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Be on guard or pay the price

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Imagine a business that hires an employee who brings with him computer programs he wrote for his prior employer, which he offers for use at his new employer. The new employer incorporates and uses those computer programs in the business. As time passes, those computer programs help jump-start the business, save the business money or help increase sales. Then, sometime later the business receives a complaint alleging copyright infringement. It turns out that the employee who brought the works into the business really didn't own them. The copyrights belonged to the employee's previous employer. Now, after trial and appeals, the business is facing a judgment of several million dollars for copyright infringement plus several million more dollars for prejudgment interest.

This scenario presents a real risk to businesses using the copyrighted works of others, or acquiring a business that uses the copyrighted works of others. In *William A. Graham Company, d/b/a The Graham Company v. Thomas P. Haughey and USI MidAtlantic Inc.* (2009 and 2011), the 3rd U.S. Circuit Court of Appeals grappled with facts similar to the hypothetical and affirmed a verdict for the copyright owner of about $19 million plus an award of $4.6 million in prejudgment interest.

In the *Graham* case, William A. Graham Co., d/b/a The Graham Co., is an insurance brokerage firm that provides property and casualty insurance services to businesses. Thomas P. Haughey worked for Graham as a salesman from 1985 to 1991. In the 1980s, Graham's president, William Graham, developed form language he called the Standard Paragraphs for use by Graham's employees in preparing analysis documents and coverage proposals for Graham's clients. In 1990, Graham prepared the Standard Survey and Analysis and the Standard Proposal documents. The Standard Works were used as templates by Graham to provide plain English explanations of insurance policies and concepts for sales people to copy into client specific materials so that clients could easily understand the insurance policy concepts. The Standard Works also served as reference materials to help in the preparation of client specific materials. Graham registered his copyrights in the Works and placed copyright notices on the Works.

In September 1991, Haughey's employment with Graham was terminated and Haughey executed a termination agreement reaffirming a promise he made in his original employment contract to keep company information confidential and to return Graham's "papers and information contained therein" upon termination of his appointment. Haughey then began working at Flanigan, O'Hara & Gentry (FOG). The evidence showed that notwithstanding his promise, Haughey included Graham's copyrighted materials in a proposal for a client in July 1992. Subsequently, FOG copied the entire 1992 version of the Standard Works into a digital format, distributed copies to FOG's employees and encouraged their use. FOG had nothing comparable to Graham's Works prior to Haughey's arrival.

FOG was acquired by USI Holdings in 1995 and subsequently merged with two other entities to form USI MidAtlantic. The Standard Works were made available to USI employees who were encouraged to use them to prepare sales proposals. Some of these employees testified that written proposals for clients were an important part of the sales process.

Because USI's practice was to keep proposals to clients confidential, it was not until November 2004 when a client showed one of Graham's employees a copy of a USI proposal to the client that Graham discovered the infringing activity.

The Copyright Act has a three-year statute of limitations for civil actions (17 U.S.C. §507(b)). To quote the 2009 case again, "Under the injury rule, a claim accrues and the statute of limitation begins to run when the plaintiff suffers legally cognizable injury." Under the discovery rule the infringement does not accrue until the copyright owner discovered, or with reasonable diligence should have discovered, the injury underlying its claim for infringement. The court must determine whether the injury rule or the discovery rule governs the accrual of claims under the act.

The 3rd Circuit pointed out that eight other U.S. Courts of Appeals applied the discovery rule to civil actions under the Copyright Act.

The court, in its 2011 decision, stated: "We hold that the accrual of a cause of action occurs at the moment at which each of its component elements has come into being as a matter of objective reality, such that an attorney with knowledge of all the facts could get it past a motion to dismiss for failure to state a claim. The federal discovery rule then operates in applicable cases to toll the running of the limitations period."

Businesses need to be careful in using copyrighted works and should know where the works come from. When hiring new employees the business should not only have a policy against employees bringing with them materials from prior employers, but should carefully monitor the creation of new works for the business and incorporate into employee training lessons regarding the protection of the business' intellectual capital and the risks of liability in case of an infringement.