






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Copyright Act Preempts Licensor's State Law Claims

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COURT RULES THAT COPYRIGHT ACT PREEMPTS
SOFTWARE LICENSOR'S CONVERSION AND UNJUST
ENRICHMENT CLAIMS UNDER STATE LAW

By David R. Ellis, Attorney at Law
Largo, Florida

In May 2005, a federal court in Virginia ruled that a software licensor's conversion and unjust enrichment claims relating to the unauthorized use of copyrighted software were preempted by the U.S. Copyright Act because they contained no "extra element" rendering them "qualitatively different" from a copyright claim. *Microstrategy, Inc., v. Netsolve, Inc.*, No. 05-334 (E. D. Va. May 13, 2005).

In the case, the licensor alleged that a software audit revealed that the licensee was violating certain limitation provisions of its software license agreement. The court concluded that the licensor's conversion and unjust enrichment claims based on state law were essentially equivalent to copyright infringement claims and were preempted by the supremacy of federal law as embodied in the Copyright Act.

The plaintiff, Microstrategy, was a software licensor that provided software to businesses to allow them to query and analyze large quantities of data stored in relational database systems and obtain access to the analysis through the Internet and wireless and voice technology. Microstrategy entered into a Clickwrap Software License with the defendant, Netsolve, under which Netsolve purchased licenses to Microstrategy's copyrighted software under terms that limited the number of users that could utilize the software and the number of times the software could be used per computer. In accordance with the license agreement, Microstrategy conducted an audit at Netsolve to determine whether it was complying with the license restrictions. Microstrategy was convinced that Netsolve was not complying with the license agreement, and that it was instead using the software beyond the restrictive provisions of the license.

Microstrategy claimed that it sought remedies for Netsolve's breach and that Netsolve did not comply. Microstrategy then sued Netsolve, alleging copyright infringement under federal law and unjust enrichment and conversion under state law. Netsolve filed a motion to dismiss the state unjust enrichment and conversion claims on the grounds that they were preempted by Section 301(a) of the Copyright Act.

The Court granted the defendant's motion to dismiss both the conversion and unjust enrichment claims because the plaintiff had failed to allege an extra element that changed the nature of these state claims to ones that were qualitatively different from the federal copyright infringement claim. To determine whether a state law claim is preempted by federal copyright law, courts engage in a two-step analysis pursuant to §301(a).

A state law claim is preempted if (1) the work is within the scope of the subject matter of copyright as specified in §§102 and 103, and (2) the rights granted under state law are "equivalent" to any of the exclusive rights within the scope of federal copyright as specified in §106. A right granted under state law is not equivalent to exclusive rights within the scope of federal copyright law when there is an "extra element" that changes the nature of the state law action so that it is qualitatively different from a copyright infringement claim.

The court said that the first requirement of the preemption test was met for both the conversion and unjust enrichment claims because Netsolve's allegedly wrongful use of Microstrategy's computer software was a premise of both claims, and computer software is within the subject matter of copyright. The court further found that the two claims were preempted because they met the second requirement of the preemption test - they were not "qualitatively different" from a copyright claim.

To determine whether a claim is equivalent to a copyright claim, a Court must compare the elements of a claim for copyright infringement with the purportedly preempted cause of action. A court will not find preemption when a state law cause of action contains an "extra element" or when it incorporates elements beyond those necessary to prove copyright infringement, and regulates conduct qualitatively different from the conduct governed by federal copyright law.

Under §106 of the Copyright Act, the copyright owner is granted the exclusive right to reproduce the copyrighted work, prepare derivative works, distribute copies of the work, and publicly perform or display the work. Here, the conversion claim was preempted because it contained no extra element making it qualitatively different from the copyright claim. Under Virginia law, the tort of conversion constitutes any wrongful exercise or assumption of authority over another's goods that deprives the owner of their possession, and any act of dominion wrongfully exerted over property in denial of the owner's right, or inconsistent with it. Here the plaintiff alleged that it owned and had the right of possession of the software in the defendant's possession and that the defendant converted the software to its own use.

However, according to the court, the plaintiff was really alleging only unauthorized reproduction of the software, placing the conversion claim within the scope of the Copyright Act. The plaintiff did not assert that the defendant had retained a physical object and refused to return it. Rather, the plaintiff alleged only that defendant had retained intangible property, that is, the software. The Court thus granted the defendant's motion to dismiss the conversion claim as preempted by the Copyright Act because there was no physical object unlawfully retained and there was thus no extra element making the conversion claim qualitatively different from a copyright claim.

As to the unjust enrichment claim the court found that it was also equivalent to a claim of copyright infringement. Under Virginia law, the elements of unjust enrichment are (1) the plaintiff's conferring of a benefit on the defendant, (2) the defendant's knowledge of the conferring of the benefit, and (3) the defendant's acceptance or retention of the benefit under circumstances that "render it inequitable for the defendant to retain the benefit without paying for its value."

In this case, the plaintiff alleged that the defendant was unjustly enriched by its unauthorized and unlawful use of the software without paying for it, and that the plaintiff was entitled to recover the value of the defendant's unauthorized and unlawful use and/or possession of the software. However, since the gist of the plaintiff's complaint was that the defendant violated the plaintiff's exclusive right to reproduce, distribute, and display its copyrighted materials, the unjust enrichment and copyright infringement claims were equivalent.

The court said that, nevertheless, an unjust enrichment claim may survive a preemption challenge if the plaintiff demonstrates that the defendant was unjustly enriched by "material beyond copyright protection." In this case, however, the defendant only claimed that it was harmed by the unauthorized use of the software; it did not point to any additional source of or extra element causing unjust enrichment. Consequently, the court granted the defendant's motion to dismiss the unjust enrichment claim because it was equivalent to the copyright claim and contained no additional element rendering it qualitatively different from a copyright claim.

The Court thus granted the defendant's motion to dismiss both state law claims because they were equivalent to copyright infringement claims and were preempted by the Copyright Act.

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