IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

RICHARD K. BIEG, Sr., A.I.A,	:	**CIVIL ACTION**
	:	
	:	
v.	:	
	:	
HOVNANIAN ENTERPRISES, INC.	:	**NO. 98-5528**

M E M O R A N D U M

WALDMAN, J. **November 9, 1999**

I. Introduction

Plaintiff has asserted claims against defendant for copyright infringement and trade secret misappropriation. Presently before the court is defendant's motion to dismiss pursuant to Fed. R. Civ. P. 12 (b)(6). Defendant asserts that plaintiff's claims are barred by res judicata, by a license granted to defendant by plaintiff to use the documents that form the basis of the claims and by the doctrine of election of remedies. Defendant also contends that the trade secret misappropriation claim is preempted by federal copyright law.

II. Legal Standard

The purpose of a Rule 12(b)(6) motion is to test the legal sufficiency of a complaint. See Sturm v. Clark, 835 F.2d 1009, 1011 (3d Cir. 1987). In deciding such a motion, the court accepts as true the factual allegations in the complaint and reasonable inferences therefrom, and views them in a light most favorable to the nonmovant. See Rocks v. Philadelphia, 868 F.2d 644, 645 (3d Cir. 1989). Dismissal of a claim is appropriate

only when it clearly appears that the plaintiff can prove no set of facts which would entitle him to relief. See Hishon v. King & Spaulding, 467 U.S. 69, 73 (1984); Robb v. Philadelphia, 733 F.2d 286, 290 (3d Cir. 1984).

In considering a motion to dismiss, the court may also consider exhibits appended to the complaint and matters of public record. See Oshiver v. Levin, Fishbein, Sedran & Berman, 38 F.3d 1380, 1384 n.2 (3d Cir. 1994); Pension Benefit Guaranty Corp. v. White Consolidated Industries, Inc., 998 F.2d 1192, 1196 (3d Cir. 1993).

III. Facts

As pled or discernible from matters of public record, the pertinent facts are as follow.

Defendant Hovnanian Enterprises, Inc. ("Hovnanian") is a Delaware corporation with its principal place of business in Red Bank, NJ. It constructs and markets houses, townhouses and condominiums in several states including New Jersey and Pennsylvania. Plaintiff is an architect licensed in New Jersey and Pennsylvania. He maintains a principal place of business in West Chester, PA.

In the course of performing architectural services for Hovnanian, Mr. Bieg created copyrightable documents including technical drawings, plans and specifications for residential construction. On June 11, 1998, plaintiff reviewed Hovnanian's

archives and learned that it had copied, distributed and possibly displayed plaintiff's documents and derivative works in violation of his proprietary rights. On July 23, 1998, plaintiff began the process of registering these works for copyrights.[1]

On March 24, 1997, plaintiff filed a complaint in this court against Hovnanian predicated on diversity jurisdiction. In that three count complaint plaintiff asserted breach of contract claims, alleging that Hovnanian "used plaintiff's plans, drawings and specifications for numerous projects without compensation to plaintiff" in violation of an agreement "to compensate plaintiff

---

[1]Exhibit "A" of the Complaint contains the registration application forms for the following works which plaintiff sent to the Register of Copyrights on July 28, 1999: Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 3240); Originals (project #1427-92-HO and #1398-92-HO); Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 3200); Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 3100 (also referred to as 3050)); Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 2700); Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 2475); Jade Mountain at Montville, NJ (project # 1392-91-HO); Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 2685); Lake Shore Estates at Wall Township, N.J. (project #1414-92-HO). Additionally, on September 25, 1998 plaintiff sent registrations forms for the following architectural drawings: Studdiford Farms, Bridgewater Township, NJ (project # 1422-92-HO, unit 2350); Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 2350); Studdiford Farms, Bridgewater Township, NJ (project # 1422-92-HO, unit 3200). He also alleges that he registered two additional projects, Brooks Crossing at Brandon Farms, Hopewell, NJ (project #1398-92-HO, unit 2400) and Studdiford Farms, Bridgewater Township, NJ (project # 1422-92-HO, unit 3200), however, no registration forms for these projects were attached.

with a re-use fee for each unit type."[2]

On August 31, 1998, after the parties advised the court of an agreement to settle the 1997 suit, an order was entered dismissing that case with prejudice. On October 19, 1998, apparently following a dispute regarding terms of the settlement agreement, plaintiff filed a motion to amend the complaint in the dismissed 1997 suit to add copyright and trade secret misappropriation claims. On the same date, plaintiff filed a second lawsuit in this court against Hovnanian based on federal question jurisdiction. In two counts, plaintiff asserts claims for copyright infringement and in a third count, a claim for trade secret misappropriation. The second complaint is virtually word for word the same as the proposed amendment to the complaint in the 1997 suit.

