtained evidence by improper means.[6]

SCO provided its customers who purchased SCO Server 4.0 with a password to enter at a log-in screen so that only they could access source code via the internet. Sontag Decl. ¶ 17-19. After news of a bug in the website's security system was reported on internet websites, IBM exploited the bug to bypass SCO's security system, hack into SCO's computers, and download the very files IBM has now attached to its motion. Id. ¶¶ 20-27.

The Computer Fraud and Abuse Act, 18 U.S.C. § 1030(a)(2)(C), makes it a felony for any person to access another person's computer, via the internet or otherwise, unless authorized to do so. See, e.g., Creative Computing v. GetLoaded.com LLC, 386 F.3d 930 (9th Cir. 2004);

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[5] For these same reasons, SCO disputes that IBM owns valid copyrights in the works at issue, and discovery on this issue has not been completed. SCO Statement of Facts ¶ 22. Although IBM's copyright registrations are prima facie evidence of ownership, the presumption is rebuttable. Grundberg v. Upjohn Co., 137 F.R.D. 372, 379 (D. Utah 1991). This fact issue is an independent basis on which IBM's motion must be denied or at least continued.

[6] See, e.g., Fleming v. Miles, 181 F. Supp. 2d 1143, 1154 (D. Or. 2001) (holding copyright registrant who denied existence of competing registration in his registration application could not recover damages for alleged infringement by competing registrant); Russ Berrie & Co. v. Jerry Elsner Co., 482 F. Supp. 980, 987-88 (S.D.N.Y. 1980) (declining to enforce copyright because the owner's knowing failure to disclose material facts in registration applications constituted "reason for holding the registration invalid and thus incapable of supporting an infringement action, or denying enforcement"); Rixon, Inc. v. Racal-Milgo, Inc., 551 F. Supp. 163, 171 (D. Del. 1982) ("Unclean hands in the procurement of a patent from the Patent and Trademark Office or in prior enforcement action, for example, may render the patent unenforceable."); see also Nimmer, supra, § 13.09[B] (the doctrine applies where the claimant "obtained information as to the nature of defendant's work through unfair means"); see also Gemveto Jewelry Co., Inc. v. Lambert Bros., Inc., 542 F. Supp. 933, 939 (S.D.N.Y. 1982).

I.M.S. Inquiry Mgmt. Sys., Ltd. v. Berkshire Info. Sys., Inc., 307 F. Supp. 2d 521, 523-24, 526 (S.D.N.Y. 2004) (citing cases); AOL, Inc. v. LCGM, Inc., 46 F. Supp. 2d 444, 450 (E.D. Va. 1998). By improperly obtaining the evidence assertedly in support of its counterclaim and instant motion, IBM comes to the Court with unclean hands.

CONCLUSION

SCO respectfully submits, for the reasons set forth above, that the Court should deny IBM's motion for partial summary judgment.

DATED this 30th Day of November 2004

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CERTIFICATE OF SERVICE

Plaintiff, The SCO Group, Inc. hereby certifies that a true and correct copy of the foregoing SCO's Memorandum in Opposition to IBM's Motion for Partial Summary Judgment on Its Counterclaim for Copyright Infringement (Eighth Counterclaim) was served via first class mail on this 30th day of November, 2004, to:

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EXHIBIT A

H
Motions, Pleadings and Filings

Only the Westlaw citation is currently available.

United States District Court,
D. Oregon.

ALLEGRO CORPORATION, an Oregon corporation, Plaintiff,
v.
ONLY NEW AGE MUSIC, INC., a California corporation; et al., Defendants.

No. Civ. 01-790-HU.

Jan. 23, 2003.

John F. Neupert, Miller Nash, LLP, Portland, OR, for Plaintiff.

Brian A. Rishwain, Neville L. Johnson, Johnson & Rishwain, LLP, Los Angeles, CA, David W. Axelrod, Michael A. Cohen, Schwabe Williamson & Wyatt, Portland, OR, Gabriel J. Fischbarg, New York, NY, for Defendants.

AMENDED ORDER

JONES, J.

*1 Magistrate Judge Dennis James Hubel filed Findings and Recommendation (# 92) on October 4, 2002, in the above entitled case. The matter is now before me pursuant to 28 U.S.C. § 636(b)(1)(B) and Fed.R.Civ.P. 72(b). When either party objects to any portion of a magistrate judge's Findings and Recommendation, the district court must make a *de novo* determination of that portion of the magistrate judge's report. *See* 28 U.S.C. § 636(b)(1); *McDonnell Douglas Corp. v. Commodore Business Machines, Inc.*, 656 F.2d 1309, 1313 (9th Cir.1981), *cert. denied*, 455 U.S. 920, 102 S.Ct. 1277, 71 L.Ed.2d 461 (1982).

Plaintiff and defendants have timely filed objections. I have, therefore, given *de novo* review of Magistrate Judge Hubel's rulings.

I find no error. Accordingly, I ADOPT Magistrate Judge Hubel's Findings and Recommendation (# 92) dated October 4, 2002, in its entirety as follows:

Allegro's motion (# 15) for summary judgment on its first claim for relief is denied, and defendants' motion (# 20) for summary judgment is denied.

Allegro motion (# 15) for summary judgment on its second claim for relief is denied and defendants' motion (# 20) for summary judgment on this claim is granted.

Defendants' motion (# 20) for summary judgment on Allegro's third claim for relief is granted.

Allegro's motion (# 15) for summary judgment on defendants' first counterclaim is granted with respect to the changes of title and incorrect copyright notices, and denied with respect to derivative works, and that defendants' motion (# 20) for summary judgment is denied.

That Allegro's motion (# 15) for summary judgment on defendants' second counterclaim is denied and defendants' motion (# 20) for summary judgment is denied.

Allegro's motion (# 15) for summary judgment on defendant's third counterclaim is denied and defendants' motion (# 20) for summary judgment is denied.

Allegro's motion (# 15) for summary judgment on defendants' fourth counterclaim is granted, and defendants' motion (# 20) for summary judgment is denied.

Allegro's motion (# 15) for summary judgment on defendants' fifth counterclaim is granted with respect to digitalization of the recordings over the Internet, and otherwise denied, and defendants' motion (# 20) for summary judgment is granted with respect to the copyright notices and the title changes and otherwise denied.

Allegro's motion (# 15) for summary judgment on defendants' eighth counterclaim is denied and defendants' motion (# 20) for summary judgment is granted.

Allegro's motion (# 33) for leave to file amended reply is granted.

IT IS SO ORDERED.

FINDINGS AND RECOMMENDATION

HUBEL, Magistrate J.

Plaintiff Allegro Corporation (Allegro) brought this action for declaratory and injunctive relief against Only New Age Music, Inc. (ONAM) and its president, Suzanne Bell-Doucet. Allegro requests 1) a declaration from the court that Allegro has not infringed defendants' copyrights by the manner in which it reproduced and sold sound recordings obtained under licensing agreements with ONAM and Bell-Doucet; 2) an injunction prohibiting the defendants from interfering with Allegro's rights under the licensing agreements; and 3) nominal and punitive damages for tortious interference with its contractual relationships.

*2 Defendants assert counterclaims for 1) copyright infringement, 2) false designation under Section 43(a) of the Lanham Act, 3) common law unfair competition, 4) violation of the Oregon Fair Trade Practices Act (UTPA), 5) breach of the licensing agreements, 6) an accounting, 7) constructive trust, and 8) declaratory judgment that the licensing agreements are terminated.

In October 2001, all parties moved for partial summary judgment. Defendants seek summary judgment in their favor on all of their counterclaims except the sixth and against all three of Allegro's claims. Allegro moves for summary judgment in its favor on its first and second claims for relief and against defendants on their first through eighth counterclaims, except that portion of the sixth claim relating to an accounting. Allegro has also filed a motion for leave to amend its reply to defendants' counterclaims, to add statute of limitations defenses.

The court has heard oral argument on the motions for partial summary judgment. On March 1, 2002, the court was advised by defendant Suzanne Bell-Doucet, through local counsel, that a declaration purporting to be hers, filed on October 29, 2001 (the October 29 declaration), contained false statements and a forged signature. Defendants' local counsel represented to the court that Ms. Bell-Doucet had neither seen nor signed the October 29 declaration, and that she had also neither seen nor signed discovery responses filed on her behalf. Defendants requested leave to file amended summary judgment papers once they obtained defendants' case files from Mr. Fischbarg. The court held two status conferences with counsel for all parties in March 2002 and granted the request to file amended summary judgment papers.

On August 27, 2002, Ms. Bell-Doucet filed a supplemental declaration in support of defendants' motion for partial summary judgment and in opposition to Allegro's motion for partial summary judgment. She states in the supplemental declaration that the October 29 declaration was neither reviewed nor signed by her before being filed. She further states that she was not provided with a copy of the October 29 declaration until late November 2001. Ms. Bell-Doucet states that a reply declaration filed on December 11, 2001 was also neither reviewed nor signed by her, but that she adopts the statements contained in that reply declaration. Thus, the supplemental declaration filed on August 27, 2002, is intended to correct the October 29 declaration.

Allegro objects to the supplemental declaration in its entirety on the ground that the October 29 declaration was an exhibit in Ms. Bell-Doucet's deposition, taken on December 6, 2001, and that Ms. Bell-Doucet failed to disclose any concerns about that document during her deposition or before the oral argument on December 20, 2001. Allegro asserts that Ms. Bell-Doucet should not now be permitted to substantially supplement the summary judgment record. In addition, Allegro objects to and moves to strike portions of the supplemental declaration that contain legal arguments and conclusions, and those portions which raise significant facts not contained in the October 29 declaration.

*3 Ms. Bell-Doucet's entire supplemental declaration should not be stricken. However, I agree that those portions of the supplemental declaration which contain legal arguments and conclusions, and those portions which refer to facts not part of the summary judgment record at the time the cross motions were filed, should be stricken. Accordingly, the following portions of Ms. Bell-Doucet's supplemental declaration are stricken:

Paragraph 2, lines 23-28: references to compact discs in the "Serenity," "Tranquility," and "National Park" series, which were not part of the original summary judgment record.

