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Westchester County Roundup: April 2020

Judge Román Grants in Part and Denies in Part the Defendant's Motion to Dismiss in Copyright Infringement Case

In *Palmer/Kane LLC v. Benchmark Education Co. LLC,* 18-CV-9369, 2020 WL 85469 (S.D.N.Y. Jan. 6, 2020), the plaintiff, a stock photography production company, brought copyright infringement claims against the defendant educational content provider for alleged improper use of licensed photographs under three copyright registrations. The defendant filed a motion to dismiss the complaint alleging that the plaintiff failed to plead adequately valid copyright status for the photographs and the claims were time-barred. Judge Nelson Román granted the motion in part and denied it in part, dismissing the claims as to all but seven allegedly infringing images.

The Court first analyzed the copyright claims under the Southern District's four factor test, which required the plaintiff to allege (i) which original works are the subject of the copyright claim, (ii) the plaintiff owns the copyrights, (iii) the copyright registrations are valid, and (iv) the acts and times by which the defendant infringed the copyrights. With respect to the first prong, Judge Román considered the defendant's argument that the entire Complaint should be dismissed because it contained general allegations of large-scale infringement and only identified twelve photographs with specificity. Noting the courts are divided as to whether a plaintiff must provide an exhaustive list of all infringed works, Judge Román adopted the approach of dismissing only unidentified works, reasoning it would be unjust to throw out well-pleaded allegations because of allegations regarding unidentified works. After finding the second prong satisfied because the defendant conceded the plaintiff owned the copyrights, the Court turned to the validity of the copyright registrations. The defendant argued the plaintiff was collaterally estopped by prior litigations from contesting the validity of the registrations. Judge Román rejected the defendant's position, holding the plaintiff was not collaterally estopped because validity was not determined conclusively as to one registration and, as to the other registrations, the prior decisions did not address identical issues pertaining to the identified works in this case. With respect to the final prong, the Court found that the plaintiff had adequately alleged infringing acts for 11 of the 12 photographs by listing the titles of those photographs, but only alleged infringing acts as to seven of them. The Court accordingly dismissed the claims as to the other five photographs without prejudice.

Judge Román next considered the defendant's statute of limitations argument. The Court noted it is a three-year limitations period but the "discovery rule" tolls the commencement of the period until actual or constructive discovery of the infringement. In rejecting the defendant's argument, Judge Román found no allegation of actual notice and held publication alone was insufficient for constructive notice. Accordingly, the plaintiff's claims were not time barred.

Finally, the Court briefly addressed the plaintiff's claims for contributory and vicarious copyright infringement, dismissing them as conclusorily pled and unsupported.

Judge Seibel Grants Defendant's Motion for Summary Judgment in Insurance Coverage Declaratory Judgment Action

In *Protective Specialty Insurance Co. v. Castle Title Ins. Agency, Inc.*, 17-CV-8965, 2020 WL 550700 (S.D.N.Y. Feb. 3, 2020), the plaintiff insurance company sought a declaratory judgment that it had no duty to defend the defendant in a negligence action. Judge Cathy Seibel granted the defendant's motion for summary judgment, holding the defendant timely submitted its claims to the plaintiff and the claim at issue was not barred by an alleged warranty exclusion.

From 2014 to 2017, the plaintiff issued three consecutive professional liability insurance policies to the defendant, each effective on September 10 of the respective year. Each application submitted by the defendant included a question regarding any incident or circumstance the defendant was aware of that might result in a claim being made against the defendant. The policies issued by the plaintiff defined "Claim" to include "a written demand by subpoena upon an Insured as a non-party to litigation or arbitration involving Professional Services provided by such Insured," "Related Claims" as those "arising out of a single Wrongful Act or a series of Wrongful Acts that have a common nexus," and "Wrongful Act" as "a negligent act, error or omission or Personal Injury committed by an Insured. . . in the rendering or failing to render Professional Services. . . ." Finally, the policy stated that all Related Claims would be deemed first made on the date the earliest Related Claim was made against an insured.

In July of 2015, the defendant was served with a third-party, post-judgment subpoena in a foreclosure action. The defendant delinquently but eventually complied with the subpoena. Almost exactly a year later, in July of 2016, the defendant was named in a complaint alleging it had negligently or fraudulently delayed in submitting real estate documents for recording by the County Clerk. Within two weeks of receiving the complaint, the defendant notified the plaintiff of the lawsuit. The defendant also disclosed this lawsuit in their 2016 policy application and were issued a policy. In November of 2017, the plaintiff filed the instant action arguing that the July 2015 subpoena and July 2016 lawsuit were "related claims" and so the claim was first made prior to the policy period or, alternatively, that it was barred by a warranty exception based on the defendant's disclosure in their 2016 application. Judge Seibel rejected both arguments and granted summary judgment in the defendant's favor.

First, the Court disagreed with the plaintiff that the 2015 subpoena was a "Claim" based on the plain and unambiguous meaning of that term. The subpoena was issued in connection with post-foreclosure judgment enforcement proceedings and did not involve litigation over the defendant's professional services. Judge Seibel continued that because the 2015 subpoena was not a "Claim," the 2016 lawsuit could not be a "Related Claim." Accordingly, she dismissed that cause of action. Second, because the subpoena was not a "Claim," the defendant was not obligated to identify it on the policy application and so the warranty exclusion did not apply.