On December 30, 1998, plaintiff filed a "motion to enforce settlement" in the 1997 case. The relief actually sought in that motion was an order vacating the dismissal of August 31, 1998 and the reentry of an order of dismissal expressly limited to the contract claims asserted in the 1997 complaint. On January 21, 1999, plaintiff withdrew his motion to amend the dismissed 1997 complaint and his motion to enforce settlement.

---

[2]The projects specifically mentioned in Counts I and II in the 1997 suit include: Brooks Crossing & Brandon Farms (1398-91-HO); Elizabeth Hills (1427-92-HO); Parkside Estates (81422-92-HO); Lakeshore Estates. Additional projects were referenced in Appendixes A and B of the complaint including Brooks Crossing (units 2400, 2475, 3100 (3050), 3200). Count III refers to "numerous projects" which are not further identified.

IV. Discussion

A. Res Judicata

The doctrine of res judicata or claim preclusion essentially bars relitigation of causes of action which were or could have been raised and decided in a prior suit. See Harborside Refrigerated Servs., Inc. v. Vogel, 959 F.2d 368, 372 (2d Cir. 1992). The purpose is to prevent piecemeal litigation of claims arising from the same events. See Churchill v. Star Enters., 183 F.3d 184, 194 (3d Cir. 1999).

The defense of claim preclusion may be raised and adjudicated on a motion to dismiss where the court can take notice of all facts necessary for the decision. See Day v. Moscow, 955 F.2d 807, 811 (2d Cir. 1992) ("[w]hen all relevant facts are shown by the court's own records, of which the court takes notice, the defense [of res judicata] may be upheld on a Rule 12(b)(6) motion"), cert. denied, 506 U.S. 821 (1992); Connelly Found. v. School Dist. of Haverford Township, 461 F.2d 495, 496 (3d Cir. 1972) (res judicata may be raised in motion to dismiss prior to answer); County of Lancaster v. Philadelphia Elec. Co., 386 F. Supp. 934, 937 (E.D. Pa. 1975) (res judicata "may be raised and disposed of on a motion to dismiss"). A court may take judicial notice of the record from a previous court proceeding between the parties. See Oneida Motor Freight, Inc. v. United Jersey Bank, 848 F.2d 414, 416 n.3 (3d Cir.), cert. denied, 488 U.S. 967 (1988).

Federal law governs the preclusive effect of a prior diversity judgment in a subsequent federal question case. See

Paramount Aviation Corp. v. Agusta, 178 F.3d 132, 139 (3d Cir. 1999); In re Kaplan, 143 F.3d 807, 814-15 (3d Cir. 1998). To demonstrate claim preclusion under federal law, a defendant must show there has been a final judgment on the merits in a prior suit involving the same parties or their privies and a subsequent suit based on the same causes of action. Lubrizol Corp. v. Exxon Corp., 929 F.2d 960, 963 (3d Cir. 1991); United States v. Athlone Indus., Inc., 746 F.2d 977, 983 (3d Cir. 1984).

