

# Blunting Copyright Enforcers' Excessive Settlement Demands

By **Jordan Feirman** (June 3, 2020, 1:54 PM EDT)

Imagine the following: A client calls you because she received a letter on law firm letterhead accusing her company of copyright infringement for posting an image online.

The letter asserts that liability under federal law may be as high as \$150,000 and threatens drastic remedies including wage garnishments and property liens, but also includes an exploding settlement offer of a few thousand dollars — an amount that still seems far in excess of the fair value of the image. "I don't understand," the client says, "how could this one limited use cost so much money?"



Jordan Feirman

The client then asks you whether she should agree to pay the settlement demand even though it feels like a shakedown. How do you respond?

The question is an important one in light of an expanding legal industry specializing in copyright enforcement and extracting arguably outsized settlement payments for internet and social media uses. This article provides guidance regarding how to address scenarios like the one above.

First, however, it is useful to understand the practical and legal landscape that creates incentives both for enforcement agents to seek windfalls and for defendants to make nuisance payments — a landscape that is well illustrated by the U.S. District Court for the Southern District of New York's April 21 decision in *Seidman v. Authentic Brands Group LLC*.<sup>[1]</sup>

## The Copyright Enforcement Industry: Champions or Trolls?

The ease of making and distributing copies on the internet has created major strains on preexisting concepts of copyright enforcement. As Congress and the courts have played catch-up to adapt to new technologies, content creators have faced exponential reproductions of their works in digital form. This situation has particularly impacted photographers, whose works are routinely shared on social media or lifted from search engines without authorization.

To address these concerns, some firms have built business models around tracking unauthorized uses of images online and promptly sending demand letters or filing infringement complaints. By all accounts, these efforts have proven highly successful in extracting payments, whether from those who are unable to obtain legal advice or from parties that do find representation but conclude that the time and expense of litigation dwarfs the amount of the settlement demand.

Some of the more aggressive enforcement attorneys' practices have resulted in repeated sanctions and copyright troll labels from the courts.<sup>[2]</sup> Nevertheless, the deficiencies of a few actors should not diminish the value of zealous representation for content creators; authors need to receive just compensation for use of their works in order to sustain business, and therefore reasonable deterrents for mass dissemination of their works on the internet need to exist.

Enforcement efforts are more problematic, however, when they exploit parties' lack of legal sophistication by threatening outrageous damages and draconian remedies. Many alleged infringers

make limited or noncommercial uses of works and are uninformed that images readily available online may be copyrighted. Although those parties may bear liability, it is fair to question the propriety of intimidating laypeople into paying amounts far in excess of the fair market value of an image by citing damages figures that any intellectual property attorney would identify as patently unrealistic.

### **The Incentives To Seek Copyright Windfalls**

The proliferation of demand letters threatening unreasonably high settlements is in part explained by the fact that such a strategy presents few downsides to potential plaintiffs.

Enforcement firms benefit from economies of scale, frequently work on contingency, and often their initial enforcement steps require little effort. Preexisting form letters and complaints are quickly populated with basic allegations. The more matters that are pursued, the more settlement payments that can be procured at minimum cost.

Equally importantly, copyright jurisprudence reduces the financial risk of seeking unreasonable damages when liability is uncontroversial or at least a reasonably high probability.

While the Copyright Act permits courts to award reasonable attorney fees to a prevailing party<sup>[3]</sup> in an infringement case, a copyright defendant is not prevailing if the plaintiff demonstrates infringement even when the monetary recovery is well below what the plaintiff had sought.<sup>[4]</sup> Copyright defendants who do not wish to dispute liability but contest a frivolous damages demand thus are not eligible to recover fees<sup>[5]</sup> and are incentivized to make substantial nuisance payments, whereas plaintiffs likely to succeed in demonstrating liability are incentivized to pursue lottery ticket awards without facing material risk of an unfavorable fee award.

