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An Important Copyright Preemption Decision From 5th Circ.

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On June 30, the Fifth Circuit Court of Appeals issued an important decision that clarified the scope of copyright preemption. Affirming a decision from the Northern District of Texas, the court held that the time-of-filing rule applies to federal question jurisdiction, that preemption by the Copyright Act[1] is appropriate when the type of work in suit falls within the subject matter of copyright, even if the work itself is not copyrightable, and that copyright preemption can apply to claims under the Texas Theft Liability Act ("TTLA"). The court denied plaintiff/appellant Spear Marketing Inc.'s motion for rehearing en banc on July 28.

Background Facts

In Spear Marketing Inc. v. BancorpSouth Bank,[2] Spear Marketing filed a complaint in state court, alleging trade secret misappropriation and other state law claims against defendants BancorpSouth Bank and ARGO Data Resource Corporation. ARGO provides a variety of software solutions for the banking industry, including its longtime customer, BancorpSouth. At the time of suit, Spear Marketing offered a single product, which used bank data, input by branch tellers, to manage a bank's cash inventory. BancorpSouth had been using Spear Marketing's software for several years to manage its cash inventory while at the same time using ARGO's automatic teller transactions solution to manage teller operations. Meanwhile, ARGO had independently, over a number of years, developed its own product to manage cash inventory. ARGO's solution — Cash Inventory Optimization — uses complex predictive algorithms and can be integrated with other software used by a bank, including ARGO's automatic teller product, so that no input of cash data is required by bank personnel.

ARGO marketed CIO to BancorpSouth for a number of years, and BancorpSouth eventually decided to stop using Spear Marketing's software and to begin using ARGO's cash management software instead. Around this time, Spear Marketing initiated talks with ARGO to see if ARGO might want to acquire Spear Marketing. In the process, Spear Marketing performed an online demonstration of its software and sent ARGO marketing materials by email describing its software. Talks between ARGO and Spear Marketing ended after about a month.

After BancorpSouth implemented ARGO's cash management system, Spear Marketing filed suit in state court, alleging that BancorpSouth and ARGO had stolen trade secrets from Spear Marketing and, among other claims, had violated the TTLA. Claiming that the allegations were subject to copyright preemption, ARGO and BancorpSouth removed the case to federal court. Spear Marketing filed a motion to remand, which was denied. Ultimately, summary judgment was entered in ARGO and BancorpSouth's favor on the ground that there was no evidence of trade secret use, which the court found was necessary to support all of Spear Marketing's state law claims. Spear Marketing appealed both the jurisdictional and summary judgment rulings to the Fifth Circuit.

The Time-of-Filing Rule Applies to Federal Question Cases Based on Preemption

In affirming the district court's rulings, the Fifth Circuit held, for the first time, that the time-of-filing rule applies to cases where jurisdiction is based solely on copyright preemption. When a party seeks to remove a case to federal court, the federal district court determines subject matter jurisdiction based on the live pleading at the time the petition for removal is filed. Even if the issues in the case change such that the federal claims are eliminated, a federal court may still retain subject matter jurisdiction over the case.

Despite Spear Marketing's argument that the U.S. Supreme Court has only applied the time-of-filing rule in diversity cases, the Fifth Circuit explained that there is no reason the rule should not apply in federal question cases. This is even so, where, as in Spear Marketing's case, a plaintiff does not expressly plead federal claims, but rather ends up in federal court on copyright preemption grounds. The Fifth Circuit's ruling clarified some ambiguity in prior case law and added strength to copyright preemption as a basis for obtaining and retaining federal jurisdiction, even when a plaintiff does not expressly plead federal claims.

Works Within the Subject Matter of Copyright Are Subject to Copyright Preemption

The Fifth Circuit additionally held, for the first time, that state law claims based on materials falling within the subject matter of copyright may be preempted even if the particular materials at issue are not entitled to copyright protection. There is a two-part test for copyright preemption: (1) the claim must fall within the subject matter of copyright as defined by Section 102 of the Copyright Act; and (2) the claim must protect rights that are equivalent to one or more of the exclusive rights protected by section 106 of the Copyright Act. As to the first part, the Fifth Circuit held that if the type of work at issue (in this case, software and written materials) falls within the subject matter of copyright, the first element of the test is satisfied, even if the plaintiff is only suing on noncopyrightable ideas contained within the software. Copyright preemption is thus not limited to that which is copyrightable. Rather, the first element of the test may be satisfied if the work at issue is the type of work that falls within the subject matter of copyright.

The Fifth Circuit therefore, for the first time, expressly joined the majority in a circuit split over what may be preempted. The circuits in agreement with the Fifth Circuit are the Second,[3] Fourth,[4]

Sixth,[5] Seventh[6] and Ninth[7] Circuits. The other side of the circuit split takes a narrower view and has held that only that which is copyrightable may be preempted. The Eleventh Circuit is the only circuit to take this view.[8]

Copyright Preemption Can Apply to a Texas Theft Liability Claim

The Fifth Circuit's opinion was also important in that it established that a Texas Theft Liability Act claim can be preempted. The second part of the test for copyright preemption is equivalency. That is, whether the state law cause of action "protects rights that are 'equivalent' to any of the exclusive rights of a federal copyright." Whether a TTLA claim could meet the equivalency test and be preempted by the Copyright Act had not previously been decided by the Fifth Circuit. Here, Spear Marketing's original petition asserted a TTLA claim alleging theft of "confidential information," copying of materials containing confidential information, and "communicat[ing] and transmit[ing] ... confidential information." The court reasoned that this TTLA claim was preempted. Though theft in Texas contains a mens rea element, a mens rea element is not the type of element that makes a claim qualitatively different from a copyright infringement claim. Accordingly, the Fifth Circuit held that a TTLA claim may be preempted by the Copyright Act.

Conclusion

The Fifth Circuit's decision was important in that it verified the broad scope of copyright preemption in the circuit and joined other circuits in holding that materials do not have to be copyrightable for preemption to apply. The decision thus helped to affirm the value of copyright preemption as a defensive tool in cases involving software, written materials and other materials falling within the subject matter of copyright.

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DISCLOSURE: The authors represented ARGO Data Resources Corporation in this case.

[1] 17 U.S.C. § 301(a).

[2] Spear Marketing Inc. v. BancorpSouth Bank, No. 14-10753 (5th Cir. June 30, 2015).

[3] Forest Park Pictures v. Universal Television Network Inc., 683 F.3d 424, 430 (2d Cir. 2012); see also Nat'l Basketball Ass'n v. Motorola Inc., 105 F.3d 841, 849 (2d Cir. 1997) ("Copyrightable material often contains uncopyrightable elements within it, but Section 301 preemption bars state law misappropriation claims with respect to uncopyrightable as well as copyrightable elements.").

[4] U.S. ex rel. Berge v. Bd. of Trustees of the Univ. of Ala., 104 F.3d 1453, 1463 (4th Cir. 1997).

[5] Stromback v. New Line Cinema, 384 F.3d 283, 300 (6th Cir. 2004); Wrench LLC v. Taco Bell Corp., 256 F.3d 446, 455 (6th Cir. 2001).

[6] ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453 (7th Cir. 1996).

[7] Montz v. Pilgrim Films & Television, Inc., 649 F.3d 975, 979 (9th Cir. 2011) (en banc) ("[S]tate-law protection for fixed ideas falls within the subject matter of copyright and thus satisfies the first prong of the statutory preemption test, despite the exclusion of fixed ideas from the scope of actual federal copyright protection.").

[8] Dunlap v. G&L Holding Grp. Inc., 381 F.3d 1285, 1297 (11th Cir. 2004).