The parties to the present action clearly were also parties to the 1997 suit. The order dismissing with prejudice the 1997 suit pursuant to a settlement was a final judgment on the merits for purposes of res judicata. See Langton v. Hogan, 71 F.3d 930, 935 (1st Cir. 1995); International Union v. Karr, 994 F.2d 1426, 1429 (9th cir. 1993); Clark v. Haas Group, Inc., 953 F.2d 1235, 1238 (10th Cir.), cert. denied, 506 U.S. 832 (1992); Pelletier v. Zweifel, 921 F.2d 1465, 1501 (11th Cir. 1991); Gleason v. McBride, 869 F.2d 688, 695 (2d Cir. 1989); Harnett v. Billman, 800 F.2d 1308, 1312 (4th Cir. 1986), cert. denied, 480 U.S. 932 (1987); Interdigital Tech. Corp. v. OKI America, Inc., 866 F. Supp. 212, 213-14 (E.D. Pa. 1994).[3]

The requirement of an identity of causes of action

[3]Plaintiff does not dispute that the contract claims were settled and appropriately dismissed. Indeed, in one of his withdrawn motions plaintiff sought entry of a new order of dismissal expressly limited to the contract claims. These, of course, were the only claims which could have been dismissed as they were the only ones pending. For purposes of res judicata, however, the question is not simply what claims have been dismissed but also what claims could have been asserted in a prior case which has been dismissed.

refers not only to claims actually litigated, but includes all claims arising out of the same underlying transaction or events which could have been litigated in the earlier proceeding. Lubrizol Corp., 929 F.2d at 964; Athlone Indus., 746 F.2d at 984. Thus, res judicata bars any such claims that a litigant could have asserted in a prior action including by way of an amended complaint. See Allen v. McCurry, 449 U.S. 90, 94 (1980); Churchill, 183 F.3d at 195; Woods v. Dunlop Tire Corp., 972 F.2d 36, 41 (2d Cir. 1992); Langston v. Insurance Co. of North America, 827 F.2d 1044, 1048 (5th Cir. 1987).

There is no precise definition of "cause of action" for claim preclusion purposes. Courts take a broad view of cause of action and focus on the underlying events. Churchill, 183 F.3d at 194. Two actions are generally deemed the same where there is an "essential similarity of the underlying events giving rise to the various legal claims." Lubrizol Corp., 929 F.2d at 964; Athlone Indus., 746 F.2d at 984. See also In Re Air Crash at Dallas/Ft. Worth Airport, 861 F.2d 814, 816 (5th Cir. 1988) (prior and subsequent claims are part of same "cause of action" if they arise from same nucleus of operative facts).

In assessing whether two claims constitute the same cause of action for res judicata purposes, courts consider the similarity of the acts complained and the material factual allegations in each suit and of the witnesses and documentation

required to prove each claim. See Lubrizol at 963. Contrary to plaintiff's assumption, the assertion of different legal theories of recovery does not defeat the application of res judicata. See Clark, 953 F.2d at 1238-39.

In the 1997 suit, plaintiff complained that Hovnanian used plaintiff's plans, drawings and specifications without tendering the compensation on which the permission to use was conditioned. In the present suit, plaintiff complains that defendant copied, distributed and possibly displayed plaintiff's drawings without his permission. Both actions are predicated on plaintiff's proprietary rights in his works and his right to control or condition the use by others of those works. In the pleadings in both cases, plaintiff specifically references many of the same projects. At least as to the documents for those projects, the underlying acts, material factual allegations and evidence required to prove the claims would appear to be essentially the same.

Plaintiff argues that he could not have asserted his copyright claims in the first action because he had not secured copyright registration for the documents at the time. The question, however, is not when plaintiff pursued a right but when the right arose. See Harnett, 800 F.2d at 1313 (question for res judicata purposes is whether subsequent claim arising from same series of transactions existed at time of prior litigation). It

appears that defendant was allegedly copying and distributing plaintiff's works for some period before the prior action was litigated and that he had actual knowledge of this almost three months before the dismissal of that action.

It is true that to assert a claim for infringement, the owner of the works in question must present to the Copyright Office an application for copyright registration with the requisite copies of his works and a filing fee. See 17 U.S.C. § 411(a); Tang v. Hwang, 799 F. Supp. 499, 502-03 & n.9 (E.D. Pa. 1992). It appears that plaintiff did so before agreeing to settle the prior action.