Additionally, the value of an offer of judgment under Federal Rule of Civil Procedure 68 — a tool that a defendant may use to shift financial risk to an overzealous plaintiff — is doubtful in this context. Rule 68 permits a defendant to serve, at any point at least 14 days before trial, an offer to allow judgment on specified terms, with the costs then accrued.<sup>[6]</sup> If the plaintiff declines but ultimately obtains a judgment that is not more favorable than the offer, it must pay the costs incurred after the offer was made.<sup>[7]</sup>

The problem, however, is that many courts have rejected the notion that costs under Rule 68 include attorney fees in copyright cases.<sup>[8]</sup> Rather, costs under the Copyright Act means only the taxable costs set forth in Title 28 of U.S. Code Section 1920 — e.g., court clerk and reporter fees, printing and copying costs and docket fees.

### **The Seidman Decision: An Illustration of the Risk Imbalance Between Copyright Plaintiffs and Defendants**

In *Seidman*, a photographer sued for infringement of one of her works in a Facebook post and rejected an offer of judgment that the defendant claimed "exceeded more than five times Plaintiff's best case scenario historical licensing fees." The court denied the defendant's motion for a bond securing an anticipated fee award, principally on the basis that Rule 68 does not permit fee shifting to nonprevailing defendants.

Although noting that some other courts concluded otherwise, the court contended that its result "most accords with the logic ... of the Copyright Act," and that the "main constraints on a plaintiff who pursues a weak case" are risks that (1) she may need to pay fees if she loses; (2) even if she wins, she might not recoup her own fees if she took unreasonable positions; and (3) a court may consider a claim's weakness in determining statutory damages. If damages were very low, the court reasoned, "Plaintiff's victory ... might well be a hollow one."<sup>[9]</sup>

Although the court's interpretation of the Copyright Act and precedent is logical, its attempt to mitigate the practical result fails to acknowledge the disparate impact on copyright defendants. While a plaintiff pursuing a weak damages claim may be deterred by the likelihood that its own efforts may be wasted, she nevertheless is in an advantaged position compared to the defendant because (1) the defendant's exposure is greater due to the possibility of a fee award, and (2) only the plaintiff has the lottery ticket upside in litigation. This risk imbalance is further compounded when plaintiffs

counsel — but not defense counsel — works on contingency.[10]

## **Addressing Unreasonable Demand Letters and Complaints: Tips for Practitioners**

Clients faced with aggressive demands are put in a difficult position. Where liability is not reasonably disputable, the best outcome often is a negotiated resolution at a price point below the amount demanded, but that may depend on a variety of factors. Attorneys should consider the following steps when guiding clients through the process.

### ***Demystify copyright law.***

It is not uncommon for clients to feel confused and frustrated by a demand letter (the hypothetical about a client claiming a shakedown is drawn from the author's experience). Explain why liability is possible (if not probable), and address common misconceptions about copyright law — for example, that use of images on the internet always constitutes fair use, or that liability requires intent to infringe. At the same time, help clients understand their realistic exposure and inform them that threats of extremely high damages (e.g., up to \$150,000) are intended to intimidate.

### ***Preliminarily investigate liability.***

Although many demands will address straightforward uses of images on the internet where liability is uncontroversial, initially evaluating any obvious deficiencies in the merits of a copyright claim is critical. For example, does the demand letter fail to provide copyright registration information (as required to bring suit)? Did the client actually engage in any conduct relevant to the infringement? Is the plaintiff's work in the public domain? While a deep dive into the case merits at the outset likely would not be cost-effective, addressing merits issues that may be low-hanging fruit will provide valuable insights.

### ***Assess opposing counsel.***

As noted above, some enforcement attorneys are more aggressive and prolific than others. Simple internet searches can reveal whether opposing counsel is a known troll that frequently litigates through discovery or instead is more likely to avoid litigation. Because many enforcement firms rely on high volume, they often place a premium on quick settlements; once they learn a defendant is represented by counsel and that matters may drag out, they may be more willing to negotiate. Moreover, if opposing counsel has been sanctioned previously, this may provide increased leverage to seek attorney fees through sanctions if litigation moves forward.

