PERSPECTIVES

Intellectual Property . . .

Responding to Infringers' Indemnity and Contribution Claims

by Mark K. Slater and Bernard C. Shek

A person may make mistakes, but is not a failure until he or she blames others for those mistakes.
—John Wooden

And so it is with a federal copyright or trademark infringement claim. The accused infringer's first impulse is to deny it; the second impulse is often to point the finger somewhere else. Aside from any contractual right to indemnity, the accused infringer will likely assert an equitable indemnity or contribution claim against a third party.[1] However, that indemnity claim should fail even if "the devil did make him do it."

Why? In short, because the federal copyright and trademark laws both contain comprehensive remedial schemes, the accused infringer has no legal basis to seek either indemnity or contribution from third parties. Allowing the infringer's indemnity claim would create rights the law did not intend the infringer to have, and federal courts do not allow new rights to be superimposed on a comprehensive statutory scheme. This rule was recently applied by a Federal District Court in San Jose to reject indemnity claims by an alleged infringer.

Claims for contribution or equitable indemnity[2] are not founded on the express or implied provisions of a contract, but simply where equity (may) require that multiple tortfeasors share liability for a particular injury.[3] The equitable indemnity claim may be central to a lawsuit when no contract exists between the parties, or when the contract does not apply to the dispute.

Sections 502 to 510 of the Copyright Act (17 U.S.C. §§ 502-510), and sections 1114 to 1125 of the Lanham Act (15 U.S.C. §§ 1114-25), set forth the remedies available, respectively, against copyright and trademark infringers. Both Acts establish comprehensive remedies against infringers, including criminal and civil penalties, seizure and forfeiture by the government, and a private right of action to recover actual and statutory damages, injunctive relief, costs and attorney's fees.

Unlike other federal statutes, such as the Securities Exchange Act of 1934 (Securities Act), which contain express contribution provisions for recovery among alleged violators, neither the Lanham Act nor the Copyright Act contain express provisions permitting claims for contribution or indemnity by infringers against "more culpable" third parties.

Remedial Schemes Preclude New Indemnity

The Supreme Court has repeatedly stated that courts may not impose new rights or claims upon comprehensive remedial schemes. This rule was applied in *Northwest Airlines* and *Texas Industries, Inc. v. Radcliff Materials*, 451 U.S. 630, 638, 101 S.Ct. 2061 (1981). In both cases, the Supreme Court held that federal courts may fashion federal common law to supplement a statutory scheme only where a federal rule is necessary to protect uniquely federal interests, or in matters dominated by strong federal concerns, such as admiralty.

Courts also may act only where the statute's language and history reflect Congress' expectation that the federal courts will effectuate the broad mandate by drawing on federal common law. In *Northwest Airlines*, the Court denied a right to contribution under the Equal Pay Act and Title VII. In *Texas Industries*, the Court similarly refused to allow contribution under the Sherman and Clayton Acts.

The Court later refined its analysis by distinguishing between contribution rights based on judicially created claims and statutory claims. In *Musick, Peeler & Garrett v. Employees Ins.*, 508 U.S. 286, 294-98, 113 S.Ct. 2085 (1993), a securities case, the Court recognized that a right of contribution among joint tortfeasors was appropriate only because the private right of action (under Rule 10b-5 of the Securities Act) was itself judicially implied. And, this right was recognized only after the Court concluded that implying it was consistent with the Securities Act.

The Ninth Circuit, among others, has applied this same analysis—barring new indemnity rights where a

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comprehensive remedial scheme already exists—to claims asserted under the False Claims Act (FCA) and the Cable Communications Policy Act (47 U.S.C. §§ 553, 605). In *Mortgages, Inc. v. U.S. Dist Ct. For Dist. Of Nev.*, 934 F.2d 209, 212 (9th Cir. 1991), an equitable indemnity claim was filed by an alleged violator of the FCA. The Ninth Circuit held that a right for one wrongdoer to recover from another implicates no federal interest, and that the comprehensive statutory scheme of the FCA made supplemental remedies inappropriate.