In any event, a plaintiff cannot sit on his rights. Like an EEOC right to sue letter, registration is a prerequisite to filing suit. It is not, however, a condition of the right to copyright protection which arises at the time of the creation of copyrightable works. See Arthur Rutenberg Homes, Inc. v. Drew Homes, Inc., 29 F.3d 1529, 1531 (11th Cir. 1994) (author of architectural drawings has copyright protection from time of creation); Olan Mills, Inc. v. Linn Photo co., 23 F.3d 1345, 1349 (8th Cir. 1994); S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1085 (9th Cir. 1989). Plaintiff waited for at least four years after creating his works before making any attempt to register them. See, e.g., Churchill, 183 F.3d at 191 (plaintiff's ADA claim barred by res judicata where she "sat on her rights" by

failing to request EEOC right to sue letter before termination of prior related discrimination case); Langston, 827 F.2d at 1048 (res judicata bars ADEA claim which could have been asserted upon receipt of right to sue letter three months prior to dismissal of first action).[4]

It is not altogether clear, however, that all of the projects overlap or that all of the alleged copyright violations occurred before the settlement of the 1997 suit. There also appears to be a factual dispute about whether the parties agreed in connection with their settlement to the preservation of any copyright claims.[5]

The court thus cannot conclude beyond doubt at this juncture that plaintiff can prove no set of facts in support of his copyright claims which could entitle him to relief.

B. Preemption

Defendant contends, and plaintiff concedes, that the trade secret misappropriation claim should be dismissed because it is preempted by federal copyright law.

Federal copyright law preempts state law when the

---

[4]This also is not a case where a plaintiff was prevented by fortuitous circumstances from adding a recently discovered claim. Plaintiff agreed to the settlement and dismissal of the prior action with actual knowledge that defendant had been infringing his rights.

[5]Res judicata is an affirmative defense which may be waived and thus presumably bargained away. See Fed. R. Civ. P. 8(c); Sanchez v. City of Santa Ana, 915 F.2d 424, 431 (9th Cir. 1990), cert. denied, 502 U.S. 815, (1991); Nevels v. Hanlon, 656 F.2d 372, 376 (8th Cir. 1981).

nature of the work of authorship in which rights are claimed comes within the "subject matter of copyright" as defined in §§102 and 103 of the Act; and, the rights granted under state law are equivalent to any of the exclusive rights within the general scope of copyright as specified by §106 of the Act. See 17 U.S.C. § 301(a).

It is clear that plaintiff's works come within the protection of §102(a)(8) which extends protection to architectural works. Federal law provides a copyright holder with exclusive rights which include reproducing, distributing and preparing derivative works. See 17 U.S.C. §106.

A state cause of action which requires proof of an extra element beyond mere copying, distributing or preparing derivative works would be qualitatively different from a copyright infringement claim. See Data General Corp., et al, 36 F.3d 1147, 1164 (1st Cir. 1994); Gemel Precision Tool, Co., Inc. v. Pharma Tool Corp., 1995 WL 71243, *5 (E.D. Pa. Feb. 13, 1995). Both Pennsylvania and New Jersey follow the Restatement of Torts § 757. See DenTal-Ez. Inc. v. Siemens Capital Corp., 566 A.2d 1214, 1228 (Pa. Super. 1989)(applying § 757); Sun Dial Corp. v. Rideout, 108 A.2d 442, 445 (N.J. 1964)(applying §757).[6] Under the law of either state, trade secret misappropriation occurs

[6]Based on the underlying contacts, it appears clear that the law of Pennsylvania or New Jersey would govern resolution of this claim. As the pertinent law of each state is the same, it follows that application of the law of either state would undermine the interests of neither and that there is no conflict to resolve.

when one uses or discloses another's trade secret without privilege if he acquired the secret by improper means or his disclosure or use constitutes a breach of confidence or trust. See Rohm and Haas Co. v. ADCO Chem. Co., 689 F.2d 424, 429-31 (3d Cir. 1982). Only claims predicated on the violation of a distinct duty of trust or confidentiality may avoid preemption. See Computer Assocs. Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 717 (2d Cir. 1992); Long v. Quality Computers and Applications, 860 F. Supp. 191, 197 (M.D. Pa. 1994); Gemel Precision Tool, 1995 WL 71243 at *7.

Plaintiff's trade secret misappropriation claim is predicated on defendant's alleged unauthorized copying, distributing and possible displaying of plaintiff's copyrighted works. His copyright and trade secret misappropriation claims are functionally equivalent and the state law claim is preempted. See Long, 860 F. Supp. at 197 (claim of trade secret misappropriation under use theory is preempted as reproducing protected works is encompassed in copyright infringement claim).

