IP/ENTERTAINMENT LAW WEEKLY CASE UPDATE FOR MOTION PICTURE STUDIOS AND TELEVISION NETWORKS

May 25, 2011

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Keeling v. New Rock Theater Productions, LLC, USDC S.D. New York, May 17, 2011

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- Court denies defendants' motion to dismiss plaintiff's claim for copyright infringement, holding that plaintiff may obtain a copyright in her work, a parody, without permission of the copyright holders of the original work.

Plaintiff Jaime Keeling is the author and owner of registered copyrights in the script for "Point Break LIVE!", a stage play that is a parody of "Point Break," a popular motion picture released in 1991. Plaintiff's copyrights are for additions and modifications she made to "Point Break" for the purposes of parodying it in her script. Plaintiff does not have a copyright or license with regard to the original motion picture, nor did she obtain permission from the copyright holder of "Point Break" before registering her own copyrights in her parody.

Plaintiff negotiated a production agreement with defendant Eve Hars, the owner of defendant New Rock Theatre Productions, to stage a two-month run of performances of "Point Break LIVE!" at the theatre. Although the run was successful, defendants chose not to renew the agreement. Instead, allegedly at the instigation of defendant Ethan Garber, an investor in New Rock, defendants repudiated the agreement, claiming that plaintiff had no rights to her script. Defendants continued to stage the play in Los Angeles and elsewhere without plaintiff's permission and without compensating her for the use of her script.

Defendant moved to dismiss plaintiff's complaint for copyright infringement, arguing that Keeling's parody, as a derivative work, cannot be protected by copyright without the permission of the original copyright owner. The court denied the motion, finding that defendants' argument had "no basis in law."

According to the court, a parody of an original work falls within the fair use doctrine and, so long as the creator of the derivative work stays within the bounds of fair use and adds sufficient originality, she may also obtain a copyright. The copyright for a derivative work is more limited than that for an original work, however, extending only to the material contributed by the author of the derivative work, as distinguished from the original material used in the work. Although an original creator may create a derivative of her own original work, "nowhere is it stated that the creator of a derivative work cannot copyright the new portions of that derivative work without permission from the creator of the original work."

Citing a short list of cases, the court noted that creators of derivative works often register their own copyrights – without permission from the holder of the original copyright – and then sue those who create later derivative works from the same original but whose later derivative works are alleged to infringe on the earlier derivative work because they are too similar. "Nowhere in these cases it is ever questioned whether the plaintiff--creator of the earlier derivative work--had obtained permission from the original copyright holder before registering her own copyright in the derivative work."

The court found the cases defendants cited in support of their argument that derivative works cannot receive copyright protection without permission of the original work's copyright holder "uniformly unhelpful to the question at hand." Not only did none of the cited cases so hold, but "none . . . even involves the issue of the creator of a derivative work attempting to enforce her copyright. Instead, they all involve claims by original copyright holders alleging that the derivative work at issue is not fair use."

William A. Graham Co. v. Haughey, USCA Third Circuit, May 16, 2011
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- The Third Circuit held that, in an action brought in 2004 for copyright infringement, where the defendant is found to be liable for copyright infringement dating back to 1992, the court may assess pre-judgment interest against the defendant going back to 1992, when the plaintiff's copyright infringement claim began to accrue, not to 2004, when the plaintiff discovered the infringement.

In 1991, defendant Thomas Haughey left his job with plaintiff William A. Graham Co. ("Graham") and began working for defendant USI MidAtlantic, Inc. ("USI"), a competitor. When Haughey left Graham, he took with him two binders prepared by Graham employees, which contained hundreds of pages of insurance product marketing and related materials. Although Graham owned the copyright to these binders, Haughey and USI began using these binders in July 1992 to prepare insurance coverage proposals and presentations to sell its own insurance products to its own clients.

Graham did not discover defendants' infringement until 2004, when it brought an action against Haughey and USI for copyright infringement. Graham sought to recover defendants' "indirect" profits attributable to the defendants' indirect use of Graham's binders in its own insurance sales.

After a trial in the matter, the jury found defendants liable for copyright infringement and awarded Graham the sum of $19 million, representing a percentage of defendants' net profits from 1992 to 2004 that were attributable to copyright infringement. The evidence at trial showed that USI made $24 million and that Haughey made $3 million in net profits between 1992, when the infringement began, and 2004, when Graham brought its infringement action against defendants. In calculating damages, the jury credited seventy percent of USI's profits and seventy-five percent of Haughey's profits to the defendants' use of plaintiff's copyrighted marketing materials.

The district court initially set aside the $19 million verdict, finding that Graham should have discovered the infringement as early as 1991, and that under the so-called "discovery rule," Graham's claims for damages that were older than three years were time-barred. Both parties cross-appealed. In an earlier decision, the Third Circuit reversed and remanded, finding that for statute of limitations purposes, Graham's cause of action only began to accrue when it discovered the infringement and that its claims for damages going back to 1992 were not time-barred.

On remand, the district court reinstated the jury verdict and Graham moved for an award of pre-judgment interest going back to 1992. In support of its motion, Graham offered an expert's report calculating interest between 1992 and 2004. Relying on such report, the district court granted Graham pre-judgment interest in the sum of $4.7 million.

Defendants appealed the district court's ruling, arguing that the judgment was excessive and that the Copyright Act did not permit recovery of pre-judgment interest, especially in a copyright infringement action for infringers' profits. The Third Circuit disagreed and affirmed the district court, finding that the judgment did not "shock the conscience" of the court and that pre-judgment interest is available in copyright infringement actions, even if the Copyright Act does not specifically permit recovery of pre-judgment interest. There is also no reason to treat actions for infringers' profits differently from other actions with respect to awards of pre-judgment interest.

Defendants also argued that even if the court were to award pre-judgment interest, pre-judgment interest should only begin to accrue in 2004, when the Third Circuit previously held that Graham's claims began to accrue under the discovery rule. The Third Circuit held that a claim "accrues" for the purpose of calculating pre-judgment interest when all of the facts giving rise to the claim have occurred, not when the plaintiff could practically have brought the action. In so holding, the court recognized that it and other courts have used imprecise language in discussing when claims "accrue" under the discovery rule.

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