Paragraph 5, lines 15-18: references to "Sounds of Nature" series, Valmark, "Tranquility" series, and Columbia Rivers; boldface references in lines 19-23;

boldface references in lines 25-27. All of these references contain statements of fact not part of the original summary judgment record.

Paragraphs 6 and 7: boldface references, which contain statements of fact not part of the original summary judgment record.

All of paragraph 11 except for the first four lines. After the words, "However, Loudeye," all references are to facts not part of the original summary judgment record. The reference to Exhibit 15, Bell-Doucet Reply Declaration, is to a document which is inadmissible because it is unauthenticated, unsigned, and incomplete.

All of the first paragraph 12 (plaintiffs have mistakenly included two paragraphs numbered 12), which contains statements of fact not part of the original summary judgment record.

All of paragraphs 13, 14, 15, 16, 17 and 18, which contain statements of fact not part of the original summary judgment record.

All of paragraph 19, which contains legal argument.

All of paragraph 20, which contains statements of fact not part of the original summary judgment record and legal argument.

All of paragraph 21, which contains legal argument.

All of paragraph 22, which contains statements of fact not part of the original summary judgment record.

All of paragraph 23, which contains legal argument.

All of paragraph 24, which contains legal argument.

All of paragraph 25, which contains legal argument and, to the extent that it describes Ms. Bell-Doucet's state of mind at the time she entered into the licensing agreements, is irrelevant.

All of paragraph 26, which contains argument.

All of paragraph 27, which contains facts not part of the original summary judgment record and argument.

All of paragraphs 28, 29 and 30, which constitute legal argument.

Facts

Allegro, a music distributor, entered into four separate audio licensing agreements with ONAM and Bell-Doucet on February 4, 1997 (the February licensing agreement), June 24, 1997 (the June licensing agreement), October 1, 1998, (the October licensing agreement) and December 15, 1998 (the December licensing agreement). The licensing agreements granted Allegro a

> nonexclusive perpetual license to use the master recordings listed on the attached Schedule A ("the Masters") in the Recording, manufacture and sale of Records throughout the World (the "Territory"). The term "Records" as used in this Agreement includes any means, whether now known or unknown, of reproduction of sound, embodying the Masters.

*4 Declaration of Vincent Micallef in Support of Allegro Corporation's Motion for Partial Summary Judgment (Micallef Declaration), Exhibits 1, 2, 3 and 4, ¶ 1. The licensing agreements also require that at the time the master recordings (masters) are delivered to Allegro, the licensor, ONAM "shall supply to Allegro in writing the correct title(s) of the Recorded work(s), the name(s) of the author(s), composer(s), and publisher(s) thereof, together with any additional copyright information known to Licensor," and that the licensee, Allegro, "shall give customary credit on each Record to Licensor regarding Licensor's copyrights hereunder." *Id.* at ¶ 4.

The masters contain nature sounds such as ocean waves and storms, and some contain music as well. The licensing agreements all state that "[a]ny mechanical royalties owing due to the manufacture and sale of Records by Allegro in the Territory shall be paid by Allegro ." *Id.* at ¶ 3. The June and December licensing agreements contain waivers signed by Bell-Doucet, renouncing such mechanical royalties. The February and October licensing agreements contain no waivers. Allegro asserts that the absence of waivers in the February and October agreements is due to the fact that the masters listed in those agreements contained only nature sounds and Allegro expected Bell-Doucet to know that she was not entitled to royalties on nature sounds "because it is widely recognized in the industry that mechanical royalties do not apply to nonmusical works." Micallef Declaration, ¶ 5. Bell-Doucet asserts that the waivers in the June and December agreements were specifically negotiated with Allegro, because the parties understood that otherwise she would be entitled to royalties, as she was under the February and October licensing agreements. Declaration of Suzanne Bell-Doucet in Support of Cross Motion for

Summary Judgment, ¶ 9 (Bell-Doucet Declaration).

Allegro used the masters licensed from defendants to manufacture "records" (*i.e.,* compact discs and other embodiments of sound) for sale to wholesalers and retailers. To do so, Allegro engaged the services of CINRAM International, Inc., a large manufacturer of prerecorded CDs and other multimedia. Allegro gave the masters to CINRAM, along with labeling materials, and CINRAM manufactured the records.

Allegro asserts that the records manufactured and sold under the licensing agreements embodied the masters in their entirety, without alteration except for changes of title on 25 of the masters (10 or more of the masters were given more than one new title--so, for example, a master titled "Southern Swamp" was released by Allegro as "The Everglades" and also as "Tropical Dawn," and a master titled "Rainstorms" was released as "Soothing Sleep" and "Rainshowers.") Micallef Declaration, ¶ ¶ 8, 9 and Exhibit 5, p. 1. Several discs comprising a series entitled "Sounds of Nature" ("The Rainforest," "Southern Swamp," "Desert Oasis," "Forest Morning," "Pine Forest," and "A Night in the Canyon"), were re-released as a "National Park" series, and re-titled, respectively, "Olympic," "The Everglades," "Death Valley," "Blue Ridge Parkway," "Yosemite," and "Grand Canyon," although none of these recordings was actually made in the National Park for which it was named. Micallef Declaration, Exhibit 6, Bell-Doucet Reply Declaration, Exhibit 12, p. 5, 29.

*5 However, Bell-Doucet declares that Allegro altered certain of the re-titled masters by deleting portions of them and creating new fade-outs and fade-ins, thereby creating and distributing derivative works without permission. Bell-Doucet Declaration, ¶ 4; Reply Declaration of Suzanne Bell-Doucet ¶ ¶ 2-4 (Bell-Doucet Reply Declaration). She contends that the following masters were altered as well as retitled: "Balance" (originally titled and first released by Allegro as "Voice of the Wind"), "Renew," (originally titled and first released by Allegro as "Tijuca Falls"), and "Inspire" (originally titled and first released by Allegro as "Cosmic Night.")

Bell-Doucet further declares that Allegro falsely identified itself as the copyright holder for the following of defendants' works: "Rainstorms" (re-released as "Soothing Sleep"), "Ocean Waves" (re-released as "Dreamscape"), and "Heartbeat" (re-released as "Tender Heart Beat"), and that Allegro falsely identified other entities, such as Columbia River Entertainment Group and VMK, as copyright holders on other recordings ("River of Life," "Morning in the Forest," "Forever Rain," "Bayou Plaisance," "Desert Dreams," "Malibu Beach," "Secret Lake," "Mountain Song," "Sacred Forest," "Voice of the Wind," "Cosmic Night," "Tijuca Falls", "Ocean Waves," "The River," "Mountain Ranch," "Summer Nights," "Desert Oasis," "Forest Morning," "Pine Forest," "The Rain Forest," and "Rainstorms"). Bell-Doucet Reply Declaration, ¶ 5.

Bell-Doucet has proffered paper inserts and CDs showing that Allegro Corporation, Columbia River Entertainment Group, and VMK are identified as the copyright holders for the above-named recordings. See Bell-Doucet Reply Declaration, Exhibits 7, 8 and 16. Columbia River Entertainment is an Allegro-owned brand. Micallef Declaration, Exhibit 6, p. 2; Bell-Doucet Reply Declaration, Exhibit 10, p. 17.

Defendants assert that they contacted Allegro to complain about the title changes and the incorrect copyright notices, but that Allegro refused to discontinue its practices. On May 11, 2001, without prior notice to Allegro, defendants sent a letter to CINRAM stating that Allegro's license had been terminated and requested the immediate return of the masters and "any derivatives of those masters." The letter said, "We have never authorized CINRAM or Allegro to create derivatives of our masters with changes of the master recordings. Your manufacture and distribution of any such recordings constitutes copyright infringement." Micallef Declaration, Exhibit 6, p. 1. CINRAM suspended production of the disputed records.

On May 30, 2001, Allegro filed its complaint. Defendants answered the complaint and asserted counterclaims on July 17, 2001. Allegro filed a reply to the counterclaims on August 24, 2001, and requests leave to file an amended reply.

Standards

Summary judgment is appropriate "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 a judgment as a matter of law." Fed.R.Civ.P. 56(c). Summary judgment is not proper if material factual issues exist for trial. *Warren v. City of Carlsbad,* 58 F.3d 439, 441 (9th Cir.1995), *cert. denied,* 516 U.S. 1171, 116 S.Ct. 1261, 134 L.Ed.2d 209 (1996).

*6 The moving party has the burden of establishing the absence of a genuine issue of material fact. Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). If the moving party shows the absence of a genuine issue of material fact, the nonmoving party must go beyond the pleadings and identify facts which show a genuine issue for trial. *Id.* at 324. Assuming that there has been sufficient time for discovery, summary judgment should be entered against a "party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Id.* at 322.

Leave to amend a pleading "shall be freely given when justice so requires." Fed.R.Civ.P. 16(a). This rule represents a "strong policy permitting amendment." Texaco, Inc. v. Ponsoldt, 939 F.2d 794, 798 (9th Cir.1991). The liberality of the rule is qualified by the requirement that the amendment not cause undue prejudice to the defendant, is not sought in bad faith, and is not futile. Bowles v. Reade, 198 F.3d 752, 757 (9th Cir.1999).

Discussion

I. Cross motions for summary judgment

A. Breach of licensing agreements

Principles of contract law are generally applicable in the construction of copyright assignments, licenses, and other transfers of rights. 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 10.08 (2001) (*Nimmer*). Construction focuses on the intent of the parties. *Id., citing* Barris Industries, Inc. v. Worldvision Enterprises, Inc., 875 F.2d 1446, 1449 (9th Cir.1989) ("the question of entitlement must ultimately turn on what the parties intended when they entered into the contract.")