Notably, the Ninth Circuit in *Mortgages* stressed that the indemnity claim was barred under both federal and California law. This opinion states that, where a court has found no basis for indemnity under federal law, "there can be no right to assert state law counterclaims that, if prevailed on, would end in the same result." *Mortgages*, 934 F.2d at 214.

After *Mortgages*, an equally relevant holding was *Don King Prod./Kingvision v. Ferreira*, 950 F.Supp. 286 (E.D. Cal. 1996); aff'd, *Doherty v. Wireless Broadcasting Systems of Sacramento, Inc.*, 98 C.D.O.S. 6272 (9th Cir., 1998). There, the District Court found that the comprehensive statutory scheme of the Cable Communications Policy Act precluded an equitable indemnity claim by a party sued for intercepting the pay-per-view showing of a boxing match. The Ninth Circuit upheld that ruling on appeal. The same analysis has been applied to reject indemnity for other federal claims where statutes are part of a comprehensive remedial scheme.[4]

No Judicially Created Rights of Action

The result in *Mortgages* and *Don King* had previously been reached in the copyright and trademark context, but without extended analysis.[5] In *Getty Petroleum Corp. v. Island Transp. Corp.*, 862 F.2d 10 (2nd Cir. 1988), the Second Circuit affirmed dismissal of a claim for contribution made by alleged trademark infringers under the Lanham Act. In *Johnston v. Smith*, 1997 WL 584349 (N.D. Ga. 1997), the court rejected an indemnity claim asserted by a party infringing the copyright on Bonnie Rait's song "Let's Give Them Something to Talk About." Similarly, in *dicta*, indemnity rights for alleged copyright infringers were rejected in *Polygram Intl. Pub., Inc. v. Nevada/TIG, Inc.*, 855 F.Supp. 1314, 1334 (D.Mass. 1994).

In a recent unpublished decision in *Ansel Communications, Inc., v. Novell, Inc.*, (U.S.D.C., N.D. Cal. San Jose Division, Case No. C97-21088), United States District Court Judge Ronald M. Whyte provided a comprehensive analysis for rejecting an alleged infringer's claims for equitable indemnity under the Copyright Act and the Lanham Act.[6]

Ansel had sued Novell. Novell counterclaimed, asserting federal copyright and trademark infringement claims against Ansel concerning Ansel's sale of Novell's NetWare software. Ansel sued two distributors of the software, seeking equitable indemnity for Novell's claims. One distributor, Ingram Micro, moved to dismiss the indemnity claim asserted by the infringer.[7]

The motion was granted. The court, citing *Texas Instruments*, *Getty*, and *Mortgages*, held that there is no right of indemnity under either federal copyright and trademark law, and dismissed the indemnity claims for the federal copyright and trademark infringement claims without leave to amend.

The court rejected the infringer's assertion that claims for contributory and induced infringement of copyrights and trademarks are judicially created rights of action.

In an extensive analysis, the court concluded that the relevant authorities made implication of an indemnity right for alleged copyright or trademark infringers inappropriate, and that neither statutory scheme provided for express indemnity rights among joint tortfeasors. The court also rejected the infringer's assertion that claims for contributory and induced infringement of copyrights and trademarks[8] are judicially created rights of action that permit a federal court to imply a right of indemnity.

Equitable indemnity claims are almost reflexively asserted. However, as discussed above, infringers under either the Copyright Act or the Lanham Act may not assert equitable indemnity claims. Paraphrasing John Wooden, infringement is a mistake, but an infringer's demand for equitable indemnity is doomed to failure.

Notes

1. Contractual indemnity claims are governed by the particular agreement; also, certain state law claims may not be subject to the bar on indemnity claims described here. Both topics are beyond the scope of this article.

2. Technically, contribution seeks recovery for only part of an actual or anticipated liability, and indemnity seeks recovery for all of it. Practically speaking, both courts and parties use the terms interchangeably. *See* Baird v. Jones (1993) 21 Cal.App.4th 684, 691 (describing continuum for comparative equitable indemnity).

3. Most jurisdictions, including California, recognize a right to contribution among joint tortfeasors. Northwest Airlines v. Trans-

port Workers Union, 451 U.S. 77, 86-87, 101 S.Ct. 1571, 1578 (1981); Far West Financial Corp. v. D&S Co. (1988) 46 Cal. 3d 796, 808 (comparative equitable indemnity under California law); Cal. Code Civ. Proc. § 875 (statutory right to contribution).

