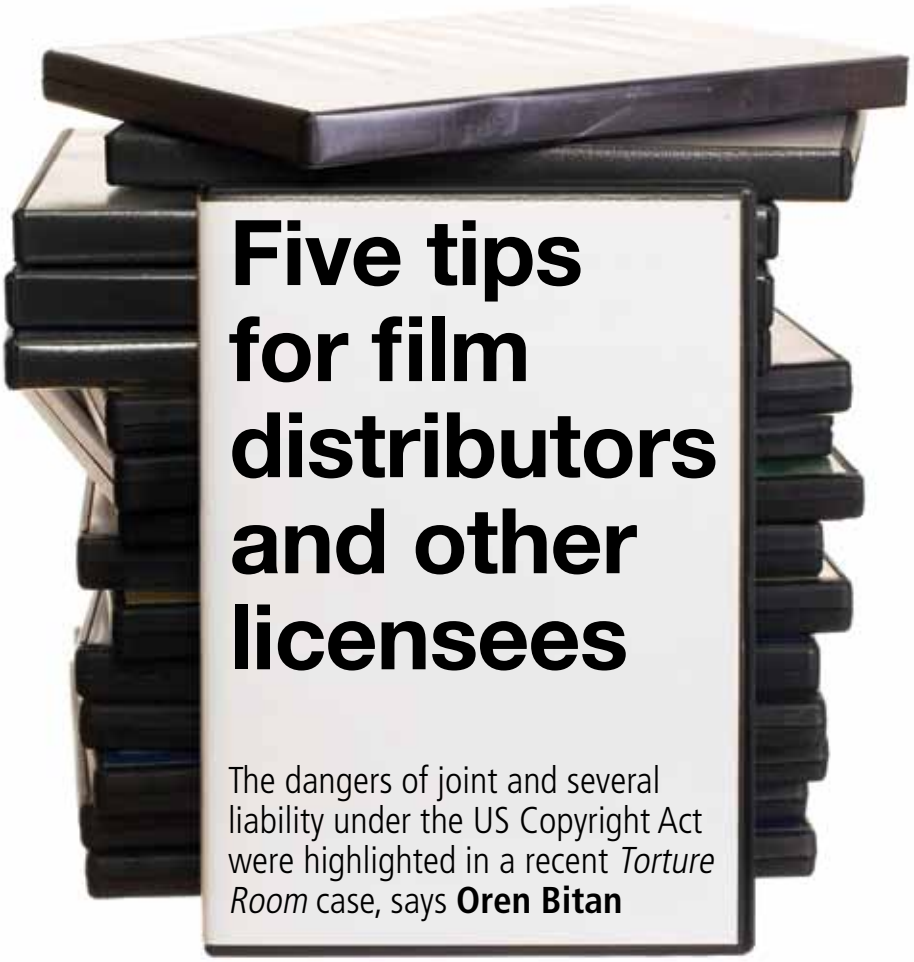

Five tips for film distributors and other licensees

The dangers of joint and several liability under the US Copyright Act were highlighted in a recent *Torture Room* case, says **Oren Bitan**

The United States Copyright Act does not discriminate between two or more joint infringers, even if one infringer is found to be more "blameworthy". As a result, distributors of copyrighted works must take special care to contract with reliable licensees to ensure they are not held liable for the entirety of a successful plaintiff's copyright infringement damages, which can include the total value of the copyrighted work. The perils of joint and several liability are magnified when a co-defendant becomes insolvent or "judgment proof." Some of the protective measures a distributor can employ include verifying chain of title, securing Errors and Omissions insurance, (E&O) and by adequately vetting the financial strength of its licensor. If such protective measures are not taken, a distributor can find itself exclusively liable for a large copyright infringement damages award and the accompanying attorneys' fees without any practical recourse against its licensor.