Summary judgment is appropriate when the contract terms are clear and unambiguous, even if the parties disagree as to their meaning. United States v. King Features Entertainment, Inc., 843 F.2d 394, 398 (9th Cir.1988). Interpretation of a contract is a matter of law, including whether the contract is ambiguous. *Id.* In interpreting a contract, the court relies on state law to provide the canons of construction, but only to the extent they do not interfere with federal copyright law or policy. S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1088 (9th Cir.1989).

This is a diversity case, and the licensing agreements contain no choice of law provision. The court therefore applies Oregon contract law insofar as it conforms to federal copyright law or policy. Oregon courts subscribe to the objective theory of contracts. Harty v. Bye, 258 Or. 398, 403, 483 P.2d 458 (1971); *see also* City of Canby v. Rinkes, 136 Or.App. 602, 902 P.2d 605 (1995) (settlement agreement valid even if parties did not have same subjective understanding). The objective theory holds that a contract will be defined by what the parties said and not by what the parties were thinking. Oakridge Cablevision v. First Interstate Bank, 65 Or.App. 640, 647-48, 673 P.2d 532 (1983).

*7 To interpret a contractual provision, the court first examines the text of the disputed provision, in the context of the document as a whole. Yogman v. Parrott, 325 Or. 358, 361, 937 P.2d 1019 (1997) (en banc). If the provision is clear, the analysis ends. *Id.* In the absence of an ambiguity, the court construes the words of a contract as a matter of law. *Id.*

1. *Copyright notices*

The licensing agreements require Allegro to "give customary credit on each record to Licensor regarding Licensor's copyrights hereunder." The defendants have proffered evidence that Allegro has, for a number of recordings, designated itself or some entity other than ONAM or Suzanne Bell-Doucet as the copyright holder for the sound recordings, and that it has stated different copyright dates for the same master when re-issuing it under different titles.

The paper inserts for the CDs entitled "River of Life," "Morning in the Forest," "Cypress Magic," "Forever Rain," "Bayou Pleasance," "Desert Dreams," "Malibu Beach," "Secret Lake," "Mountain Song," "Sacred Forest," "Voice of the Wind," "Cosmic Night," and "Tijuca Falls," display a label for Columbia River Entertainment Group next to the following text:

> Produced by Suzanne Doucet and Chuck Plaisance. © 1998 Only New Age Music (BMI) [Illegible character] Columbia River Entertainment Group 1998. Made in the USA. Executive Producer Vincent Micallef Allegro Corporation.

Since ordinarily, a [Illegible character] designates the copyright holder of a sound recording, while a © designates the copyright holder for musical or literary work embodied in a sound recording, or in the printed text or art work accompanying the sound recording, [FN1] this label is incorrect. Also incorrect is the label on a CD called "Sounds of Nature Ocean Waves," which states:

FN1. See 2 *Nimmer* § 7.07, n. 5: "There are at least three reasons for prescribing use of the symbol [Illegible character] rather than © in the notice to appear on phonorecords of sound recordings. Aside from the need to avoid confusion between claims to copyright in the sound recording and in the musical or literary work embodied in it, there is also a necessity for distinguishing between copyright claims in the sound recording and in the printed text or art work appearing on the record label, album cover, liner notes, et cetera."

Produced by Suzanne Doucet & Chuck Plaisance © 1997 Only New Age Music (BMI) [Illegible character] VMK 1997. Made in the USA. Executive Producer: Joe Micallef, Allegro Corporation.

For the CDs titled "Dreamscape," "Tender Heartbeat," and "Soothing Sleep," the copyright notice on both the paper insert and the disc states, incorrectly, "This compilation [Illegible character], © by Allegro Corporation."

Other incorrect designations are established by one of Allegro's exhibits, a letter from defendants' attorney, Gerald B. Weiner, to Micallef, which states that the copyright notice on the "National Park" series of CDs reads [Illegible character] 1999 Only New Age Music, when it should read [Illegible character] 1997 Only New Age Music. Micallef Reply Declaration, Exhibit 2, p. 1.

Defendants have established that by these incorrect copyright notices, Allegro breached the express requirement of the licensing agreements that it "give customary credit ... regarding Licensor's copyrights" to defendants on each record. Summary judgment for defendants should be granted.

2. *Retitling, issuing recordings under more than one title, making deletions and additions*

*8 The licensing agreements give Allegro the nonexclusive right to "use" the masters "in the recording, manufacture and sale" of records. Allegro contends that the use of the word "use" in the licensing agreements is clear and unambiguous, and must be interpreted as conferring "considerable latitude" to record, manufacture and sell, without restriction, recordings made from the masters--including the use of new titles and the use of more than one title for the same master. Allegro relies on a Seventh Circuit case, *Kennedy v. National Juvenile Detention Ass'n,* 187 F.3d 690 (7th Cir.1999), where the court held that the word "use" conferred a license to prepare derivative works.

In *Kennedy*, plaintiff and defendant had entered into an agreement under which plaintiff would provide consulting services, conduct a study, and submit a written report of his findings. Plaintiff submitted a draft report and made some minor revisions at defendant's request for no additional compensation. A few months later, defendant requested that plaintiff make more substantial revisions to the report, offering to pay him $10,000 to do so. Plaintiff refused; he subsequently applied to register a copyright in his work. Meanwhile, defendant requested that plaintiff provide a disk with his copy of the final report, which plaintiff did. When the consulting contract expired, defendant hired another individual to supervise the completion of the report. Defendant published the report, with its own revisions.

The issue before the court was whether the defendant infringed plaintiff's copyright by creating a derivative work from the original report without permission.

The court found that the defendant had an implied nonexclusive license in the report. The conditions for an implied nonexclusive license are created when 1) the licensee requests the creation of a work; 2) the licensor creates the work and delivers it to the licensee who asked for it; and 3) the licensor intends that the licensee copy and distribute the work. 187 F.3d at 694, *citing Effects Assoc. Inc. v. Cohen,* 908 F.2d 555, 558-59 (9th Cir.1990).

The court then construed the implied nonexclusive license under Wisconsin contract law. The terms of the consulting agreement gave the defendant the right to reproduce, publish and "use" plaintiff's report. Using the canon of construction that a contract should be interpreted so as to ascribe meaning to all of its terms, the court held that the term "use" had to be interpreted to give the defendant rights beyond those of reproduction and publication. Accordingly, the court construed "use" to confer a right to prepare derivative works.

I am not persuaded that the *Kennedy* case applies here. In the licensing agreements between these parties, the word "use" is followed by the phrase *"in* the recording, manufacture and sale of records." The phrase modifies the "use" of the masters, and thereby narrows the meaning of "use." In *Kennedy*, however, the consulting agreement conferred the rights to "reproduce, publish and use." The use of the word "and" required the *Kennedy* court to construe "use" as in addition to, or beyond, "reproduce" and "publish."

*9 Because, for the licensing agreements in this case, "use" is not intended expansively, but rather is narrowed by the phrase "in recording, manufacture and sale," *Kennedy* does not support Allegro's argument that "use" should be construed to broaden the scope of the license to something more than the "recording, manufacture and sale of records."

The defendants, on the other hand, argue that a copyright license must be construed in accordance with the purposes underlying federal copyright law, Cohen v. Paramount Pictures Corp., 845 F.2d 851, 854 (9th Cir.1988), chief among which is the protection of the author's rights. *Id.* Copyright licenses are therefore assumed to prohibit any use not authorized. S.O.S., 886 F.2d at 1088. The defendants point out that the licensing agreements do not explicitly grant Allegro the right to change the titles of the masters, to release a single master under more than one title, or to modify the masters by deleting, adding or changing the sounds contained in them. They argue that therefore, the licensing agreements must be construed to prohibit those uses. See S.O.S., 886 F.2d at 1088 n. 8 (modification of the work is a "use" otherwise reserved to the copyright holder). They further argue that because issuing a single master under more than one title and with more than one copyright date is misleading and a fraud upon the public, the licensing agreements cannot as a matter of policy be construed to authorize such a use.

I agree with the defendants. The language of the licensing agreements does not expressly confer on Allegro the right to change titles, issue masters under more than one title or copyright date, or to delete, add to, or change the sounds contained within them. Nor can the terms of the licensing agreements be said to confer such broad rights by necessary implication.

Allegro is not entitled to an injunction prohibiting the defendants from interfering with its rights under the licensing agreements, nor to a judicial declaration that it has not breached the licensing agreements, nor to an award of nominal or punitive damages for defendants' "interference" with its contractual rights. Defendants are entitled to summary judgment on their claim that re-titling and reissuing the masters constitutes breach of the licensing agreements, and on their claim that the incorrect copyright notices breach the licensing agreements. However, because there is a fact issue on whether, and to what extent, masters were modified (see discussion below), defendants are not entitled to summary judgment on the issue of whether Allegro breached the licensing agreements by making deletions, additions or changes to the masters.

2. *Digitalization of recordings over the Internet*

Defendants assert that Allegro has advertised records over the Internet in a manner which allows the user to click on an icon and listen to them, and that such digitalization of the masters was not permitted by the licensing agreements. See Reply Declaration of Bell-Doucet, Exhibit 17 (showing internet advertisements by Amazon.com, in the United States and France, with the invitation to "listen to samples.")

*10 According to Micallef, the digitalization of the masters was intended to be a way of promoting and marketing the masters on the Internet; he states that each sample was only 30 seconds of streaming audio, which cannot be downloaded by a consumer. Micallef Reply Declaration ¶ 4. Allegro argues that the language of the licensing agreements, which permits the use of the masters "in the ... sale of records" imposes no restrictions on the method of sale, and that the term "record" as defined in the licensing agreements encompasses Internet digitalization. I agree, and conclude that digitalization for purposes of advertising and selling the recordings over the Internet falls within the compass of the licensing agreements. Allegro is entitled to summary judgment on this issue.

