

Department of Legislative Services
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FISCAL AND POLICY NOTE
First Reader

Senate Bill 65
Finance

(Senator Reilly)

Commercial Law - Copyright Infringement - Assertions Made in Bad Faith

This bill prohibits a person from making an assertion of copyright infringement in bad faith. The bill specifies factors for a court to consider as evidence of whether a person has made an assertion of copyright infringement in bad faith or in good faith. The Attorney General and the Division of Consumer Protection of the Attorney General have the same authority to adopt regulations, conduct investigations, and bring civil and criminal actions as the Attorney General and the division have under the Maryland Consumer Protection Act (MCPA). The bill authorizes a target of a bad faith assertion to bring a civil action in the appropriate court to recover for injury or loss sustained as a result of a violation of the bill. If a target prevails and is awarded damages, a court may award reasonable attorney's fees, court costs, and exemplary damages.

Fiscal Summary

State Effect: The bill's imposition of existing penalty provisions does not have a material impact on State finances or operations. If the Consumer Protection Division of the Office of the Attorney General receives fewer than 50 complaints per year stemming from the bill, the additional workload can be handled with existing resources. While the bill may generate additional litigation, it can be handled with existing resources of the Judiciary. Revenues are not materially affected.

Local Effect: While the bill may generate additional litigation in the circuit courts, the impact is likely small enough that it can be handled with the Judiciary's existing resources. Revenues are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Under the bill, “demand letter” means a letter, an electronic mail, or any other written communication asserting that a person has engaged in copyright infringement. “Target” means a person who has (1) received a demand letter or against whom an assertion of copyright infringement has been made; (2) been threatened with litigation or against whom a lawsuit has been filed alleging copyright infringement; or (3) at least one customer who has received a demand letter asserting that the person’s product, service, technology, or work has infringed a copyright.

Factors a Court May Consider

Factors a court may consider when determining whether a person is acting in **bad faith** include (1) the contents of the demand letter, including the absence of a copyright registration certificate, the name and address of the copyright owner or assignee, and the specificity of facts relating to the areas in which the target’s product, service, technology, or work infringes the copyright or is covered by the claims in the copyright; (2) the responsiveness of the person to inquiries by the target related to the demand letter; (3) the extent to which the person conducted an analysis specifically comparing the claims in the copyright to the target’s product, service, technology, or work; (4) whether the demand letter demanded a response or payment of a licensing fee within an unreasonably short period of time; (5) the amount the person offered to license the copyright; (6) whether the assertion of the copyright infringement is without merit or deceptive; (7) whether the person, a subsidiary, or an affiliate previously filed or threatened to file one or more lawsuits based on the same or a similar assertion of copyright infringement but those threats or lawsuits did not contain items specified in the first item above and a court found the person’s assertion to be without merit; and (8) any other factor the court determines to be relevant.

Factors a court may consider as evidence that a person acted in **good faith** include, among other things (1) that the person has engaged in a good faith effort to establish that the target has infringed the copyright and attempted to negotiate an appropriate remedy; (2) whether the person has demonstrated good faith business practices in previous efforts to enforce a copyright or successfully enforced a copyright through litigation; (3) that the person has made a substantial investment in the use of the copyright or in the production or sale of a product or work covered by the copyright; (4) that the person is an author of the original copyrighted work, or an original assignee; and (5) any other fact the court determines to be relevant.

Damages and Awards in Civil Actions by Target

If a target prevails in an action brought under the bill, and is awarded damages, the court may also award:

- court costs and fees, including reasonable attorney's fees;
- exemplary damages capped at the greater of \$50,000 or three times the total of damages, costs, and fees; and
- any equitable relief that the court considers appropriate.

Current Law: The federal Copyright Act of 1976 establishes the basic framework for the current copyright law. Although there is no State law relating to a person making assertions of copyright infringement, Title 11, Subtitle 16 of the Commercial Law Article contains provisions related to assertions of patent infringement. The bill amends Subtitle 16 such that the same provisions that apply to assertions of patent infringement also apply to assertions of copyright infringement.

An unfair or deceptive trade practice under MCPA includes, among other acts, any false, falsely disparaging, or misleading oral or written statement, visual description, or other representation of any kind which has the capacity, tendency, or effect of deceiving or misleading consumers. The prohibition against engaging in any unfair or deceptive trade practice encompasses the offer for or actual sale, lease, rental, loan, or bailment of any consumer goods, consumer realty, or consumer services; the extension of consumer credit; the collection of consumer debt; or the offer for or actual purchase of consumer goods or consumer realty from a consumer by a merchant whose business includes paying off consumer debt in connection with the purchase of any consumer goods or consumer realty from a consumer.

The Consumer Protection Division is responsible for enforcing MCPA and investigating the complaints of aggrieved consumers. The division may attempt to conciliate the matter, issue a cease and desist order, or file a civil action in court. A merchant who violates MCPA is subject to a fine of up to \$1,000 for the first violation and up to \$5,000 for each subsequent violation. In addition to any civil penalties that may be imposed, any person who violates MCPA is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$1,000 and/or imprisonment for up to one year.

Background: According to the U.S. Copyright Office, copyright is a form of protection provided by the laws of the United States to the authors of original works of authorship, including literary, dramatic, musical, artistic, and certain other intellectual works. Protection is available to both published and unpublished works. It is illegal for anyone to violate any of the rights conferred by the copyright law to the owner of the copyright.

No publication or registration or other action in the Copyright Office is required to secure copyright. Copyright is secured automatically when the work is created, and a work is “created” when it is fixed in a copy or phonorecord for the first time. In general, copyright registration is a legal formality intended to make a public record of the basic facts of a particular copyright. Nevertheless, the copyright law sets forth several inducements or advantages to encourage copyright owners to complete registration.

A copyright is considered personal property, and it is subject to the various state laws and regulations that govern the ownership, inheritance, or transfer of personal property as well as terms of contracts or conduct of business.

Small Business Effect: Operating businesses are susceptible to copyright infringement claims if the businesses make, use, offer for sale, or sell a product that allegedly infringes on a copyright. The costs for a defendant to resolve copyright infringement claims can be substantial. To the extent that small businesses are targets of bad faith assertions of copyright infringement, the bill may have a substantially positive impact on their ability to defend against such assertions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Attorney General (Consumer Protection Division); Judiciary (Administrative Office of the Courts); U.S. Copyright Office; Department of Legislative Services

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