Judge Briccetti Denies Defendant's Motion to Dismiss Plaintiff's Claims for Breach of Contract, Account Stated, and Unjust Enrichment

In *Carl Zeiss Microscopy, LLC v. Vashaw Scientific, Inc.*, 19 CV 3540, 2020 WL 85195 (S.D.N.Y. Jan. 2, 2020), the plaintiff brought claims for breach of contract, account stated, and unjust enrichment against the defendant. The defendant moved to dismiss pursuant to F.R.C.P. 12(b)(1), (3) and (6) based on a forum selection clause in the parties' contract, which stated "the sole venue for arbitration or actions arising from this Agreement shall be in the courts in Westchester County, New York." The defendant argued that this provision required any litigation to be brought exclusively in the Westchester County state court. Judge Vincent Briccetti denied the motion, holding the clause permitted the case to be brought in federal court.

In analyzing the defendant's motion, Judge Briccetti first noted, in line with the plaintiff's position, that the proper procedural mechanism for enforcing forum selection clauses is to bring a motion to dismiss for forum non conveniens and not, as the

defendant had done, under Rule 12(b). To determine whether the forum selection clause is valid and reasonably enforced courts consider four factors: (i) whether the clause was reasonably communicated, (ii) whether the clause is mandatory or permissive, (iii) whether the claims and parties are subject to the clause, and (iv) whether the resisting party has rebutted the presumption of enforceability by showing that enforcement would be unjust or unreasonable, or the clause was secured by fraud or overreaching. In this case, the dispute centered on the second prong - is the clause mandatory or permissive. Reasoning that the clause only restricted actions to Westchester County and that the County contained both state and federal courts, the Court determined the language in the provision could be read either way - restricting lawsuits to state court and allowing lawsuits in federal and state court. Judge Briccetti refused to resolve the ambiguity in favor of state court exclusivity and so held jurisdiction was proper in federal court.

Judge Karas Denies the Parties' Joint Request for Approval of Proposed Partial Settlement in an Action to Recover Unpaid Overtime

In *Khan v. Dunwoodie Gast Station Inc., et al.*, 19—CV—5581, 2020 WL 1166180 (S.D.N.Y. Mar. 10, 2020), the plaintiff, a cashier, and certain defendant employers sought approval of a settlement resolving the plaintiff's claims for unpaid overtime and failure to provide for meal breaks under the Fair Labor Standards Act and the New York Labor Law. Finding the settlement was reasonable but the proposed release of claims was overly broad, Judge Kenneth Karas denied the partial settlement without prejudice to resubmission with a narrowed release.

The proposed settlement provided for the plaintiff to receive approximately two-thirds of his potential recovery with his attorneys receiving 30% of the award. Following Second Circuit precedent, Judge Karas examined the settlement for fairness and reasonableness under the circumstances. Comparing the monetary award in the settlement, and the calculations by which the parties arrived at the award, the Court confirmed it was both fair and reasonable. Judge Karas further concluded the settlement was negotiated competently and in good faith, noting plaintiff's counsel had extensive experience in labor and employment law. In addition, the Court approved the attorneys' fee award of 30%, finding it was appropriate under either the lodestar or percentage methods as courts in the Second Circuit routinely approve fee awards of one-third in FLSA cases.

The problem with the proposed settlement was the release, which Judge Karas found overbroad. Noting the FLSA is a uniquely protective statute, Judge Karas explained releases must be limited to the particular claims at issue in the lawsuit. In this case, however, the parties sought to release all claims which could have been raised in the lawsuit (i.e., not just FLSA and NYLL claims) and all FLSA and NYLL claims (i.e., not just wage and hour claims). That scope was unacceptable under Southern District of New York precedent. As a result, the Court denied the proposed settlement agreement without prejudice, with the implication that the parties should resubmit the settlement to the Court with a narrowed release.

Westchester Supreme Court Justice Ruderman Denies Defendants' Motion to Vacate Judgment of Foreclosure

In *JPMorgan Chase Bank, Nat'l Ass'n v. Carducci,* — N.Y.S.3d —, 2020 WL 1161598 (N.Y. Sup. Ct. West. Cty. Mar. 10, 2020), the defendants moved to vacate a judgment of foreclosure, or, in the alternative, dismiss the complaint for lack of standing. Justice Terry Jane Ruderman denied the defendants' motion.

The defendants executed a note and mortgage on March 17, 2003 secured by a house they had purchased. The mortgage and note were transferred to the plaintiff and the plaintiff filed the foreclosure action after the defendants had been in default of their mortgage for 10 months. The defendants failed to file an answer as well as attend a mandatory settlement conference, and a judgment for foreclosure and sale was granted without opposition. After being denied a stay of the foreclosure sale, defendant

Benjamin Carducci filed a bankruptcy petition to automatically stay the foreclosure sale. Once the bankruptcy proceeding was resolved, the defendants did not inform the court that the stay was vacated, nor did they seek to have their motion to vacate the judgment addressed. Instead, the defendants waited until the plaintiff re-scheduled the foreclosure sale and filed a proposed order to show cause one business day prior to the foreclosure sale seeking a stay and to vacate the judgment and dismiss the action. The defendants based their motion on Real Property Actions and Proceedings Law 1302—a, effective December 23, 2019, which provides that failure to challenge plaintiff's standing in an answer or pre-answer motion to dismiss no longer waives the defense. The Court initially granted the stay on condition that the defendants pay the plaintiff $50,000. When the defendants failed to do, the foreclosure sale went forward.

The Court initially explained that the plaintiff established standing through its submission of the unpaid note, endorsed in blank, as well as the assigned mortgage and evidence of the defendants' default. Thus, even if RPAPL 1302—a permitted vacatur based solely on demonstration of a viable standing defense, such a defense was not meritorious in this case. Further, the Court determined that the defendants were still required to vacate the default judgment before they could assert plaintiff's lack of standing pursuant to RPAPL 1302—a. To vacate the default judgment, the defendants had to establish a reasonable excuse for their failure to answer-something counsel for the defendants conceded they were unable to provide. The Court therefore denied the defendants' motion in its entirety.