B. Copyright infringement

1. *Changes of title, deletions, and additions*

The existence of a license creates an affirmative defense to a claim of copyright infringement. Worldwide Church of God v. Philadelphia Church of God, 227 F.3d 1110, 1114 (9th Cir.2000). *See also* Effects, 908 F.2d at 559. To prevail on their counterclaim of copyright infringement under a license, defendants must prove 1) ownership of copyright, and 2) "copying" of protectible expression beyond the scope of the license. S.O.S., 886 F.2d at 1085. *See also* Feist Publications, Inc. v. Rural Telephone Service Co., Inc., 499 U.S. 340, 361, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991) (to prevail on a claim of copyright infringement, plaintiff must show that it holds a valid copyright on the work in question and that the defendant copied a protectible element of the work).

Protection given to copyrights is entirely statutory and is set forth at 17 U.S.C. § 106. *See* Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). Such protection is limited to exclusive rights held by a copyright owner. *Stewart v. Abend*, 495 U.S. 207, 220, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990). Thus, the word "copying" is "shorthand for the infringement of any of the copyright owner's five exclusive rights," described at 17 U.S.C. § 106. *SOS*, 886 F.2d at 1085, n. 3. [FN2] When a licensee exceeds the scope of a license, it also infringes the owner's copyright. *Id.* at 1087; *see also* *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir.1993).

FN2. The five rights are 1) to reproduce the copyrighted work in copies or phonorecords; 2) to prepare derivative works based upon the copyrighted work; 3) to distribute copies or phonorecords to the public by sale or other transfer of ownership, or by rental, lease, or lending; 4) to perform the copyrighted work publicly; and 5) to display the copyrighted work publicly). *Id.* The display right applies only to copies, not to phonorecords. 2 *Nimmer* § 8.20.

A sound recording copyright does not attach to the underlying work *per se*, but to the aural version of such work as fixed on the material object. *Nimmer* § 2.10[A][2]. So, in this case, defendants' copyright in the masters attaches, not to the underlying music and/or nature sounds, but to those sounds as fixed in the masters. The act of capturing and electronically processing sounds, and compiling and editing them to make the final sound recording, satisfies the copyright requirements for "authorship" of a sound recording. *Id.* at § 2.10[A] [2][b].

Among the five exclusive rights granted to copyright holders is the right "to prepare derivative works based upon the copyrighted work." Defendants assert that Allegro's re-titling, selling masters under more than one title, and modifying the masters by deletions and additions constitutes the creation of derivative works and infringes the copyrights.

*11 A "derivative work" is generally defined as

> a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work."

17 U.S.C. § 101. As applied to sound recordings, a derivative work is one in which the actual sounds fixed in the sound recording are rearranged, re-mixed, or otherwise altered in sequence or quality. 17 U.S.C. § 114(b).

Allegro contends that the recordings sold under different titles are otherwise exact replicas of the sound recordings contained in the masters, without rearrangement, re-mixing, or other alteration in sequence or quality. Thus, it argues, the re-release of the masters under different, or even two different, titles does not constitute the creation of a derivative work.

I agree with Allegro that the mere changing of a title, or the release of a single master under more than one title, does not constitute creation of a derivative work because it does not affect the sequence or quality of the sounds fixed in the recording. Allegro is entitled to summary judgment on this issue.

The defendants argue, however, that Allegro's claim that its distributions were exact replicas of the masters is false. Bell-Doucet asserts in her declarations that Allegro has altered at least three of the masters by deleting parts of them and by creating new fade-ins and new fade-outs. These three masters, "Voice of the Wind," "Tijuca Falls," and "Cosmic Night," were registered with the Copyright Office on October 1, 1999. If Bell-Doucet's assertion is credited, then Allegro's deletions and additions could fall within the definition of derivative works.

Because the court does not make credibility determinations at the summary judgment stage, it cannot on the current record determine whether "Voice of the Wind," "Tijuca Falls," and "Cosmic Night" were modified by Allegro so as to constitute derivative works. Put another way, the process of listening to two recordings and deciding whether there has been a deletion or alteration is a fact determination. I cannot say that no reasonable finder of fact could disagree with the defendant. Accordingly, Allegro is not entitled to summary judgment on its request for a declaration that it has not infringed defendants' copyrights and defendants are not entitled to summary judgment that Allegro infringed their copyright by creating derivative works.

2. *The copyright notices*

Defendants assert that Allegro infringed their copyrights by either omitting or falsifying copyright information displayed on the CDs and their paper inserts. Allegro argues that because the Copyright Act does not require the placement of copyright notices on sound recordings, see 17 U.S.C. § 402(a)("a notice of copyright *may* be placed on publicly distributed phonorecords of the sound recording") (emphasis added), any alleged failure to affix a copyright notice on the records does not constitute a violation of the Copyright Act.

*12 Allegro also points out that defendants cannot maintain a copyright action with respect to the recordings that were not registered as of the time this action was filed. *See* 17 U.S.C. § 411(a); *Lyra Productions/America, Inc. v. Allegro Corp.*, No. 98-6284-HU (D. Or. April 25, 2001).

Defendants counter that while a copyright notice need not appear on phonorecords, when such a notice does appear, it

> *shall* consist of the following three elements: (1) the symbol [Illegible character] (the letter P in a circle); and (2) the year of first publication of the sound recording; and (3) the name of the owner of copyright in the sound recording, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner; if the producer of the sound recording is named on the phonorecord labels or containers, and if no other name appears in conjunction with the notice, the producer's name shall be considered a part of the notice.

(Emphasis added). Section 402(c) provides that the notice "shall be placed on the surface of the phonorecord, or on the phonorecord label or container, in such manner and location as to give reasonable notice of the claim of copyright." Defendants argue that Allegro violated this provision because it affixed copyright notices that did not correctly designate the copyright holder or the year of first publication.

However, defendants have cited no authority to the court for the proposition that an incorrect copyright notice constitutes copyright infringement, particularly when, as here, the copyrighted work is being copied and distributed under a license. Incorrect copyright notices do not on their face satisfy the prerequisites for copyright infringement because they do not constitute "copying" and do not implicate any of the exclusive rights enumerated in 17 U.S.C. § 106. Even with respect to the recordings registered before this action was commenced, defendants are not entitled to summary judgment on their claim for copyright infringement arising out of the incorrect copyright notices.

C. Violation of the Lanham Act

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), makes actionable the deceptive and misleading use in commerce of "any word, term, name, symbol, or device" on goods or in connection with services. It provides:

> Any person who, on or in connection with any goods or services, ... uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, ... shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

*13 15 U.S.C. § 1125(a)(1). The purpose of the Lanham Act is to prevent individuals from misleading the public by putting their competitors' work forward as their own. *Shaw v. Lindheim*, 919 F.2d 1353, 1364 (9th Cir.1990).

Allegro asserts that § 43 of the Lanham Act is inapplicable to this case because § 43 is limited to only two kinds of unfair competition: "passing off," and false advertising. Allegro asserts that its actions constitute neither because 1) Allegro acknowledged that the defendants were producers and owners of the copyrights, and 2) Allegro made no false statements of fact in commercial advertising.

Allegro is incorrect about the application of the Lanham Act only to "passing off" or false advertising. *Smith v. Montoro*, 648 F.2d 602, 604 (9th Cir.1981). Section 43(a) has been judicially expanded "to create, in essence, a federal law of unfair competition," and not only protects trademarks and trade dress from infringement, *see, e.g., Kendall-Jackson Winery v. E & J Gallo Winery*, 150 F.3d 1042, 1046 (9th Cir.1998), but also prohibits a wider range of practices such as "reverse passing off," false advertising and product disparagement. *See* 15

U.S.C. § 1125(a)(1)(B); *Smith*, 648 F.2d at 604; *Brookfield Communications v. West Coast*, 174 F.3d 1036, 1046-47 n. 8 (9th Cir.1999).

This jurisdiction has long recognized claims for misattribution or "reverse passing off" in the context of § 43(a) of the Lanham Act. *See, e.g., Lamothe v. Atlantic Recording Corp.*, 847 F.2d 1403, 1406 (9th Cir.1988) (failure to credit coauthors of songs on record album and sheet music constituted reverse passing off); *Smith*, 648 F.2d at 607(removal of actor's name from screen credits and substitution of another actor's name constituted reverse passing off). *Cf. Cleary v. News Corp.*, 30 F.3d 1255, 1260 (9th Cir.1994) (omission of plaintiff's name from title page of work not actionable because plaintiff had contracted away attribution under work for hire clause); *Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys. Inc.*, 7 F.3d 1434, 1437 (9th Cir.1993) (no reverse passing off because products substantially different).

Reverse passing off is accomplished "expressly" when the wrongdoer removes the name or trademark on another party's product and sells that product under a name chosen by the wrongdoer. *Smith*, 648 F.2d at 605. "Implied" reverse passing off occurs when the wrongdoer simply removes or otherwise obliterates the name of the manufacturer or source and sells the product in an unbranded state. *Id.* See also *Shaw*, 919 F.2d at 1364. The essence of the harm in a reverse passing off case is that "the originator of the misidentified product is involuntarily deprived of the advertising value of its name and of the goodwill that otherwise would stem from public knowledge of the true source of the satisfactory product." *Smith*, 648 F.2d at 607. *See also Selby v. New Line Cinema Corp.*, 96 F.Supp.2d 1053, 1056 (C.D.Cal.2000)(reverse passing off occurs when product is mislabeled to mask creator's contribution). While the Lanham Act does not create a duty of express attribution, it does protect against misattribution. *Cleary*, 30 F.3d at 1260. [FN3]

> FN3. This jurisdiction requires, in a reverse passing off case, that the misattributed material be substantially the same as the material originally created by the plaintiff--*i.e.*, that differences, if any, between the creator's original material and the misattributed material be no more than slight. See *Cleary*, 30 F.3d at 1261; *Shaw*, 919 F.2d at 1364-65; *Selby*, 96 F.Supp. at 1056 (to constitute reverse passing off, defendant must have engaged in copying or unauthorized use of substantially the entire work); *Harper House, Inc. v. Thomas Nelson, Inc.*, 889 F.2d 197, 205 (9th Cir.1989) (same). This "bodily appropriation" test is met in the present case.

