

FILE

Harris v. CBL

Moscovitz & Perwin

One Portland Place
Centralia, Franklin 33204

MEMORANDUM

TO: Applicant
FROM: Jean Perwin
DATE: February 21, 2006
RE: *Harris v. CBL*

We have been retained by Steve Harris, a local graphic artist, for advice regarding a possible copyright infringement claim against Columbia Biotech Laboratories, Inc. (CBL). Harris created an animated cartoon character, "Blinky," for use in Internet advertisements for CBL's high-tech computer chip, the *i-Chip*. CBL and Harris later entered into a marketing services agreement whereby Harris was to lead an *i-Chip* multimedia marketing campaign using Blinky. However, CBL abruptly cancelled the agreement when it established an in-house marketing department.

CBL is paying Harris the agreed-upon compensation through the end of the agreement's term and plans to continue using Blinky in its multimedia campaign. Harris contends that he alone owns the copyright to Blinky and has not given permission to CBL to use Blinky without his involvement.

Blinky qualifies for copyright protection under 17 U.S.C. § 101 (the Copyright Act) as part of an "audiovisual work." We need to determine whether Harris or CBL owns the copyright to Blinky under the Copyright Act. Further, if Harris does own the copyright, did he give CBL permission, via an implied nonexclusive license, to use Blinky in the multimedia campaign? To help me advise Harris, please draft a memorandum for me analyzing the following:

1. Does Harris own the Blinky copyright, or does CBL own it either as a "work made for hire" or as the result of a transfer of ownership?
2. Assuming that Harris owns the copyright:
 - (a) Did Harris grant CBL permission, via an implied nonexclusive license, to use Blinky?
 - (b) Is CBL's use of Blinky in its multimedia campaign within the scope of any such implied nonexclusive license?

Do not write a separate fact section, but be sure to explain how the facts and the applicable legal authorities affect our client's interests.

Interview Notes—Steve Harris

February 17, 2006

Steve Harris, a freelance graphic artist specializing in cartoon animation, entered and won a competition to create a character to be used in animated Internet advertisements to promote CBL's new high-tech vision computer chip, the *i-Chip*. Harris worked on the character, Blinky, for at least three weeks before submitting his final animated design to CBL. (Harris states he has digital files that will establish beyond any reasonable doubt his authorship of the Blinky concept, prototype, and final artwork during the pre-submission time period.) When he submitted the computer file containing Blinky, Harris included the notation "© (2005 Steve Harris)," and registered the work with the United States Copyright Office, naming himself as "author" and "copyright claimant."

Harris then signed a separate marketing services agreement with CBL (per Ralph Cabot, CBL's Director of Marketing) to develop and produce a multimedia marketing campaign for the *i-Chip* using Blinky. The agreement was not dated and signed until early December, but its terms stated that it commenced on November 15, a few days before Harris actually delivered his digital file of Blinky to CBL on November 18, 2005. The marketing services agreement was to run for six months and could be extended by the parties. All communications with CBL (i.e., Cabot) were via e-mail, up to the day Cabot called and left a voicemail telling Harris that he had won the contest and that he (Cabot) would be sending Harris a marketing services agreement for Harris to review and sign. (Harris has provided us with copies of e-mails and related documents.) Harris and Cabot had a few telephone conversations after this agreement was signed regarding the timing of the Internet advertisements. On several occasions Cabot orally told Harris how pleased CBL was with his work and that Harris would "make a lot of money as the *i-Chip* takes over the market in vision products."

Harris explained that graphic artists enter these competitions to develop promotional materials in the hope that, if they win, they will be selected to develop and lead full marketing campaigns and will later transfer their rights to the work to the requesting company in return for royalty payments or a lump sum. Harris said it is common for the artist to be separately compensated for the marketing services and for the transfer of the copyright in the work to the company.

Here, compensation for Harris's further services in developing the multimedia marketing campaign was set at \$7,000 per month, and he was paid for one month at the time the agreement

was signed. Harris says that this rate of pay would be the appropriate market rate for the type of services that he expected to provide. The agreement between Harris and CBL has a "work made for hire" provision (§ 1.03 of agreement). However, Harris claims he was never paid to transfer the rights to Blinky to CBL, and that he reminded Cabot (in an e-mail) that such a transfer was yet to be completed. Cabot never responded to Harris's e-mail.

