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*Edited by Gregory J. Battersby
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The Transactional In-House Lawyer's Guide to Copyright Infringement Litigation

Kristin L. Holland

Kristin L. Holland is a partner in the Litigation and Dispute Resolution group at Katten Muchin Rosenman LLP, in Los Angeles, CA. Katten is a full-service law firm with one of the nation's premier, full-service entertainment and media practices, providing comprehensive domestic and international representation in the entertainment industry.

While the largest media companies have entire legal departments devoted to defending litigation, smaller companies may have only one in-house counsel, usually someone more familiar with business transactions than defending claims. If you are that transactional lawyer, now faced with a summons and complaint, this list of action items will help you manage the company's initial response to an infringement claim. Based on our years of working with large and small media companies in these situations, we have developed a checklist of actions to consider taking when your company is sued for copyright infringement:

- Notify senior management of the claim, as appropriate, and determine the company's preferred response to **press inquiries**. We usually advise clients not to comment on pending litigation.
- Immediately determine whether your company is indemnified, has insurance that may cover the claim or is a "named additional insured" on the insurance policy of another company (such as the production company). If the company even arguably has insurance coverage, it should tender the claim by sending the insurer or broker a copy of the summons and complaint (check the policy for the proper person and place to provide notice). If you have already reported the claim to the insurer because of a prior demand letter, immediately contact the assigned insurance adjuster and inform him or her that a complaint has been filed, without further comment on the case. Even if you are not sure if the claim is covered, it is a recommended practice to notify all insurance carriers of the lawsuit and seek

coverage. If coverage is denied, the company will have preserved its rights and can decide at a later time whether to engage outside counsel to evaluate the denial of coverage and whether to pursue relief. *If your company creates content of any kind, it is critical to have intellectual property insurance coverage (commonly referred to as "errors and omissions," or "E&O" coverage), which insures companies against claims of infringement arising from the company's creation, distribution and advertising of such content.*

- Determine whether **service of the complaint** has been completed and retain all documents served by or received from the plaintiff. Consider whether to voluntarily accept or waive service in exchange for an extended period of time to respond to the complaint. Calendar the response deadline.
- **Call your outside counsel**, if you have one, or seek recommendations for outside counsel with experience defending against copyright infringement claims and work with your insurer to make sure your counsel is approved. Even if the company (meaning you) intends to handle the case internally, it is a good idea to work with outside litigation counsel from the beginning of the process. Sometimes the claim arrives as a demand letter with a deadline to respond. Other times, a complaint is filed and you may find out about it either because the complaint is served on the company or because the company's outside counsel or another firm wishing to represent the company notifies you of the filing of the complaint. Counsel can inform you of any deadlines that may be running. *You can still draft a response to the demand letter without incurring legal fees from outside counsel, but they will be ready to go if you cannot reach a quick resolution.* You can also get counsel started on budgets or alternative fee arrangements so that when you do need to engage them, you have an idea of the projected costs.
- **Identify the key individuals** at your company with knowledge of the allegations in the complaint. This list typically should include individuals who had contact with the plaintiff and/or access to the supposedly infringed material and those who were

involved in the development and creation of the allegedly infringing work.

- Prepare a **litigation hold notice** and send it to those key individuals and other employees as appropriate (anyone who *may* have potentially relevant records), instructing them not to delete any information related to the allegations in the complaint, directing all inquiries regarding the case to a point person at the company and directing employees not to discuss the lawsuit with anyone other than counsel. You also should tell your IT department to preserve data, suspend deletion and overwriting, and ask for assistance in collecting data for the case. The notice should be written for nonlawyers and should describe with specificity and in layman's terms what categories of documents and evidence you think are potentially relevant to the claims at issue.
- **Interview key individuals** related to the claims at issue, either on your own or with outside counsel. If the key individuals have left the company, get their last known contact information from Human Resources and find out if they left on good terms or not, which will determine whether you will be able to interview them or may need to depose them.
- Work with your outside counsel to **evaluate a response to the complaint**, including issues regarding jurisdiction, venue, proper parties, indemnity claims and demands, joinder of other indispensable parties, counterclaims, timeliness, and the merits of a Rule 12 motion. If the plaintiff has alleged state law claims, consider whether any other early motions might be appropriate, such as an anti-SLAPP (strategic lawsuit against public participation) motion, which would test the legal merits of the case at the pleading stage and could result in early dismissal.
- **Order from the US Copyright Office a copy of the original records related to the plaintiff's work.** These records are necessary in order to evaluate whether the work was properly and validly registered for copyright protection and, if so, the facts of the copyright. See *Obtaining Access to and Copies of Copyright Office Records and Deposits*, <http://www.copyright.gov/circslcirc06.pdf>. This file can take several weeks to obtain and often has very useful information. Sometimes the registered work is different from the one alleged in the complaint and the company can move to dismiss or use this information to support certain defenses.
- **Compare the allegedly infringed work to the allegedly infringing work** and note both their arguable similarities and differences. We often engage experts to assist with this analysis at later stages in the case, but a number of courts have held that experts are not needed because lay persons can view the works

and make a comparison without specific expertise. A thorough comparison early in the case can impact settlement. It can be time-consuming, but it often goes to the heart of the plaintiff's claim.

- **Evaluate the defense of fair use** if the allegedly infringing work involves *de minimis* use, criticism, comment, parody, news reporting, teaching, scholarship, or research. The distinction between what is fair use and what is infringement will not be always clear or easily defined and this is an area that lends itself to working with your outside lawyers. There is no specific number of permitted words, lines, or notes that can be safely taken without permission. Acknowledging the source of the copyrighted material does not substitute for getting permission to use it.

The four factors to consider in determining whether or not a use is fair are:

1. The purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes;
 2. The nature of the copyrighted work;
 3. The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
 4. The effect of the use on the potential market for, or value of, the copyrighted work. (17 U.S.C. § 107.)
- **Evaluate the defense of independent creation.** Conduct internal research to determine if the allegedly infringing work was created independently, and if so, by whom and when. Identify and save any creative notes, files, or other materials that establish that the work was created without reference to or copying from the plaintiff's work or, even better, was created *before* the plaintiff created his or her work or claims to have shown it to someone at the company. Review prior submissions to the company to see if others have pitched similar works and whether those works were optioned or acquired.
 - **Collect sales and revenue information for the work at issue.** Consider cessation of sales or distribution and/or pulling the product from stores if the claims look strong; review advertising of the product and consider taking it down pending the outcome of the case.
 - **Evaluate settlement options** using the defenses you have investigated and based on sales information. If you have strong defenses and minimal sales, consider an early disclosure of that information and demand a dismissal in exchange for each side bearing its own costs and fees. If that is refused, proceed with motions to dismiss or other appropriate responsive pleadings. If the case appears to have merit, work

with your insurer to set up an early mediation to resolve the dispute before legal expenses escalate. The prevailing party in a copyright infringement case can be awarded its attorney fees in the court's discretion and a finding of willfulness may impact direct indemnity rights or insurance coverage. Settlement avoids both possible complications if liability appears likely.

Managing a copyright infringement claim does not have to be overwhelming. These steps will put your case on firm footing and assist you in making risk assessments and settlement recommendations to management. Early factual investigation and your efforts to obtain insurance coverage go a long way in mitigating loss and, most importantly, show that you have provided good counsel and added value to your company.