*14 To establish liability for reverse passing off, defendants must show that 1) the work originated with them; 2) Allegro falsely designated the origin of the work; 3) the false designation was likely to cause consumer confusion; and 4) defendants were harmed by Allegro's false designation of origin. *See Lipton v. The Nature Company*, 71 F.3d 464, 473 (2d Cir.1995). The first of these elements is undisputed.

The CDs and paper inserts proffered by the defendants show a wide variety of attributions, some accurate and some clearly not. As discussed above, some recordings correctly identify ONAM as the copyright holder, but apparently provide the wrong date for the copyright. Three recordings contain a copyright notice which states, falsely, "This compilation [Illegible character], © by Allegro Corporation."

Fourteen other CDs show the label for Columbia River Entertainment Group and text which states that the recording is "produced" by Bell-Doucet and Chuck Plaisance. The text further states:

> © 1998 Only New Age Music (BMI) [Illegible character] Columbia River Entertainment Group 1998. Made in the USA. Executive Producer Vincent Micallef Allegro Corporation.

On a CD titled "Sounds of Nature Ocean Waves," the copyright notice states:

> Produced by Suzanne Doucet & Chuck Plaisance © 1997 Only New Age Music (BMI) [Illegible character] VMK 1997. Made in the USA. Executive Producer: Joe Micallef, Allegro Corporation.

The fact that the copyright notices may be partially correct, or may involve omissions rather than affirmative misrepresentations, does not affect the validity of the defendants' Lanham Act claim. *Lamothe*, 847 F.2d at 1407. Defendants have established the second element of their § 43 claim.

However, the third and fourth elements of the claim have not been established. Defendants have proffered no evidence of consumer confusion or of injury by a competitor. *Lamothe*, 847 F.2d at 1406 ["conduct must not only be unfair but must in some discernable way be competitive," *quoting Halicki v. United Artists Comm. Inc.*, 812 F.2d 1213 (9th Cir.1987)].

The absence of a showing on two essential elements of their Lanham Act claim precludes summary judgment in defendants' favor. Defendants' motion for summary judgment on their Lanham Act claim should be denied.

However, Allegro has not demonstrated the absence of genuine issues of material fact or its entitlement to judgment as a matter of law on this claim. Accordingly, its motion for summary judgment should also be denied.

D. Common-law unfair competition

Under Oregon law, the test of unfair competition is essentially the same as under the Lanham Act: whether it is probable that an ordinary buyer in the ordinary course of business would be deceived into believing that the product of one party is actually that of another. *Dial Temporary Help Service, Inc. v. Shrock,* 946 F.Supp. 847, 857 (D.Or.1996), *citing Columbia Eng'g. Works v. Mallory,* 75 Or. 542, 547, 147 P. 542 (1915).

*15 Allegro argues that defendants have no claim for unfair competition because Allegro acknowledged the defendants as producers and owners of the copyright. This argument is contrary to the evidence that Allegro has in some instances failed to acknowledge defendants as owners of the copyright.

In its reply memorandum, Allegro makes the additional arguments that the unfair competition counterclaim must fail because Allegro and defendants are not competitors, and because the statute of limitations has run. When new matter is presented in a reply to a motion for summary judgment, the court should not consider the new evidence without giving the nonmovant an opportunity to respond. *Provenz v. Miller,* 102 F.3d 1478, 1483 (9th Cir.1996).

At the time this motion was filed, Allegro had not asserted a statute of limitations defense in its reply to defendants' counterclaims. Because the defendants had no notice of Allegro's statute of limitations argument until Allegro filed its reply memorandum, the court declines to consider it at this time. Allegro has now filed a reply to defendants' counterclaims asserting the statute of limitations defense. The court should defer ruling on this claim, therefore, until the limitations issue has been fully briefed and defendants have had an opportunity to demonstrate the element of competitive injury.

The cross motions for summary judgment on the common-law unfair competition claim should be denied.

E. Unfair Trade Practices Act

Defendants assert as a counterclaim that Allegro's conduct in re-titling and reissuing the masters, and in providing inaccurate copyright information, constitutes a "fraud upon the public" and unfair trade practice in violation of Or.Rev.Stat. § § 646.608 and 646.638. Section 646.608 prohibits a number of practices, none apparently applicable to the facts of this case except subsection (c), which prohibits causing likelihood of confusion or misunderstanding as to affiliation, connection, or association with, or certification by, another, and subsection (u), which prohibits "any other unfair or deceptive conduct in trade or commerce." Section 646.638 is the remedies provision.

Allegro argues that defendants cannot assert a counterclaim under the UTPA because neither defendant is a consumer, and the UTPA provides a cause of action only for consumers, *citing CollegeNet, Inc. v. Embark.com, Inc.,* 2000 U.S. Dist LEXIS 20752 (D.Or.2000) and *Oregon Laborers-Employers Health & Welfare Trust Fund v. Philip Morris,* 17 F.Supp.2d 1170, 1180 (D.Or.1998), *aff'd,* 185 F.3d 957 (9th Cir.1999). *See also Cullen v. Investment Strategies, Inc.,* 139 Or.App. 119, 911 P.2d 936 (1996) (UTPA to be construed consistently with its consumer protective purposes); *Hinds v. Paul's Auto Werkstatt, Inc.,* 107 Or.App. 63, 65, 810 P.2d 874 (1991) (UTPA intended to provide "broad remedial consumer protection"). Bell-Doucet counters with an affidavit stating that she has purchased some of the re-titled and reissued CDs for her own personal use, and has suffered a loss as a consequence of Allegro's "illegally placing her name on recordings sold to the public as part of a consumer fraud." I do not find defendants' argument persuasive. For purposes of this case, Bell-Doucet and ONAM bring their claims, not as consumers or members of the public, but as the creators of sound recordings sold to the public. Bell-Doucet made her purchases in September 1999 and in February, May, and June 2001. Bell-Doucet Reply Declaration, Exhibit 13. All of the purchases were made after defendants had protested the retitling, reissuing and incorrect copyright notices. *See* Bell-Doucet Reply Declaration Exhibit 12. Bell-Doucet cannot purchase some CDs after she knew about the re-titling and the false copyright notices and sustain a claim that she was a "deceived consumer" or a "defrauded member of the public." The claims she asserts in this case stem from her alleged status as an aggrieved copyright holder, a competitor treated unfairly, and a party to a breached license agreement--not as a consumer of her own recordings.

*16 Further, even if Bell-Doucet could be considered a consumer, there has been no showing that Bell-Doucet or ONAM has suffered any financial loss *as a consumer* as a result of Allegro's retitling or modifying the masters. The UTPA grants standing to "any person who suffers any ascertainable loss of money" resulting from a violation of the law. Or.Rev.Stat. § 646.638(1). *See also Oregon Laborers-Employers Health & Welfare Trust Fund,* 17 F.Supp.2d at 1179 (policy of UTPA is to provide a viable remedy for consumers who are damaged by deceptive trade practices), *citing Raudebaugh v. Action Pest Control, Inc.,* 59 Or.App. 166, 171, 650 P.2d 1006 (1982). Bell-Doucet has made no showing that, *as a consumer,* she lost money as a result of Allegro's conduct. Defendants' damages, if any, flow from their creation and ownership of the recordings, not Bell-Doucet's status as a retail purchaser.

Allegro also argues that defendants' counterclaims under the UTPA are barred by its one-year statute of limitations. Allegro contends that at the latest, defendants first discovered Allegro's conduct in September 1999.

Defendants assert that the statute of limitations does not apply to counterclaims, under Or.Rev.Stat. § 646.638(7). However, that provision is not applicable to this case. Section 646.638(7) says:

> Notwithstanding subsection (6) of this section [the statute of limitations] in any action brought by a seller or lessor against a purchaser or lessee of real estate, goods or services, such purchaser or lessee may assert any counterclaim the purchaser or lessee has arising out of a violation of ORS 646.505 to 646.652.

Because, as discussed above, Bell-Doucet is not a consumer for purposes of this case, Allegro is neither a seller nor a lessor, and defendants are neither purchasers nor lessees. This provision is inapplicable. Allegro is entitled to summary judgment on this claim.

F. Mechanical royalties

The parties dispute whether the sound recordings in this case contain nature sounds only or a combination of music and nature sounds. They also dispute whether the waivers were specifically negotiated or assumed because of the nature of the sound recordings. Neither side has submitted legal authority or admissible evidence on the issue of whether recordings of nature sounds do or do not generate "mechanical" royalties. [FN4] Since there has been no showing of the absence of a fact issue and no showing on either side of entitlement to judgment as a matter of law, both summary judgment motions should be denied.

FN4. So-called "mechanical licenses" refer only to licenses in musical compositions, not in sound recordings. See 2 *Nimmer* § 8.04[A]. Compulsory licenses for the use of musical compositions are often referred to as "mechanical licenses," as the provision of the Copyright Act that provides for them, 17 U.S.C. § 115, allows the act of "mechanically" recording a song on fixed media, such as a phonograph record or piano roll. *Id.*

II. Allegro's motion to amend reply

Allegro has filed a motion for leave to amend its reply to defendants' counterclaims in order to assert statute of limitations defenses to the Lanham Act and common-law unfair competition claims. Defendants contend that the motion should be denied because the amendment would be futile.

The complaint in this case was filed on May 30, 2001. Defendants filed an answer and counterclaims on July 12, 2001, and filed a First Amended Answer and Counterclaims on July 17, 2001. Allegro filed its Reply to the Amended Answer and Counterclaims on August 24, 2001.

*17 Defendants assert that they learned of Allegro's retitling and reissuing under new titles on May 24, 1999. They argue that for compulsory counterclaims, the filing of the complaint tolls the statute of limitations. Fed.R.Civ.P. 13, 15(c); *Klemens v. Air Line Pilots Assoc. Int'l.,* 736 F.2d 491, 501 (9th Cir.1984).