Last week CBL notified Harris that it was terminating their agreement as a result of CBL's decision to create an in-house marketing department for all *i-Chip* advertising as it rolls out multiple products using the new technology. CBL intends to continue using Blinky, the character Harris created, even though Harris will have no further involvement in the marketing campaign. In fact, Harris has heard from friends in the advertising industry that CBL plans to produce a plush toy version of Blinky. Harris will be paid through the remainder of the six-month agreement term and has already been paid \$28,000 to date.

Harris believes he owns the copyright to Blinky and is asking for our legal opinion regarding whether he has a viable action alleging copyright infringement against CBL.

CBL-Harris E-Mail File

From: Ralph Cabot	To: Steve Harris
Sent: 10/21/05 1:07 PM	Subject: Development of Product Character

Dear Mr. Harris:

On behalf of Columbia Biotech Laboratories, Inc., I invite you to submit a proposed animated cartoon character for use in Internet ads for an exciting new product. CBL will soon introduce to the market a computer chip (the *i-Chip*) that mimics many functions of the human eye. Indeed, a highly respected international research center has identified over one hundred applications in a dozen industries where the CBL *i-Chip* will significantly advance current technology.

To identify our new product, we are looking for a character as recognizable as "Mr. Peanut" to be used in animated Internet advertisements. CBL has invited five other graphic artists to propose an animated character that will identify our breakthrough product in a commercially appealing and exciting way. If you are interested in submitting materials that may address our needs, please let me know and I will forward you a more detailed description of the *i-Chip*. We will most likely hire the winner of the competition to perform substantial additional work, on an ongoing basis, in a multimedia marketing campaign that we plan to undertake depending on the product's success.

Sincerely,

Ralph Cabot, Director of Marketing
Columbia Biotech Laboratories,
Inc. 1001 University Drive
Plymouth, Columbia 22121
rcabot@CBL.com www.CBL.com

-----<Reply from Steve Harris>-----

From: Steve Harris	To: Ralph Cabot
Sent: 11/18/05 8:44 AM	Subject: Proposed CBL Product Character

Dear Mr. Cabot:

Thank you for your e-mail dated October 21, 2005. I am interested in participating in CBL's competition to design an animated character that will commercially identify the *i-Chip* in Internet advertisements. Please forward material that describes the product and let me know if there are any specific competition rules or conditions.

Sincerely,

Steve Harris
12 Design District Drive
Centralia, Franklin 33212
Steve@Harrisga.com www.Harrisga.com

-----<Reply from Ralph Cabot>-----

From: Ralph Cabot	To: Steve Harris
Sent: 10/24/05 9:07 AM	Subject: Development of Product Character

Dear Mr. Harris:

We're pleased you are interested in submitting a proposed character for the CBL vision chip animated Internet advertisements. As promised, I am attaching a general description of the *i-Chip* and its applications. If you have any questions, please let me know.

There are no special rules or conditions applicable to the competition. We want to give you the widest possible latitude in design and originality. The CBL leadership team will review the proposals of all six graphic artists on November 28, 2005. Therefore, we must receive your submission no later than November 21, 2005.

Sincerely,

Ralph Cabot, Director of Marketing
Columbia Biotech Laboratories, Inc.

-----<E-mail from Steve Harris>-----

From: Steve Harris	To: Ralph Cabot
Sent: 11/18/05 8:44 AM	Subject: Proposed CBL Product Character

Dear Mr. Cabot:

I am pleased to submit for your consideration the attached animated cartoon character. I believe it simply and memorably captures the remarkable capabilities of CBL's *i-Chip*. I am excited about the possibility of developing your multimedia marketing campaign. I look forward to your reactions.

Sincerely,

Steve Harris

Attachment: Blinky file

-----<E-mail from Ralph Cabot>-----

From: Ralph Cabot	To: Steve Harris
Sent: 12/01/05 9:07 AM	Subject: Development of Product Character

Dear Steve:

This is to confirm the voicemail I left you earlier today advising you that we have selected Blinky, your cartoon character, to represent the *i-Chip* and to be the central theme of our animated Internet advertisements with which you will be involved. I have sent via express mail a signed marketing services agreement with the terms described in my voicemail. Please endorse the agreement and fax it to me.

We are delighted to be working with you as we launch the *i-Chip* and usher in a new era in vision technology!

Sincerely,

Ralph

Ralph Cabot, Director of Marketing
Columbia Biotech Laboratories, Inc.