Randles Films v Quantum Releasing

Randles Films, LLC v Quantum Releasing, LLC, et al, 2014 US App LEXIS 30 (9th Cir Cal 2 Jan, 2014) exemplifies the dangers of doing business with an unknown entity. In *Randles*, Quantum Releasing, LLC ("Quantum") a foreign sales agent, and Echo Bridge Entertainment, LLC ("Echo Bridge"), a domestic distributor, were interested in distributing the motion picture *Torture Room* (the "film") in the US, which was owned by Randles Films, LLC ("Randles Films"). The parties negotiated, but never finalised a deal for domestic distribution. Undeterred, Quantum signed a distribution agreement with Echo Bridge representing that it had acquired the exclusive domestic rights to *Torture Room* and would indemnify Echo Bridge in the event a copyright infringement suit arose from Echo Bridge's film distribution.

"The Ninth Circuit held that, '[A]lthough damages caused by foreign acts of infringement are not recoverable, the Copyright Act's extraterritoriality limitation does not bar recovery for losses that are caused entirely by domestic acts of infringement'."

Quantum also agreed to provide E&O insurance and adequate chain of title for the film, but never complied with either promise. Without securing E&O insurance and without reviewing complete chain of title, Echo Bridge, exclusively relying upon Quantum's contractual representations, released the film in the US, but did so with little advertising, marketing, or promotion. As a result, Echo Bridge generated just over $20,000 in gross revenue from its distribution of the film.

Upon Randles Films' discovery that Echo Bridge and Quantum had released the film without its permission, Randles Films' informed Quantum and Echo Bridge by phone, email, and letter that they were not permitted to distribute *Torture Room* in the US and demanded that all infringing copies be removed from the marketplace. Ultimately Randles Films had no choice but to sue.

Quantum and Echo Bridge challenged their liability for infringement until the district court ruled on summary judgment that each was liable for infringing Randles Films' screenplay and movie copyrights in *Torture Room*. At trial, the district court again found in favour of Randles Films, holding defendants Quantum and Echo Bridge joint and severally liable for copyright infringement and awarding Randles $350,000 in actual damages and $215,655.30 in attorneys' fees and costs.

Echo Bridge appealed the trial court's judgment, arguing, in part, that Randles Films improperly received "worldwide" actual damages and that the Copyright Act only permitted the recovery of lost profits obtained outside of the US. The United States Court of Appeals for the Ninth Circuit affirmed the trial court's judgment and held that "[t]he district court did not err when it awarded $350,000 in actual damages to Randles Films based on Donald Randles' unrebutted testimony that the film's market value of $350,000 was reduced to zero because of EBE's infringement." *Randles Films*, 2014 US App LEXIS 30 at *2. The Ninth Circuit cited *Frank Music Corp v Metro-Goldwyn-Mayer, Inc,* 772 F.2d 505, 512 (9th Cir 1985) in support of this point, which recognised that uncertainty as to the amount of damages will not preclude recovery by a plaintiff in a copyright infringement suit.

Extraterritoriality of copyright damages

In analysing Randles' entitlement to

"worldwide" damages, the Ninth Circuit held that "[a]lthough damages caused by foreign acts of infringement are not recoverable, the Copyright Act's extraterritoriality limitation does not bar recovery for losses that are caused entirely by domestic acts of infringement." *Randles Films*, 2014 US App. LEXIS 30 at *2.

The Ninth Circuit relied upon two cases for this proposition, *Subafilms, Ltd v MGM-Pathe Commc'ns Co*, 24 F.3d 1088 (9th Cir 1994) *(en banc) ("Subafilms")* and *Los Angeles News Service v Reuters TV International,* 340 F.3d 926 (9th Cir 2003) ("*Reuters II*").

In its appeal, Echo Bridge argued that *Subafilms* and *Reuters II* barred Randles' entitlement to $350,000 in actual damages, which represented the entire value of the film. The Ninth Circuit disagreed and held that an award of worldwide damages is proper if the infringing acts took place within the US. *Randles Films*, 2014 US App LEXIS 30 at *3 (citing *Suba films*, 24 F.3d at 1091, 1099 ("infringing actions that take place entirely outside the United States are not actionable.")). Because Echo Bridge conducted all of its infringing conduct domestically, including reproducing and distributing copies of the film to US wholesalers and retailers, and selling digital versions of the film, the court in *Randles Films* held that all of Randles' damages thus flowed from domestic acts of infringement. Therefore, Randles was entitled to recover all of its damages. (*Randles Films*, 2014 US App LEXIS 30 at *3.)