The complaint tolls the statute of limitations for a counterclaim only when the counterclaim is one for recoupment, arising out of the same transaction or occurrence as the main claim. D. Coquillette, G. Joseph, S. Schreiber, J. Solovy, G. Vairo 3 *Moore's Federal Practice* § 13.93 (3d ed.) (*Moore*). The *Klemens* case involved just such a recoupment. Compulsory counterclaims for affirmative relief will be barred if asserted after the limitations period has run. *Moore* § 13.93.

Because defendants' counterclaims are for affirmative relief, they do not relate back to the filing of the complaint. Even if they did, they would still be untimely by six days, since the complaint was filed on May 30, 2001. Allegro's motion to amend is therefore not futile.

The motion for leave to amend the reply will be granted.

Conclusion

For Allegro's motion for partial summary judgment (doc. # 15) and defendants' motion for partial summary judgment (doc. # 20), I recommend as follows:

That Allegro's motion for summary judgment on its first claim for relief (a declaration that Allegro has not infringed defendants' copyrights) be DENIED, and that defendants' motion for summary judgment be DENIED.

That Allegro's motion for summary judgment on its second claim for relief (an injunction prohibiting defendants from interfering with Allegro's rights under the licensing agreements) be DENIED and defendants' motion for summary judgment be GRANTED.

That defendants' motion for summary judgment on Allegro's third claim for relief (nominal and punitive damages for tortious interference with its contractual relationships) be GRANTED.

That Allegro's motion for summary judgment on defendants' first counterclaim (copyright infringement) be GRANTED with respect to the changes of title and incorrect copyright notices, and DENIED with respect to derivative works, and that defendants' motion for summary judgment be DENIED.

That Allegro's motion for summary judgment on defendants' second counterclaim (false designation under Lanham Act) be DENIED and that defendants' motion for summary judgment be DENIED.

That Allegro's motion for summary judgment on defendants' third counterclaim (common law unfair competition) be DENIED and defendants' motion for summary judgment be DENIED.

That Allegro's motion for summary judgment on defendants' fourth counterclaim (violation of the UTPA) be GRANTED, and defendants' motion for summary judgment be DENIED.

That Allegro's motion for summary judgment on defendants' fifth counterclaim (breach of the licensing agreements) be GRANTED with respect to digitalization of the recordings over the Internet, and otherwise DENIED, and that defendants' motion for summary judgment be GRANTED with respect to the copyright notices and the title changes, and otherwise DENIED.

***18** That Allegro's motion for summary judgment on defendants' eighth counterclaim (declaratory judgment that the licensing agreements are terminated) be DENIED and defendants' motion for summary judgment be GRANTED.

Allegro's motion for leave to file amended reply (doc. # 33) is granted.

Scheduling

These Findings and Recommendation will be referred to a United States District Judge for review. Objections, if any, are due October 18, 2002. If no objections are filed, review of the Findings and Recommendation will go under advisement on that date. If objections are filed, a response to the objections is due November 1, 2002, and the review of the Findings and Recommendation will go under advisement on that date.

2003 WL 23571745 (D.Or.)

Motions, Pleadings and Filings (Back to top)

- 3:0100790 (Docket) (May. 30, 2001)
- 3:01CV00790 (Docket) (May. 30, 2001)

END OF DOCUMENT

EXHIBIT B

C

United States District Court; S.D. New York.

MYRON BERGER, Plaintiff,
v.
COMPUTER INFORMATION PUBLISHING, INC., Defendant.

No. 84 Civ. 0331 (JFK).

July 2, 1984.

OPINION AND ORDER

JOHN F. KEENAN, United States District Judge:

*1 This action was brought by Myron Berger against Computer Information Publishing, Inc. for copyright infringement pursuant to section 501(b) of the Copyright Act, 17 U.S.C. § 501(b), and for breach of contract. Defendant, Computer Information, has moved to dismiss the complaint on the grounds that the first claim alleged fails to state a cause of action for which relief can be granted and that the Court will lack subject matter jurisdiction over the second pendent claim if the federal claim is dismissed.

In 1982, plaintiff and defendant entered into an agreement whereby plaintiff was to write two articles for publication in defendant's magazine, The Computer Buyer's Guide and Handbook. This agreement was evidenced by a letter dated March 23, 1982 to plaintiff from Mr. Bromberg, the editor-in-chief of defendant's magazine. Under this agreement, defendant was to pay to plaintiff a total of $4,000 in five installments and to pay plaintiff an additional $1,000 for each reprint of the article appearing in the magazine. The letter states that defendant was to own the copyright and that any reprints, other than those appearing in The Computer Buyer's Guide, would be subject to additional fees.

Plaintiff delivered the manuscripts to the defendant. Pursuant to the terms of the agreement, defendant paid plaintiff $500 on February 15, 1982 and $1,500 upon receipt of the manuscripts. However, defendant did not make the final three payments due on the articles allegedly because of the substantial rewriting and editing that they required. An edited version of one of the articles was subsequently published in issue no. 10 of The Computer Buyer's Guide.

On October 18, 1982, plaintiff commenced an action in the Civil Court of the City of New York against defendant to recover the unpaid $2,000. That action was ultimately settled by payment of $2,000 to plaintiff by defendant.

The present action arises out of defendant's publication of what it characterizes as a drastically edited and reduced version of Berger's original article in issue no. 11 of its magazine. Plaintiff characterizes this article as a reprint of his article that had appeared in issue no. 10.

The complaint filed in this action contains two claims for relief. The first claim alleges that plaintiff is the exclusive owner of the copyright on the article and that reprint of the article by defendant was a violation of that copyright. Monetary damages in an amount in excess of $50,000 are sought on this claim. The second claim alleges that defendant breached its contract with plaintiff by failing to pay plaintiff $1,000 for the reprint of the article which appeared in issue no. 11. Plaintiff seeks $1,000 on this claim.

Defendant has moved to dismiss the first claim of the complaint on the ground that it does not state a cause of action under the Copyright Act. To establish this ground for dismissing the claim, defendant contends that it is the holder of the copyright on the article under the terms of the agreement and, thus, that plaintiff does not have a right to institute an action against it for infringement under section 501(b) of the Copyright Act. Defendant also contends that, even if plaintiff had a copyrightable interest in the articles, he forfeited that interest by failing to affix a copyright notice to the manuscript he delivered to defendant. Furthermore, defendant contends that, even if plaintiff has a valid copyright in the original article, the agreement authorized defendant to publish the reprint and that, therefore, publication of the reprint was not an infringement of plaintiff's copyright.

*2 Copyright in a work rests initially in the author of the work [FN1]. 17 U.S.C. § 201. Thus for defendant to be owner of the copyright, plaintiff must have transferred that right to defendant. The agreement evidenced by the March 23, 1982 letter was insufficient to transfer plaintiff's copyright ownership in the work he created to defendant. Under section 201(d) of the Copyright Act, 'it he ownership of a copyright may be transferred in whole or in part by any means of conveyance . . .' 17 U.S.C. § 201(d). A transfer of copyright ownership, however, is not valid 'unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed.' 17 U.S.C. § 204(a). As plaintiff did not sign the letter, it was not sufficient to transfer plaintiff's rights in the work.

Furthermore, plaintiff did not forfeit his interest in the copyright by failing to place a notice of copyright on the manuscript that he delivered to defendant. Copyright subsists from the moment of creation and fixation in a tangible medium of expression. 17 U.S.C. § 302(a). Notice is only required on published works which are publicly distributed. 17 U.S.C. § 401(a); Report of House Committee on Judiciary, House Report No. 94-1476. Omission of the notice from no more than a small number of copies does not invalidate the copyright in a work, 17 U.S.C. § 405(a), regardless of whether the omission was accidental or intentional. Beacon Looms, Inc. v. Lichtenberg & Co., Inc., 552 F. Supp. 1305, 1312 (S.D.N.Y. 1982).

In this case the notice was omitted from one copy--the manuscript. The copies that were published in defendant's magazine were covered by the notice applicable to the magazine as a whole. A single notice applicable to a work as a whole is sufficient to prevent loss of ownership with respect to the separate contributions it contains, regardless of the ownership of copyright of the individual contributions. 17 U.S.C. § 404(a). In such a case, the fact that the person named in the copyright notice is not the owner of the copyright does not affect the validity or ownership of the copyright. 17 U.S.C. § 406(a). Thus, plaintiff did not forfeit his ownership of the copyright by omitting the notice from the copy of his manuscript that he delivered to defendant.

Plaintiff's claim for infringement fails, however, because he authorized publication of the reprints by defendant, as is evidenced by the March 23, 1982 letter. Plaintiff does not argue that the letter does not accurately reflect the agreement between the parties. [FN2] He argues that defendant violated a condition of that agreement by failing to pay sums due under the agreement and, that therefore, the license to reprint the work was not effective.

An action for copyright infringement lies once a licensing contract expires. See Kamakazi Music Corp. v. Robbins Music Corporation, 684 F.2d 228, 230 (2d Cir. 1982). In this case, however, the authorization to publish reprints was still in effect. The agreement provides that defendant has the authority to reprint the work. The fact that defendant may have breached the contract does not effect its right to reprint the work until such time as the contract and, therefore the authorization, is terminated by the parties or otherwise rescinded. See Dodd, Mead & Company v. Lilienthal, 514 F. Supp. 105, 106 (S.D.N.Y. 1981); 495 F. Supp. 135, 137 (S.D.N.Y. 1980). No such termination or recission has been alleged in this case.

*3 Moreover, plaintiff cannot deny the validity of the agreement after having brought suit on it in state court. A state court action seeking damages for breach of contract acts to affirm the agreement authorizing reprint of the work, rather than to avoid it. Dodd, Mead & Company, supra, 514 F. Supp. at 106; 495 F. Supp. at 137; see Sylvania Industrial Corp. v. Lilienfeld's Estate, 132 F.2d 887, 893 (4th Cir. 1943); cf. Roth v. McAllister Bros., 316 F.2d 143, 145 (2d Cir. 1963) (party having assumed certain position in legal proceeding and having succeeded in maintaining that position, may not thereafter assume contrary position in subsequent proceeding). Plaintiff thus affirmed the authorization to reprint the work, evidenced by the letter, when he brought suit on the letter in state court. As the reprint was authorized by an agreement that plaintiff has affirmed and that still remains in effect, an action for infringement cannot lie.