-----<E-mail from Ralph Cabot>-----

From: Ralph Cabot	To: Steve Harris
Sent: 01/11/06 10:27 AM	Subject: Development of Product Character

Dear Steve:

The CBL Leadership Team is thrilled with the material you have produced to market the *i-Chip*. The Internet pop-up advertisements are smashing. The ads have been running for just over a month and folks are already talking about that lovable little character, Blinky!

We look forward to receiving your submissions for a full-scale, multimedia coordinated national marketing campaign.

Sincerely,

Ralph

Ralph Cabot, Director of Marketing
Columbia Biotech Laboratories, Inc.

-----<Reply from Steve Harris>-----

From: Steve Harris	To: Ralph Cabot
Sent: 01/11/06 2:15 AM	Subject: Transfer of Product Character

Dear Ralph:

Glad to hear that the *i-Chip* marketing is off to a good start. I'm going forward, using Blinky to develop the complete multimedia marketing campaign under our services agreement. However, we need to talk about when I'm going to transfer my copyright to Blinky to CBL and the royalty I will receive in return for the transfer of copyright.

Sincerely,

Steve

-----<E-mail from Ralph Cabot>-----

From: Ralph Cabot	To: Steve Harris
Sent: 02/16/06 10:30 AM	Subject: CBL-Harris Contract

Dear Steve:

I'm sure you've read in the business press that CBL has recently established its own marketing department. CBL plans to launch several consumer, business, and military products featuring the *i-Chip*, making Blinky a household name. Handling our marketing in-house is the most effective way to move ahead.

Unfortunately, this decision means that CBL's relationship with you must be terminated as the new department will be taking over all *i-Chip* marketing immediately, targeting each of the many product lines in multi-faceted campaigns ranging from packaging to TV commercials.

I assure you that you will not suffer, either financially or professionally, as a result of the change in our business plan. We will pay you the full fee under the agreement even though you no longer will be involved in *i-Chip* marketing. Moreover, CBL intends to continue the *i-Chip* product branding using Blinky, thereby solidifying your reputation as a leading commercial graphic artist.

I am disappointed this means we will not be working together, at least in the near term. I look forward, however, to renewing our relationship sometime in the future. Thanks for all of your help in launching the *i-Chip*!

Sincerely,
Ralph Cabot, Director of Marketing
Columbia Biotech Laboratories, Inc.

Excerpts from Harris-CBL Marketing Services Agreement

Columbia
Biotech
Laboratories, Inc

1001 University Dr.
Plymouth, Columbia 22121
www.CBL.com

Steve Harris
12 Design District Drive
Centralia, Franklin 33212

Dear Steve:

This will serve as the Marketing Services Agreement ("Agreement") between Columbia Biotech Laboratories, Inc. ("CBL"), and you ("Harris"), by which CBL is engaging you to perform the Services defined below.

1.01 Term of Agreement. This Agreement is effective as of November 15, 2005, and shall continue in effect up to and including May 15, 2006 (the "Term"), a period of six months, but shall not extend beyond the latter date except by a subsequent written agreement signed by Harris and CBL.

1.02 Scope of Services. Subject to the terms and conditions provided in this Agreement, CBL agrees to retain Harris during the Term to perform the following marketing Services: Harris will create a multimedia marketing campaign using Blinky, including creating all audiovisual works, and will supervise creation of all broadcast and other marketing materials for CBL's i-Chip products.

1.03 Work Made for Hire. All work performed by Harris in connection with the performance of the Services as defined in § 1.02 shall be considered work made for hire under copyright law. All designs, original compositions, radio, television, and Internet advertisements, and all other work and materials prepared by Harris for CBL shall be considered CBL's property.

* * * *

2.01 Compensation. As consideration for Harris's performance of the Services, CBL shall pay to Harris compensation in the aggregate amount of \$42,000.00 (\$7,000.00 per month for 6 months). By signing below, Harris hereby acknowledges receipt of the sum of \$7,000.00, representing the first installment of the Services fee, with the balance to be paid in monthly installments beginning on December 15, 2005.

* * * *

Please confirm that the foregoing is in accordance with your understanding and indicate your approval of this letter agreement by signing below and returning a copy to me.

Sincerely,
Ralph Cabot, Director of Marketing
Columbia Biotech Laboratories, Inc

CBL: Ralph Cabot
Date: December 1, 2005

Steve Harris: Steve Harris
Date: December 2, 2005

