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Former Distributor Piracy: What to Do Until the Lawyer Comes

BY MITCHELL ZIMMERMAN

You wrote it. They sold it. By their lights, you and your software would have been nothing without them. By your lights, they made a bundle of money, all based on your creative efforts. Be that as it may, now you've ended the distribution relationship with them. Maybe you terminated the license agreement because they kept presenting your work as theirs. Or maybe it was just because they stopped paying royalties. One way or another, you told them it was all over, and you thought they were history.

Now you discover they're still out there, duping your disks, reprinting your documentation (from the masters they never returned), and selling thousands of copies of your software without paying a nickel in royalties.

Usually, there's nothing complicated about what such former distributors are doing. There won't be any "interesting" copyright issues about how their program is nearly the same as yours, because they won't bother to disguise the product. After all, it is precisely the good name and commercial appeal of pcCashCow 3.0 that they want to go on milking.

Your former distributors or OEM have transformed themselves into software pirates and counterfeiters. Fortunately, federal law offers powerful and often prompt assistance against counterfeiting in a civil action for copyright and trademark infringement. A federal judge can:

- Order the U. S. Marshall or a County Sheriff to seize the counterfeiter's entire stock of infringing software;
- Direct that the impoundment take place without any advance warning to the former distributor-pirate; and
- Immediately bar the former distributor (and those acting in cahoots with them) from copying or selling your product or using your trademarks.

What this means to your former friends at Rip-Off Bargain Software Distributors, Inc. is that eight or ten sheriffs, movers, lawyers and observers will arrive unannounced,

one day, to serve the judge's order, search the premises top to bottom (including hard disks), and strip the place of unlawful software - immediately putting them out of the piracy business.

Document the Termination

The problems that culminate in termination of a distributor or OEM rarely happen all at once. Usually, there are three phases, and each must be documented with an appropriate paper (or nowadays, magnetic) trail.

First, document the "growing problem" phase Royalty payments are late or the distributor or OEM is below quota. Your initial inclination is to work with them, and most of your dealings in this phase will be oral discussions. You don't need to get terribly formal to document these discussions:

- Send a letter or e-mail, noting or confirming the discussion in which you let them know you were concerned about the late payments. ("Yesterday we talked about the fact that, for the second month in a row, your royalty payment was late. Although we want to work with you to solve these problems, I do want to make it clear that we consider timely payments to be a serious obligation under our agreement.")
- Scrupulously save anything the distributor puts in writing in which they admit breaking any of their promises.
- Mention in your letters (casually if possible) any of their oral statements acknowledging the problem.
- Re-read the written contract and make sure you understand exactly what the agreement requires that they have failed to do. Make sure you understand the notice procedures and how long they have to cure a breach.
- Use the phrase "Notice of Breach of Contract" in the heading of your terse letter, and warn your distributor or OEM in so many words that if they do not cure their breach by taking a specified action by a specified deadline, your agreement is terminated. Don't be so

polite that you are equivocal. Don't say you "may" terminate or you "will have to consider" terminating. Let them know: cure or it's all over.

- Generate communications within your own organization (for example, a report on a conversation or a request that someone investigate the distributor's bad conduct) which confirm that there really was a problem.
- If you ordinarily use e-mail, go on doing so, but make sure you store the messages and start printing out hard copies of all of your exchanges.

The point is to be able to show that you have not seized on one isolated slip in order to strip the distributor of its rights. Rather, you long-sufferingly endured breach after breach until they piled on the last straw.

Second, document the "OK, buddy, here's your deadline" phase

It is absolutely critical that the "last straw" be the subject of a written notice of termination, and that it be done right. You must set a clear, unambiguous deadline for solving the problem and, if the distributor is unable or unwilling to cure, to make an unmistakable record of their failure.

Document the Terminated Distributor's Acquiescence in the Termination

In cases where there is no bona fide dispute about whether the distributor has been terminated, the most persuasive point for a judge will be the fact that, until hauled into court, the defendant never disputed that their rights were terminated. How can you prove that? The facts and circumstances will differ in each case, but the kind of evidence you want to be able to present includes such items as: (1) they stopped paying royalties; (2) they never wrote any letters responding to your complaints or notice of termination; (3) you discussed what to do about their remaining (and not-to-be-sold-by-them) stock and they did not mention anything about continuing rights; and (4) they acknowledged to third parties or to you in the presence of neutral witnesses that their rights to copy and deal in your software were over. Payment of royalties is so fundamental to an ongoing distribution relationship that the failure to tender royalties (or to explain the omission) can by itself constitute decisive evidence in favor of immediate relief. Nonpayment is, moreover, seldom the subject of a serious debate.

- Don't throw in the kitchen sink. You may want to make passing mention of the fact that this is only the last straw, but make clear that the breach you are complaining about

is a specific and easily proven failing. Don't confuse your own case by saying that you are also terminating them for fuzziest breaches and more controversial failings.

- Have your lawyer review the letter before it goes out. (From this point forward, consulting with your attorney is prudent.)
- Send the Notice of Breach by certified mail, return receipt requested. Even if you decide to personally hand the letter to the president of your distributor, be sure to also send it by mail - and save the return receipt.

Finally, document the Notice of Termination phase Even if termination is automatic if they fail to cure, send a Notice of Termination anyway, also by certified mail, return receipt requested. Head the letter "Notice of Termination, and state that the agreement is ended.

- Note (if it is true) that they have not disputed that they were in breach of the agreement, and that they took no steps to cure the breach.
- Demand in writing that they return the original software and everything else that belongs to you (including masters of the documentation), and demand that they confirm in writing they no longer have anything they're not entitled to.
- Specifically warn your now-former distributor or OEM that any further copying or distribution of your software and any unauthorized use of your trademarks and trade name would be unlawful.

If you negotiate with them about amounts still due, make it absolutely clear in writing that you are negotiating over reinstating the relationship with them.

Final Thoughts

Former distributor piracy is likely to grow more common as hard times push distributors to the wall. Companies terminated for failing to pay royalties are vulnerable to persuading themselves that it's all so unfair that they are entitled to steal other people's software. H. L. Mencken defined conscience as "the inner voice that warns us somebody may be looking." Insofar as you have made a clear and consistent record of your side of the dispute, your former distributors will be aware that someone - a federal judge - may soon be looking at them. That foreknowledge might help keep them honest.

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The key to obtaining such effective judicial help is to present clear and simple proof, first, that your license agreement was properly terminated for breach, and, second, that there is no real dispute about it. If the case looks like a good-faith dispute over a contract, the judge will be loathe to take an action that will put the defendants out of business.

To convince a federal judge to grant immediate relief - particularly if you want him or her to order a seizure without giving the other side a chance to tell (or make up) their side of the story - you have to persuade the judge that there is no other side to the story.

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