LISA C. DEJACO

Just a Link in the Infringement Chain

Last year, your client—a chain of pet supply stores—decided to purchase some swag for a variety of purposes. Your client worked with a vendor to choose a variety of articles that could be given away as promotional material, used to reward the employee of the month, donated to the local animal shelter as a gift for new adopters of pets, and the like. After sorting through the standard T-shirts, pens, and notepads, your client asked the vendor for more unusual articles. Among other items, the vendor proffered a sample of a tin picture frame adorned with embossed dog and cat faces, with a space for personalization. Your client ordered 20,000 of these frames, which were manufactured in China, complete with your client's logo. The vendor delivered the personalized frames and was paid in full. Your client has been merrily distributing quirky picture frames to everybody ever since.

Now your client has just called you to report that the company has been served with a lawsuit. It seems that the pet picture frame isn't just quirky, it's copyrighted. The copyright owner saw one of your client's personalized frames for sale on eBay and has filed an infringement suit against your client in federal court. Your client tells you, "Surely we can't be held liable for this! No one said anything about a copyright, and I didn't notice any copyright symbol on the sample. Plus, we never made any money on those frames. It's the vendor's problem, not ours. Right?" Well, not exactly.

Accidental Infringement

From the moment his or her idea is put into a tangible form, the author of an "original work of authorship" automatically possesses the copyrights in it. 17 U.S.C. § 102. Those copyrights are listed at 17 U.S.C. § 106, which says that the author has the exclusive rights to reproduce that work, to make derivative works, to distribute copies of it, and to perform or display or audiotransmit the work publicly.

The work doesn't even have to be registered for the author to hold the copyright, although the work must be registered before the author files suit for infringement. Copyright owners often add the © symbol to show that their work is protected, and if that symbol did appear on the sample provided to your client, your client will be statutorily prohibited from claiming innocence. 17 U.S.C. § 401(c). Nevertheless, in the modern era (under the Copyright Act of 1976), there is no requirement that the copyrighted article be marked with a © in order to be protected.

The Copyright Act doesn't require a showing of fault to establish copyright infringement. If the sample provided to your client was a copyrighted work, and it is substantially similar to the frames your client distributed to the public, then your client may be held liable for infringing that copyright.

No Sale? No Defense

Section 106 of 17 U.S.C. specifically addresses "distribution" of copies as one of the rights held exclusively by the owner, whether the copies are distributed "to the public by sale or other transfer of ownership, or by rental, lease, or lending." Your client gave the frames away for free, but that gift is still a transfer of ownership.

Your client may wonder whether giving the frames away would qualify as "fair use." There is a limited safe harbor for certain uses of a copyrighted work, but it's unlikely that your client's distribution would satisfy the fair use test set out in the statute. Section 107 identifies the following four noninclusive factors: "(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work."

The first factor often has the most weight, and the statute offers a nonexhaustive list of "purposes" that support fair use: "criticism, comment, news reporting, teaching … , scholarship, or research." Your client's use, although it was not directly used for profit, is clearly of a commercial purpose and character. That means that it is likely that a fair use defense is unavailable to your client.

What's the Damage?

The copyright owner can demand that your client hand over or destroy all the remaining picture frames in his or her possession. 17 U.S.C. § 503. Moreover,

because the Copyright Act ascribes liability to anyone who "distributes" infringing material, the copyright owner does not have to sue the vendor to collect a pound of flesh from your client.

The Copyright Act allows a plaintiff to recover actual damages: the plaintiff's own lost profits as well as the infringer's profits. Your client may not have any profits from the distribution of the picture frames, because they were given away for free. But the plaintiff might be able to show that his or her sales have diminished since your client began passing out the frames. The plaintiff could also show that he or she usually charges a licensing fee of a certain amount per frame when someone like your client wants to personalize the frames. That kind of evidence could qualify as actual damages.

Furthermore, the plaintiff has the option to forgo actual damages and elect to recover statutory damages—ranging from $750 to $30,000 per work infringed, with an increase of the maximum to $150,000 in the case of willful infringement.[1] 17 U.S.C. § 504. Statutory damages can be very useful to a copyright holder when actual damages are relatively minimal or hard to quantify. The plaintiff can make this election "at any time before final judgment is rendered"; the plaintiff can collect all the discovery he or she wants and even get a jury verdict with the amount of actual damages before deciding to opt for statutory damages instead.

The good news for your client is that the plaintiff will receive only one award of statutory damages per each work infringed. 17 U.S.C. § 504(c). Because the picture frame is only one work, the plaintiff will win only one award of statutory damages even though your client may have "distributed" thousands of infringing articles.

Blame the Vendor

Your client may be understandably upset to learn about his or her liability under the Copyright Act. Isn't there some way to put the vendor on the hook? As it turns out, there may be a way, but it won't wipe away your client's liability. The Uniform Commercial Code includes a provision warranting that goods sold are merchantable, including a guarantee that the goods are not infringing. U.C.C. § 2-312(c). As long as the purchase orders used between your client and the vendor didn't expressly limit the warranties to your client, and assuming the vendor is solvent, your client should be fully indemnified. The vendor, in turn, may have a claim against the manufacturer—assuming the manufacturer is subject to U.S. jurisdiction. But the copyright owner doesn't have to worry about those issues if he or she doesn't want to pursue those companies. The beauty of copyright protection—and your client's misfortune—is that the copyright owner can recover from any and all of the links in the chain of infringement.

What Can Be Done?

Now that you have explained all of this to your client, he or she wants to know how to avoid replaying this scenario in the future. First, your client needs to be aware of issues involving copyright. Know and respect the fact that any tangible article may be copyrighted. Look for the copyright symbol. Ask vendors who owns the copyright to the design of any product. Second, your client should write explicit protection into purchase orders and demand a contractual warranty that the vendor has researched copyright, procured all necessary licensing, and will fully indemnify your client for any judgment or settlement, including the costs of defense, in any infringement litigation that may arise.

As is so often the case in the law, the best defense is a good offense. **TFL**

Lisa C. DeJaco practices litigation in Louisville, Ky., with Wyatt Tarrant & Combs LLP. Her work includes disputes over copyrights, trademarks, patents, and trade secrets.

Endnote

[1]Assuming that the sample wasn't marked with a © symbol, you may ask the court to find that your client was an "innocent infringer," who was not aware, and had no reason to believe, that his or her acts constituted an infringement of copyright, in which case the court in its discretion may reduce the award of statutory damages to a sum of not less than $200. This outcome is unlikely, unless your client took some steps to investigate the status of the copyright when presented with the article.

MESSAGE *continued from page 3*

people at the table. That's the true power of who we are in the Federal Bar Association, our member-to-member association.

I thank all of you for allowing me to be president of this bar association. It has been an honor to serve. Above all else, your friendship as I've traveled around the country has meant everything to me. And I've been almost everywhere. **TFL**