Even taking all well pleaded allegations in the complaint as true, it does not state a cause of action for copyright infringement. The claim alleging copyright infringement, therefore, is dismissed. As the federal claim is dismissed and Court lacks subject matter jurisdiction over the state breach of contract claim. Exercise of jurisdiction over this claim would not serve the purposes of judicial economy, convenience or fairness to the litigants, as the Court has not heard evidence in the case or made any rulings other than the present one. The conditions justifying exercise of federal jurisdiction over a pendent state claim, therefore, have not been met. See United Mine Workers v. Gibbs, 383 U.S. 715, 725-26 (1966). The claim for breach of contract is dismissed for lack of subject matter jurisdiction.

SO ORDERED.

FN1 A copyright does not vest initially in the creator of a work, however, if it is a work-made-for hire. 17 U.S.C. § 201(b). A work made for hire is a work commissioned for use as a contribution to a collective work, only 'if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.' 17 U.S.C. § 101. As there is no indication that the parties agreed in a signed writing to such a term, it cannot be argued that the article is a work made for hire.

FN2 Plaintiff argues that the letter was insufficient to transfer ownership of the copyright, not that the letter did not evidence the agreement between them. Unlike a transfer of copyright ownership, authorization to exercise certain rights comprised in a copyright need not be signed by the owner of the rights conveyed. The statute requires a signing when ownership of a copyright or exclusive rights comprised in a copyright of a transferred, 17 U.S.C. § 204, but is silent on the subject of authorizations. If defendant were asserting that it was the owner of the exclusive right to reprint the work, a writing signed by plaintiff, transferring that right to defendant would be required.

1984 WL 595 (S.D.N.Y.), 1984 Copr.L.Dec. P 25,681

END OF DOCUMENT

EXHIBIT C

C

HAMILTON TAILORING CO.
v.
DELTA AIR LINES, INC.
United States District Court, S.D. Ohio
April 19, 1974

Callaghan & Company's Headnote and Classification

P1204, P2309

Reasonable notification of termination of contract.
S.D.Ohio April 19, 1974
UCC § 2-309(3) recognizes that the application of principles of good faith and sound commercial practice normally call for such notification of the termination of a going contract relationship as will give the other party reasonable time to seek a substitute arrangement.
HAMILTON TAILORING CO. v. DELTA AIR LINES, INC. 1974 WL 21756 (S.D.Ohio), 14 UCC Rep.Serv. 1310

Callaghan & Company's Headnote and Classification

P2309

Reasonable notification of termination of contract.
S.D.Ohio April 19, 1974
Where plaintiff for several years had manufactured stewardess uniforms for defendant air line under a contract which required plaintiff to maintain an inventory so as to be able to meet defendant's requirements on an "as soon as possible" basis, and the uniforms manufactured for defendant were not subject to being sold in a substitute arrangement, plaintiff was entitled to notification of termination which, in terms of allowing it to sell to defendant the inventory it carried, was reasonable. It could not be held as a matter of law that approximately one year's notice of termination was reasonable and that defendant was not liable to plaintiff for left-over inventory on hand, particularly where there was evidence that part of the left-over inventory was due to requests from defendant for shorter uniforms and also to cancellations of orders placed after notice of termination. Defendant's motion for summary judgment is accordingly denied.
HAMILTON TAILORING CO. v. DELTA AIR LINES, INC. 1974 WL 21756 (S.D.Ohio), 14 UCC Rep.Serv. 1310

Callaghan & Company's Headnote and Classification

P1205, P2305, P2309

Cancellation fo contract-usage of trade.
S.D.Ohio April 19, 1974
Summary judgment for defendant was inappropriate in an action by a supplier of airline stewardess uniforms to recover for the value of left-over inventory on termination of the contract between the parties where material issues of fact were presented as to the existence and scope of a usage of trade supplementing the requirements contract and requiring the airline to compensate the plaintiff for left-over inventory. A practice under which the purchaser would compensate the supplier for left-over inventory with the price being left for agreement on a reasonable basis would not be inconsistent with the terms of the oral requirements contract.
HAMILTON TAILORING CO. v. DELTA AIR LINES, INC. 1974 WL 21756 (S.D.Ohio), 14 UCC Rep.Serv. 1310

UCC Sections Cited: § 1-204, § 1-205, § 2-305, § 2-306, § 2-309(3).

S. Arthur Spiegel, Esq., John G. Cobey, Esq., (Cohen, Todd, Kite & Spiegel, Cincinnati, Ohio), for plaintiff.

John Newlin, Esq. (Frost & Jacobs) for defendant.

PORTER, District Judge.

Defendant, Delta Air Lines, Inc., has filed a motion for summary judgment pursuant to Rule 56 of the Federal Rules of Civil Procedure. The motion is opposed and is submitted for decision pursuant to Local Rule 14.

The undisputed facts out of which htis action arose are as follows:

On or about June, 1965, the Hamilton Tailoring Company and Delta Air Lines entered into an oral agreement whereby Hamilton agreed to manufacture and Delta agreed to purchase all of Delta's uniform requirements for its stewardesses.

On the day after Delta chose Hamilton as its supplier Mr. Morgan, representing plaintiff, and Mr. Stanley, representing defendant, met and reached agreement on the terms of the contract. The terms agreed upon included the style of the uniforms, specifications as to the length of the uniforms, materials to be used, price, and terms of delivery and payment. Plaintiff was to furnish each of defendant's bases with what are known as "fit models" for the purpose of determining the size of stewardesses. It was also agreed that Hamilton would maintain an adequate but reasonable inventory. Hamilton was to maintain control of its inventory and Mr. Morgan held that responsibility.

Despite agreement upon the above terms, the parties neither discussed nor agreed upon the duration of the agreement or the manner in which it could be terminated. Nor was there any discussion as to what would occur in the event that Hamilton had left-over inventory if any when the contract was terminated.

Prior to entering the 1965 agreement, Hamilton had supplied summer uniforms for Delta and had maintained an inventory in connection therewith. When the 1965 agreement, involving a style change, was entered, Hamilton had left-over inventory. According to Mr. Morgan, he was advised by Mr. Stanley of Delta that Hamilton should recover the cost of the left-over inventory by including it in the cost of uniforms supplied to Delta under the 1965 agreement. This is disputed by Mr. Stanley of Delta.

Under the 1965 agreement, Hamilton supplied Delta with stewardess uniforms beginning in the spring of 1966 and continuing until February 26, 1969, when the last order for uniforms was received. During the period of the contract, each of defendant's stations would order uniforms directly from plaintiff by submitting purchase orders or purchase requisitions indicating the number and sizes and types of uniforms for specific girls.

At the outset of the program, plaintiff was informed that there were 1400 stewardesses in the employ of Delta. Plaintiff purchased some 5000 yards of material, ordered some raincoats, and made "fit model" uniforms for the various Delta stations. After sending the "fit models" to the stations, Hamilton began to create a stock of inventory as it began to receive purchase orders.

After the initial supplying of uniforms for Delta's stewardesses, Hamilton calculated the inventory to be kept on hand very cautiously. Projected needs were based on the popular size in the initial suplying and a limited amount of uniforms were kept on hand. Hamilton would keep about 80% of the projected inventory requirements of the next graduating Delta stewardess class on hand. Delta would supply the number of stewardesses graduating in a given class beforehand, but not their sizes.

Once the exact number and sizes of a particular class were known, Hamilton would cut such additional garments as were necessary to fill specific orders. If a given class depleted the inventory in a size, Hamilton would restock its inventory with a limited number of uniforms of that size in preparation for the next class. Hamilton attempted to limit its inventory stock to enough uniforms to meet Delta's requirements for its next graduating class. Since one class graduated about every 30 days, Hamilton attempted to keep a 30-day supply of uniforms on hand. As was noted, Delta would advise plaintiff of the number of stewardesses of a new class, but not of their sizes.

In February of 1968, Delta advised Hamilton that it was soliciting bids for new-styled uniforms and that Delta anticipated that the new-styled uniforms would be furnished in the winter of 1968-69. Hamilton was invited to submit its bid. At this point Hamilton was aware that the style of uniforms it was furnishing would be discontinued in all probability within a year.

In July of 1968 Delta notified Hamilton that the new-styled uniforms would be furnished by a supplier other than Hamilton. Hamilton was to continue supplying uniforms until Delta's new supplier could do so. Delta was to advise Hamilton as to the last class for which it would be supplying uniforms.

After receiving notification that Delta intended to institute new-style uniforms Hamilton instituted a policy of adding nothing to its inventory unless it received a specific order for a garment not in stock.

Despite the cautious calculation by Hamilton of inventory to be kept on hand and the institution of the policy of adding nothing to inventory unless a specific order was received, Hamilton had a left-over inventory with a retail value of $74,043.00 after shipping Delta's final order on February 26, 1969.

Mr. Morgan, president of Hamilton Tailoring, advised Mr. Stanley, of Delta, that Hamilton had left-over inventory and that he would like to come down and discuss its disposition. Mr. Morgan went to Delta for the purpose of such discussion. According to Mr. Morgan, it was normal procedure, or a custom of the trade, and had been for 25 years, that after a program was over the buyer and the supplier would negotiate a settlement as to left-over inventory. Mr. Morgan, who had in excess of 30 years in the clothing business, further said that it is generally recognized in the uniform industry that where specified material and/or styles are required and the manufacturer must stock the materials in order to make up special uniforms for particular customers only, where there is a style change, the customer would make a settlement with the manufacturer on a reasonable basis for the left-over inventory on hand. According to Mr. Morgan, Delta was advised of this customary practice when the 1965 agreement was entered.

Mr. Morgan also said that in cases where Hamilton had been required to maintain an inventory for other airlines, Mohawk, Southern, and TWA, Hamilton had been compensated for the left-over inventory on a negotiated settlement basis.

