

Copyright Infringement Defense: Know When to Consult an Expert

By Keli Johnson Swan

Even though software audits are commonplace in many businesses, recipients of audit notices make many mistakes when it comes to audit responses. Because software publishers can often assert claims for copyright infringement if the audit goes badly, it is important to manage the audit effectively from the outset.

Some companies do not respond to the audit request at all because the company does not believe the auditing entity or publisher has legal authority to conduct an audit. Unfortunately, if a targeted company does not respond to an audit, the publisher could initiate a lawsuit against the company if it has specific information of existing copyright infringement.

Some companies direct their in-house counsel to respond to potential copyright infringement claims, which may result in mixed outcomes if the in-house counsel does not have adequate experience with responding to software audits.

In some cases, a company may simply ask its software reseller to act on its behalf to resolve the audit. There are number of risks associated with the decision to share information with a third party, including, but not limited to, confidentiality and privilege issues.

Input from an attorney with significant experience with software copyright infringement claims in the following areas is critical to reaching an efficient and amicable resolution to a software audit.

- 1) Understand the scope of the claims and impact of the audit. The first step for any audit is to determine the scope of the audit and the auditing entity. If the audit is initiated directly from the publisher, it may be optional, it may require a third party, or have notice requirements outlined in an existing license agreement. If the audit is initiated by an entity acting on behalf of the publisher such as the BSA, then the audit will likely follow a specific procedure and protocols outlined by the BSA.

The audit request will identify the specific software publishers involved in the scope, and will often outline whether the company should include its affiliates or subsidiaries within the scope of the review.

It is important to review the license agreements and audit request to ensure what compliance, if any, is required, or whether any competing agreements supersede an auditor's request.

- 2) Maintain attorney-client and work-product privilege. Any materials, including audit data, or reconciliation of license gaps prepared by a consultant or third-party IT company is not always protected by attorney-client or work-product privilege. Additionally, if the external IT provider does not have an existing confidentiality or non-disclosure agreement with the target company, then the company runs the risk of the prepared or raw data being leaked to the auditor. Because the BSA and SIIA offer rewards for disgruntled former employees who make reports of copyright infringement. It is important to note, that an NDA or confidentiality agreement with a third party (or even an employee) will not prevent an unscrupulous individual from disclosing that information

to the auditor, so it is critical that the number of people with access to the company's data is extremely limited.

- 3) Obtain an accurate inventory of existing software installations. Once the scope of the audit is determined, a company should obtain an inventory of its existing software as of the date it received the initial audit letter. A company should treat this as a litigation hold letter to preserve all evidence in the event of a lawsuit. This means that it should not attempt to remediate any deficiencies, make any new purchases, or make changes to the network.

If a company does not have its own inventory tool, there are a number of free options to choose from. There are many vendors that offer auditing services to a company that includes the tools, but it is important to ensure a confidentiality agreement exists and understand that privilege will not exist in that scenario.

Once a company conducts an internal audit, it should undertake a secondary, more detailed manual review to ensure its accuracy.

- 4) Carefully evaluate existing licenses and agreements including licensing rules and use cases. Understanding and evaluating the existing license agreements and more importantly, the use cases is one of the single most difficult tasks for an inexperienced attorney representing a company in a software audit.

The level of technological proficiency required to determine, for example, the number of cores required for SQL servers, the specific licenses required for hosted environments, the method of calculating licensing metrics, hardware and software partitioning is extremely detail-oriented. It is critical to understand the company's use cases in order to ensure it is properly licensed.

- 5) Provide an accurate representation of potential exposure to copyright infringement penalties. The license gaps will be determined by the software installed and the licenses a company owns as of the audit date. More significantly, the use characterization analysis will determine whether the licenses the company owns are the correct licenses for each individual installation. It is not uncommon for a company to believe it has all of the requisite licenses for its network, but later discover that the license types did not cover the way the software is used.

An accurate exposure analysis will look at not only the raw number of licenses to installations, but also ensure that the license grant allows the current configuration. If it does not, then an accurate copyright infringement penalty must be assessed in order to give the company an estimate of its potential exposure.

The auditing entity will specify the type of damages it elects – actual or statutory. The Copyright Act allows a significant range of damages for statutory damages, which may be difficult to anticipate. Typically, actual damages are based loosely on the MSRP values of the copyrighted materials.

- 6) Negotiate a settlement payment and terms of a settlement agreement. A significant role for the attorney representing a company facing software copyright infringement claims is negotiating the settlement and terms of the agreement. The initial demand is never the final offer, and can be negotiated, along with the terms of the agreement. The key provisions include the release of liability, warranties and representations, confidentiality, and any post-settlement obligations tied to the release. These provisions are critical to ensuring the company is absolved of any liability resulting from the license gaps.

Reaching a resolution for existing claims and making appropriate purchases will only resolve any current license gaps. In order for a company to avoid future claims of copyright infringement, it should enact an internal software asset management process. This process should include regularly conducting internal audits, maintaining an active license reconciliation process, and enacting controls to prevent copyright infringement by its employees.



About the author Keli Johnson Swan:

As an associate attorney at Scott & Scott, LLP, Keli is primarily focused on software licensing and copyright infringement matters. She advises clients in a variety of industries to ensure compliance with software licenses and develop strategies for maximizing the value of software licenses.

Get in touch: kjohnson@scottandscottllp.com | 800.596.6176

[Click here](#) for a complimentary subscription to Scott & Scott, LLP's *Technology Law Update* newsletter.