4. *E.g.*, United States v. Cannons Eng. Corp., 899 F.2d 79, 92 (1st Cir. 1990) (no right to indemnity under CERCLA because Congress prohibited contribution in certain circumstances, and the court refused to "make an end run around the statutory scheme" by creating a right to indemnity).

5. Equitable indemnity has also been rejected under federal patent law because of its comprehensive statutory scheme and the absence of any legislative intent to allow courts to fashion new remedies. Jack Frost Laboratories Inc. v. Physicians & Nurses Manuf. Corp., 35 U.S.P.Q.2d 1631, 1634 (S.D.N.Y. 1995).

6. "Order Granting Third Party Defendants' Motions to Dismiss," Docket Sub No. 53 (October 13, 1998).

7. The authors represent Ingram Micro in that action.

8. *E.g.*, Sony Corp. v. Universal City Studios 104 S.Ct. 774, 785 (1984) (copyright) and Inwood Laboratories v. Ives Laboratories, 102 S.Ct. 2182, 2188 (1982) (trademark)

Employment . . .

Duffield's Restrictions on Compulsory Arbitration Agreements

by Simone M. Bennett and Thomas K. Agawa

In 1998, the US Supreme Court declined to review the Ninth Circuit's decision in *Duffield v. Robertson Stephenson & Co.*, 144 F.3d, 1182, 1185 (9th Cir. 1998) which held that compulsory arbitration agreements as a pre-condition to employment are unenforceable with respect to Title VII claims.

What does this mean for the employer? The likely result is that, where employees have signed compulsory arbitration agreements as a condition of employment, employers will be faced with a bifurcated action for claims brought by employees in the Ninth Circuit. Employers will be able to compel arbitration of all claims except Title VII claims—essentially sexual discrimination claims—brought in the Ninth Circuit, leaving employers in a position of defending against a two-pronged, dual-jurisdictional attack.

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It's a decision that once again forces lawyers and their clients to rethink their ADR strategies, especially arbitration. Arbitration can be a desirable tool for the employer seeking to lower the cost of dispute resolution and deter frivolous claims. Most importantly, arbitration takes the employees' claims out of the hands of the jury and thus reduces the risk of outlandish awards, including punitive damages.

Generally, employees prefer to litigate their claims in court because it offers them a tactical advantage. Litigation increases the employer's attorneys' fees, in part because all pre-trial matters require extensive briefing as well as numerous court appearances. Not only may employees realize generous awards from sympathetic juries, but even a verdict in favor of the employer is not a victory in light of the attorneys' fees and costs spent on litigation.

Arbitration is thus more expedient in resolving employment-related disputes. There is minimal briefing required, often reducing the amount of attorneys' fees as compared to litigation. For example, pre-arbitration procedures are often handled by telephone conference. Perhaps most importantly, arbitration fees are usually based on the amount of damages claimed, are non-refundable, and must be paid in advance by the employee/claimant. This tends to moderate the amounts sought by the terminated or disgruntled employee.

Until the *Duffield* decision, employer-mandated arbitration agreements sufficed to enforce arbitration if they included a "knowing waiver"[1] that "expressly put the plaintiffs "on notice that they were bound to arbitrate Title VII claims."[2] However, the *Duffield* decision has taken this tool away from the employers, making it clear that merely reciting a waiver of Title VII statutory claims will now be insufficient.

The *Duffield* Decision

Tonyja Duffield was a securities broker who signed an agreement with the National Association of Securities Dealers requiring her to arbitrate "any dispute, claim or controversy that may arise between [her] and her firm."[3] After being terminated, she sued her former employer alleging sexual discrimination and sexual harassment under Title VII and the Fair Employment and Housing Act (FEHA).

The employer's motion to compel arbitration was granted by the US District Court.[4] In reversing the trial court, the Ninth Circuit left little to the imagination regarding its view of employer-mandated arbitration agreements:

> This case presents the issue whether employers may require as a mandatory condition of employment . . . that all employees waive their right to bring Title VII