Mr. Morgan's efforts to obtain compensation from Delta for Hamilton's left-over inventory were unsuccessful. This suit followed.

It is undisputed that the contract between Hamilton and Delta was to be of uncertain duration. It is also undisputed that the contract was a requirements contract, calling for successive performances and subject to the provisions of the Uniform Commercial Code, as adopted in Ohio. See Title 13 of the Ohio Revised Code. It is Delta's position that under § 1302.19 <<UCC § 2- 306>>, Ohio Rev Code [UCC § 2-306], it was obligated to purchase only its "good faith" requirements from Hamilton and that it did in fact do this. It is also Delta's position that under Ohio Rev Code § 1302.22 <<UCC § 2-309>> [UCC § 2- 309], the contract could be terminated at any time by either party. Hamilton does not dispute Delta's power to terminate the contract at any time, but contends that Delta did not give reasonable notification of the termination as required by Ohio Rev Code § 1302.22 <<UCC § 2-309>> [UCC § 2-309]. That section reads, in pertinent part:

"(C) Termination of a contract by one party except on the happening of an agreed event requires that reasonable notification be received by the other party and an agreement dispensing with notification is invalid if its operation would be unconscionable."

It was originally Hamilton's position that the case of Globemaster v. Magic American Chemical Corp., 386 F2d 420 (6 Cir, 1967) was controlling and required Delta to purchase Hamilton's left-over inventory upon its termination of the contract. However, as pointed out by Delta, a reading of the trial court's decision in that case reveals that a large factor in the court's award of damages was that Globemaster had terminated the requirements contract for vindictive reasons and had failed to provide reasonable notification of termination. Delta contends that since Hamilton had notice of the termination of its requirements contract with Delta in February of 1968, one year before Hamilton's last shipment, and since, after receiving this notice, Hamilton followed a policy of only adding to its inventory upon receipt of a specific purchase order, notification was, as a matter of law, reasonable.

In determining whether, as a matter of law, Delta's notice of termination to Hamilton was reasonable, we must first determine what is meant by "reasonable notification" as used in Ohio Rev Code § 1302.22 <<UCC § 2-309>>. Comment 8 to that section states:

"Division (C) recognizes that the application of principles of good faith and sound commercial practice normally call for such notification of the termination of a going contract relationship as will give the other party reasonable time to seek a substitute arrangement . . ."

"Reasonable time" is defined in Ohio Rev Code § 1301.10(B).<<UCC § 1-204>> (UCC § 1-204) as:

"What is a reasonable time for taking any action depends on the nature, purpose and circumstances of such action."

It is said in 1 Hawkland, A Transactional Guide to the Uniform Commercial Code, 1.210302, at p 101:

"Subsection 2-309(2) provides that contracts of indefinite duration are not to be construed as perpetually binding, but may be terminated by either party at any time. Under Subsection 2-309(3), the termination requires that reasonable notification be received by the other party. This requirement also is designed to protect the expectation of the parties. It enables them to plan ahead and make arrangements to substitute for the cancelled agreement. If the termination could be made without giving notice, a serious hardship could be inflicted upon the other party who would be deprived thereby, of a reasonable time to make substitute arrangements . . . Since a person expects that a going contract relationship will continue when its duration is left indefinite, a sudden termination is apt to cause surprise. It is also apt to be oppressive for the reasons suggested above."

Failure to give reasonable notification of termination played a dominant role in the award of damages by the trial court in the Globemaster case. Globemaster, Inc. v. Magic Iron Cement Co., No. C 63-207, Northern District of Ohio, 1966, affd, Globemaster v. Magic American Chemical Corp., 386 F2d 420 (6 Cir, 1967). In that case defendant had counterclaimed for the contract price of its inventory which was left over when plaintiff abruptly, and without notice, terminated the requirements contract which had been in effect between them. The trial court, in its conclusions of law, held that defendant was entitled to reasonable notice which it did not receive.

When the requirement of "reasonable notification" is applied to the facts of the case before the court, the result is uncertain. In the present case, Hamilton was required to maintain an inventory of products specifically manufactured for Delta. When Delta notified Hamilton that the style of uniforms being furnished would be discontinued in about a year, there was little, if any, chance that Hamilton could obtain a substitute agreement. This is true because of the special nature of the inventory carried by Hamilton. On the other hand, it appears questionable whether the left-over inventory of Hamilton was due to an abrupt termination of the contract or to any lack of time between notification and cancellation.

The only way in which it seems proper to apply the "reasonable notification" requirement to this case is as follows. Since Hamilton was required to maintain an inventory so as to be able to meet Delta's requirements on an "as soon as possible" basis, and since the uniforms manufactured for Delta were not subject to being sold in a substitute agreement, it would seem proper that the requirements contract continue for a period after notice of the termination which, in terms of allowing Hamilton to sell to Delta the inventory it carried, was reasonable.

There is testimony in the deposition of Mr. Morgan, president of Hamilton, from which it could be inferred that part of Hamilton's left-over inventory was due to requests from Delta for shorter uniforms and also due to cancellations of orders placed after notice of termination was received by Hamilton. Under these circumstances, we cannot say, as a matter of law, that Delta's notification of termination was reasonable. The reasonableness of Delta's notification of termination and, if such notification was unreasonable, the question of whether or not such unreasonable notification caused plaintiff's left-over inventory appear to be, under the circumstances of this case, genuine issues of material fact about which there is dispute. Accordingly, summary judgment is inappropriate.

Summary judgment in this case appears inappropriate for the additional reason that there is dispute as to the material issues of the existence and scope of a usage of trade supplementing the oral requirements contract and requiring Delta to compensate Hamilton for left-over inventory.

Ohio Rev Code § 1301.11 <<UCC § 1-205>> (UCC § 1-205) provides in part:

"(B) A usage of trade is any practice or method of dealing having such regularity of observance in a place, vocation, or trade as to justify an expectation that it will be observed with respect to the transaction in question. The existence and scope of such a usage are to be proved as facts . . .

"(C) A course of dealing between parties and any usage of trade in the vocation or trade in which they are engaged or of which they are or should be aware give particular meaning to and supplement or qualify terms of an agreement.

"(D) The express terms of an agreement and an applicable course of dealing or usage of trade shall be construed wherever reasonable as consistent with each other; but when such construction is unreasonable express terms control both course of dealing and usage of trade and course of dealing controls usage of trade." (Emphasis supplied.)

As to usage of trade, Mr. Morgan, president of Hamilton, said in response to Interrogatory 33(b) of defendant's second set of interrogatories:

"It is generally recognized in the uniform industry that where specified material and/or styles are required and the manufacturer must stock the materials in order to make up special uniforms for particular customers only, where there is a style change, the customer would make a settlement with the manufacturer on a reasonable basis for the leftover inventory on hand."

Plaintiff also said, in response to defendant's interrogatories, that this practice had been in effect for 25 years and that defendant had been made aware of its existence at the beginning of the requirements contract.

William J. Morgan, president of plaintiff, said the following concerning the practice in his deposition in response to questions at pp 77-78:

"Q Now, at the end of the program, I believe you testified you advised Mr. Stanley or somebody at Delta you had some inventory left on hand?

"A Yes, sir.

"Q And you would like to come down and talk to them about it?

"A Yes, sir.

"Q Now, by that I gather you wanted to come down and discuss negotiating what is going to happen to this?

"A Yes, sir.

"Q Nothing had been agreed upon prior to this time? Nobody had agreed, yes, we are going to take it?

"A Not till the end of the program.

"Q Not till the end of the program?

"A Because we never knew where the end was coming until the time we were notified officially that they were going to change the uniforms.

"Q So you advised them you would like to come down and talk with them about inventory?

"A Yes.

"Q You did in fact go down, is that correct?

"A Yes, sir.

"Q Now, is this pursuant to this course of action that you took, pursuant to your understanding of what's been so-called custom in the trade?

"A Normal procedure.

"Q Customarily among customers, buyers like this, did you sit down together once a program is over? You discuss what you have on hand and you then negotiage settlement, is that right?

"A Yes.

"Q And that's basically your understanding of the custom?

"A Definitely.

"Q Then as I recall your statement, this has been your understanding of the customary trade practice for at least 25 years?

"A Yes, sir.

Defendant contends that even if a usage of trade exists concerning the disposition of left-over inventory, plaintiff's statements regarding such usage establish, as a matter of law, that the practice embodied in such usage amounts only to a nonenforceable agreement to agree. Plaintiff, on the other hand, contends that the usage establishes a practice like unto that sanctioned by Ohio Rev Code § 1302.18(A)(1) <<UCC § 2-305>>, (2) and (3) (UCC § 2-305), whereby a contract for sale may be concluded though the price is unsettled, a reasonable price at time of delivery being implied.

Keeping in mind the requirement that in ruling on this motion for summary judgment we must construe the evidence in the most favorable light in favor of Hamilton and against Delta, Bohm Aluminum & Brass Corp. v. Storm King Corp., 303 F2d 425 (6 Cir, 1962) and that Hamilton is to have the benefit of all favorable inferences reasonably drawn from the evidence, United States v. Diebold Insurance, 369 US 654 (1962); Columbia Pictures v. Croomer, 99 F Supp 481 (ED Ky, 1951), we conclude the trier of fact could reasonably find from plaintiff's statements that the practice embodied in the custom or usage of trade involved here is that the purchaser would compensate the supplier for left-over inventory with the price being left for agreement on a reasonable basis. Cf. Columbia Nitrogen Corp. v. Royster Company, 451 F2d 6 [9 UCC Rep 977] (4 Cir, 1971). We mote, in this connection, that such a practice would not be inconsistent with the terms of the oral requirements contract. Also, such a practice would be consistent with Mr. Morgan's statement that Delta had compensated Hamilton for its inventory left over from the prior agreement whereby Hamilton was furnishing summer uniforms for Delta's stewardesses.

For the above reasons, defendant's motion for summary judgment should be denied.

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