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WEDNESDAY, MAY 14, 2014

Chicago Daily Law Bulletin®

Volume 160, No. 96

E-signatures simplify copyright transactions in the digital age

In a classic B-movie from 1985 called "The Stuff," the earth is invaded by an alien life form that looks like frozen yogurt. Unlike most frozen yogurt, however, the Stuff tastes so good that it is addictive.

When consumed, it takes over the mind and body of anyone who eats it, causing them to become zombie-like. Chaos ensues until the final climactic scene, when the good guys blow up the yogurt factory.

That dramatic finale was just a precursor to the real drama — the subsequent litigation over who owned the copyright in the film footage of the exploding factory.

In the case of *Effects Associates v. Cohen* (9th Cir. 1991), Larry Cohen (described by the court as "a low-budget horror movie mogul") commissioned Effects Associates to create some special-effects footage of the exploding factory. Cohen was not satisfied with the footage and withheld half of the payment. Cohen's dissatisfaction with the work product, however, did not deter him from incorporating it into the film.

The parties had entered an oral agreement for Effects to create the footage, but they never discussed who would own the copyright. Not surprisingly, copyright infringement litigation ensued when Cohen stiffed the vendor on the bill.

I mention this case because it highlights the importance of carefully following the statutory prescriptions of the Copyright Act for copyright transactions relating to the licensing or transfer of copyrights.

Cohen claimed he owned the copyright and therefore could use the footage. The problem is that Section 204 of the Copyright Act states a transfer of copyright ownership or an exclusive license of any right is not valid unless it is "in writing" and "signed by owner of the rights conveyed."

Having nothing in writing, Cohen asserted a novel defense, which the court summarized tongue in cheek as "Moviemakers do lunch, not contracts." Cohen asserted that the writing requirement of Section 204 shouldn't apply because it is customary in the movie industry to transfer copyright without a written contract.

The court emphatically rejected that argument and upheld the primacy of the requirement that a copyright transfer or exclusive license must be in writing. A simple agreement is sufficient.

"It doesn't have to be the Magna Carta," the court said, but it does have to be in writing. That ensures that a copyright owner does not inadvertently give away his or her copyright and encourages the parties to consider precisely what rights are being transferred and at what price.

Most would agree that Section 204 has a beneficial purpose. But is that rule satisfactory for our current technology-laden business environment? When "The Stuff" first invaded Hollywood in 1985, e-mail had yet to invade the office world. Entering an agreement by clicking "I agree" on a computer screen would have been considered science fiction.

So *Effects Associates v. Cohen*, while firmly upholding the writing requirement, does not answer the question that inquiring minds in the digital age want to know — can an electronic agreement satisfy the twin requirement of Section 204 that the transfer be "in writing" and "signed by the owner of the rights conveyed"?

Given that e-commerce has been thriving for roughly 20 years, it seems odd that until recently there was not a clear answer to whether clicking on "I agree" or "Continue" on a computer screen could effectuate a valid transfer of copyright.

Given that e-commerce has been thriving for roughly 20 years, it seems odd that until recently there was not a clear answer to whether clicking ... on a computer screen could effectuate a valid transfer of copyright.

Fortunately, a case decided last year should remove any doubts — those digital expressions of intent do satisfy the requirements of Section 204. The requirement that the transaction be "in writing" is easily met since the text of a document on a computer is commonly understood to be in writing.

More troublesome is whether such an agreement has been "signed" by the transferor. *Metropolitan Regional Information Systems v. American Home Realty Network* (4th Cir. 2013) confirms that a simple click can be a valid signature. As a result, the statutory provision enacted in the pen and paper era is fully effective in the digital age.

Nothing in the Copyright Act itself addresses this specific inquiry. Rather, the deus ex machina is a federal statute known as the E-Sign Act, enacted by Congress in 2000.

That act mandates that for any transaction in interstate commerce, no signature can be denied legal effect simply because it is in electronic form. The definition of "electronic signature" is appropriately broad — it covers any "electronic sound, symbol or process, attached to or logically associated with a contract or other record and executed or adopted by a person with the intent to sign the record."

Although the E-Sign Act was drafted with consumer contracts in mind, it has been applied to other types of contracts as well, and nothing in the act excludes transactions relating to copyrights. (Some transactions, such as wills, adoptions and divorces, are expressly excluded from the E-Sign Act.) Thus, the court held, the act validates the process of transferring copyrights by means of electronic agreements. To hold otherwise "would thwart the clear congressional intent embodied in the E-Sign Act."

The logic of the *Metropolitan* case would appear to resolve a related lingering copyright question. No case has ever addressed whether a "work made for hire" agreement between a commissioning party and an independent creator can be entered electronically.

A work-made-for-hire agreement vests authorship and ownership of the copyright in the commissioning party rather than the creator. To enhance certainty in these transactions, the Copyright Act requires that such agreements must be in writing and signed by both parties. Again, the E-Sign Act comes to the rescue and validates the agreement as long as it has the digital signatures of both parties.

Perhaps these results may have been obvious even without the ruling in *Metropolitan*, but like the Stuff, it's nice to have the problem put to rest.

INSIDE IP LAW

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