### ***Analyze potential damages.***

A critical first step is to determine (1) whether the alleged infringement commenced after the date of the relevant copyright registration or (2) if infringement occurred prior to registration, whether the registration was obtained within three months of the work's first publication. A plaintiff is only eligible for statutory damages and an attorney fee award if one of those two conditions is satisfied. The absence of these remedies can drastically alter a plaintiff's calculus, reducing its upside and burdening it to prove actual damages.

Another simple step is to conduct an internet search to locate a photographer's actual license fees or the going rate for similar images and uses, which frequently are far lower than the settlement demand. That information is useful both in negotiation and as evidence of actual damages in subsequent legal proceedings.

### ***If litigating, consider an early Rule 68 offer.***

Notwithstanding the limitations of Rule 68 offers, not all jurisdictions have expressly ruled out the possibility of attorney fee awards, and even if a fee award is not available, an early Rule 68 offer creates some additional risk to the plaintiff of liability for taxable costs. A Rule 68 offer also can demonstrate to a court that a defendant is acting reasonably and trying to reach a fair result without wasting court resources.

### ***Prevent future infringement claims.***

As frustrating as dealing with an enforcement action can be, it can and should be a learning experience for clients. Encourage clients to review their websites and media for other material that may have been used without authorization, and make a plan to remove potentially problematic images. Apprise clients of best practices for acquiring licenses and otherwise ensuring that images are in the public domain or available to use.

---

*Jordan Feirman is counsel at Skadden Arps Slate Meagher & Flom LLP.*

[1] [Seidman v. Authentic Brands Group LLC](#) , No. 19-cv-08343-LJL, 2020 WL 1922375 (S.D.N.Y. Apr. 21, 2020).

[2] See, e.g., [McDermott v. Monday, LLC](#) , 17-cv-9230 (DLC), 2018 WL 5312903 (S.D.N.Y. Oct. 26, 2018).

[3] 17 U.S.C. § 505.

[4] See [Manhattan Review LLC v. Yun](#) , 919 F.3d 149, 152-53 (2d Cir. 2019) ("A 'prevailing party' in a fee shifting statute is 'one who has favorably effected a material alteration of the legal relationship of the parties by court order.'" (citation omitted)).

[5] Courts typically consider factors such as "frivolousness, motivation, objective unreasonableness ... and the need in particular circumstances to advance considerations of compensation and deterrence" in exercising their discretion to award fees. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 535 (1994).

[6] Fed. R. Civ. P. 68(a).

[7] Fed. R. Civ. P. 68(d).

[8] See Patry on Copyright § 22:215. For example, the Seventh and Ninth Circuits have expressly held that only prevailing parties in copyright cases cannot receive attorney fees through Rule 68. See [Harbor Motor Co. Inc. v. Amell Chevrolet-Geo Inc.](#) , 265 F.3d 638, 646-47 (7th Cir. 2001); [UMG Recordings v. Shelter Capital Partners LLC](#) , 718 F.3d 1006, 1034 (9th Cir. 2013). The Eleventh Circuit has expressly held otherwise. See [Jordan v. Time, Inc.](#) , 111 F.3d 102, 105 (11th Cir. 1997).

[9] Seidman, 2020 WL 1922375, at \*7.

[10] Another very recent example is the May 15, 2020, decision in [Philpot v. L.M. Communications II of South Carolina, Inc.](#) , in which the court denied the plaintiff a fee award — but could not and did not consider whether to award any fees to the defendant — when the plaintiff succeeded in demonstrating liability but plainly had "improper motivations" and was "more in the business of litigation (or threatening litigation) than selling his product or licensing his photograph to third parties." 2020 WL 2513820 (E.D. Ky. May 15, 2020).

---