Likewise, the holding in *Reuters II* did not bar Randles' ability to recover worldwide damages. Instead, *Reuters II* discussed the territoriality limitation of the Copyright Act and its exception for foreign acts of infringement. *Reuters II,* 340 F.3d at 931-32. Specifically, *Reuters II* limited damages flowing from international acts and effects to an infringer's profits. Unlike the plaintiff in *Reuters II*, who sought to recover its lost foreign sales, Randles Films only sought recovery of damages it suffered in the US as a result of Echo Bridge's US acts of infringement. Therefore, the court in *Randles Films* held that *Reuters II* did not limit Randles' entitlement to $350,000 in damages. (*Randles Films,* 2014 US App LEXIS 30 at *3.)

The holding and reasoning in *Randles Films* exemplifies the breadth of damages a distributor may be liable for in a copyright infringement suit. And since the film *Torture Room* was modestly valued at $350,000, which is low even in the world of independently produced films, the next case in which a distributor is found liable for copyright infringement could result in an exponentially larger damages award.

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Joint and several liability

One of the central district court findings in *Randles Films*, which was not challenged on appeal, was that Echo Bridge and Quantum were deemed to be joint tortfeasers and therefore jointly and severally liable for Randles' actual damages. The legal basis for Quantum and Echo Bridge's jointly and several liability is Section 504(c)(1) of the Copyright Act, which permits a copyright owner to recover "an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally." (17 USC § 504(c)(1) (2001). *Columbia Pictures Indus v Krypton Broad of Birmingham, Inc*, 259 F.3d 1186, 1193 (9th Cir 2001); see eg, *MCA, Inc v Wilson*, 677 F.2d 180, 186 (2d Cir NY 1981) (holding infringers that acted in concert joint and severally liable).)

The district court in Randles Films found that Echo Bridge and Quantum were joint tortfeasers because they acted in concert to reproduce and distribute unauthorised copies of *Torture Room*. As a result, they were jointly and severally liable for $350,000 in actual damages and $215,655.30 in attorneys' fees and costs.

The practical application of the holding in *Randles Films* to distributors of copyrighted works is a straightforward one – if found liable for copyright infringement, a distributor may be single-handedly liable for the entire value of the copyrighted work. Therefore, a distributor is well advised to take the precautionary steps outlined in the table left.

Five business tips for distributors of copyrighted works

- Film distributors and other licensees of copyrighted works need to be vigilant in their dealings with unproven licensors. Less experienced licensors likely have fewer assets than a well-established entity and may be less familiar with the strict requirements of the Copyright Act.
- Since a distributor's claim that it lacked knowledge that it was infringing when it distributed a copyrighted work is not a defence to joint tortfeasorship, a distributor must verify the chain of title of the distributed work *prior* to its distribution. A licensor's representation regarding the chain of title to a work will not suffice. A distributor must conduct its own due diligence.
- A film distributor must also ensure that its distribution agreement includes an indemnification provision protecting it from liability arising from any copyright infringement suits related to its distribution. While an indemnification provision is only as effective as the financial strength of the indemnifying party, this provision is nonetheless important.
- Because indemnification provisions are only effective when dealing with a solvent licensor, a film distributor should also ensure that it has E&O insurance in place prior to its distribution in the event that its licensor becomes insolvent or "judgment proof" during or after an infringement suit. A distributor must also ensure that it is a named insured on an E&O policy written prior to its involvement in the copyrighted work and that the policy specifically includes copyright infringement suits.
- A distributor should retain a portion of revenues derived from exploitation of the copyrighted work to be applied to defending against or paying a copyright infringement judgment. As a result, it will be at least partially financially protected in the event the licensor becomes judgment proof.

Author

Oren Bitan is an associate in the litigation practice group at Buchalter Nemer. His experience includes handling unfair competition, false advertising, class action, copyright, trademark, film finance, real estate, trade secret, and breach of contract matters for clients in the entertainment, banking, real estate, retail, restaurant/hospitality, health care, technology, new media, and food industries.