C. License and Doctrine of Election of Remedies

Hovnanian also contends this case should be dismissed because its use of the documents was licensed and plaintiff elected earlier to seek damages for non-payment under the license agreement. Neither party submitted a copy of the license. The document to which they both refer, however, appears to be one of

record in the 1997 suit.[7] It is unclear from this document, however, which projects are covered by the agreement.[8] It is possible that some of the copyrighted works are not subject to the license agreement.

The doctrine of election of remedies essentially estops a party from enforcing multiple remedies which are predicated on irreconcilably inconsistent factual or legal claims. See Abdallah v. Abdallah, 359 F.2d 170, 174-75 (3d Cir. 1966); Children's Village v. Secretary of Public Welfare, 1992 WL 99587, *5 (E.D. Pa. Apr. 30, 1992); Com. of Pennsylvania v. Cianfrani, 600 F. Supp. 1364, 1367 (E.D. Pa. 1985). A claim based on the recognition of a license to use protected works would appear to be inconsistent with a claim of infringement. See Graham v. James, 144 F.3d 229, 235 (2d Cir. 1998); Paramount Pictures Corp. v. Metro Program Network, Inc., 962 F.2d 775, 779 & n.10 (8th Cir. 1992).

A plaintiff, however, may consistently recover damages for breach of a licensing agreement to pay for each use of a protected work and for copyright infringement based on any use which exceeds the scope of the license. Id. at 779-80. See also MacLean Assocs., Inc. v. Wm. M. Mercer-Meidinger-Hanson, Inc.,

---

[7]The document is a letter dated September 28, 1992, written by Mr. Bieg to Mr. McCarron of K. Hovnanian Companies, Inc., which appears to record a previous oral agreement to pay Mr. Bieg a re-use fee of $500 for each unit type.

[8]The letter refers to "all projects," but there is no indication as to which specific projects were then contemplated and thus in fact within the scope of the license agreement.

952 F.2d 769, 779 (3d Cir. 1991)(licensor can sue for copyright infringement for use exceeding scope of non-exclusive license); S.O.S., 886 F.2d at 1087 (licensee infringes copyright if his use exceeds scope of license); Costello Publishing Co. v. Rotelle, 670 F.2d 1035, 1045 (D.C. Cir. 1981); Joseph J. Legat Architects, P.C. v. United States Development Corp., 625 F. Supp. 293, 296-97 & n.3 (N.D. Ill. 1985) (party may recover in contract for non-payment under licensing agreement and under Copyright Act for infringement for use by licensee exceeding his contractual rights).

It is not absolutely clear at this juncture that plaintiff can prove no set of facts which could entitle him to recover additional damages for copyright infringement beyond those for breach of the payment obligation in the license agreement.[9]

V. Conclusion

The court cannot definitively conclude on the record at this juncture that copyright claims were not preserved by the settlement terms in the prior action or that there has been no infringing conduct subsequent to the settlement. It also appears possible that plaintiff can prove the infringement of rights in works not covered by the license or use of works by defendant in

[9]Recovery of such damages for incidents of infringement which could have been asserted in the prior action, of course, may nevertheless be barred by the doctrine of claim preclusion.

ways which exceed the scope of the license. Plaintiff's state law misappropriation claim is admittedly preempted.

Accordingly, defendant's motion will be granted in part and denied in part. An appropriate order will be entered.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

RICHARD K. BIEG, Sr., A.I.A,	:	**CIVIL ACTION**
	:	
	:	
v.	:	
	:	
HOVNANIAN ENTERPRISES, INC.	:	**NO. 98-5528**

O R D E R

AND NOW, this day of November, 1999, upon consideration of defendant's Motion to Dismiss (Doc. #4) and plaintiff's response thereto, consistent with the accompanying memorandum, **IT IS HEREBY ORDERED** that said Motion is **GRANTED** as to plaintiff's trade secret misappropriation claim as pled in Count III and is otherwise **DENIED**.

BY THE COURT:

_____
JAY C. WALDMAN, J.