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STATUTORY DAMAGES

The author challenges a recent ruling that a jury's statutory damages award of \$670,000 against a peer-to-peer file sharer was unconstitutional.

Are File-Sharing Willful Infringers Now a Judicially Protected Class?



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Sony *BMG Music Entertainment v. Tenenbaum*¹ did what no court ever did before. It held unconstitutional a jury award of statutory damages even though the award was within the statutory range that Congress set. This result, if affirmed on appeal, will change the shape of copyright litigation for years to come.

¹ 2010 WL 2705499 (D. Mass. July 9, 2010) (80 PTCJ 330, 7/16/10).

Tenenbaum found the jury's verdict of \$675,000 for defendant's willful infringement of 30 songs "unconstitutionally excessive." It reached this result by applying the three "guideposts" established in *BMW of North America Inc. v. Gore*.² The *Gore* framework assesses an award of punitive damages based on the: (1) degree of reprehensibility of the defendant's misconduct; (2) the disparity between the actual or potential harm suffered by the plaintiff and the punitive damages award; and (3) the difference between the punitive damages awarded by the jury and civil penalties authorized or imposed in comparable cases.

I suggest that the *Gore* standards are an ill fit for this case and that the constitutionality of a statutory damages award is better tested by applying the standard established years before by the Supreme Court in *St. Louis, Iron Mountain & Southern Railway Co. v. Williams*.³

Why the *Gore* Guidelines Are Inapplicable

The *Gore* guidelines do not work here for the following reasons:

A. *Gore* dealt with punitive damages. But statutory damages are different. Punitive damages are designed to punish in amounts that are usually unconstrained. In contrast, statutory damages have legislative limits and are not only intended to punish but to compensate, impose appropriate damages on wrongdoers, deter future infringements, and promote the creation of intellectual property.⁴

B. *Gore's* guideposts derive from the need to give a defendant notice of the severity of the penalty that may be imposed.⁵ But the statutory damages scheme in the Copyright Act already gives notice. Congress has established and periodically calibrated that range of damages and a verdict within that range is entitled to substantial deference.⁶

² 517 U.S. (1996).

³ 251 U.S. 63 (1919).

⁴ See, e.g., *F.W. Woolworth Co. v. Contemporary Arts Inc.*, 344 U.S. 228, 233 (1952) ("The statutory rule, formulated after long experience, not merely compels restitution of profit and reparation for injury but also is designed to discourage wrongful conduct."); *Feltner v. Columbia Pictures Television Inc.*, 523 U.S. 340, 352, 46 USPQ2d 1161 (1998) (55 PTCJ 514, 4/2/98). ("[A]n award of statutory damages may serve purposes traditionally associated with legal relief, such as compensation and punishment."); *Fitzgerald Publishing Co. v. Baylor Publishing Co.*, 807 F. 2d 1110, 1 USPQ2d 1261 (2d Cir. 1986) (33 PTCJ 230, 1/15/86) ("[T]he expenses saved and the profits reaped by the infringers are considered" as are "the revenues lost by the plaintiff . . . the value of the copyright, . . . and the deterrent effect on others besides the defendant."); *Stevens v. Aeonian Press*, 64 USPQ2d 1920, 1921 (S.D.N.Y. 2002) (65 PTCJ 76, 11/22/02) ("In making such an award [of statutory damages], the Court is required to consider various factors, including . . . the revenues lost by the Plaintiffs, the value of the copyright, the deterrent effect of the award on other potential infringers, and factors relating to individual culpability.")

⁵ 517 U.S. at 573 ("Elementary notions of fairness enshrined in this Court's constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment but also of the severity of the penalty that a State may impose").

⁶ *Tenenbaum* acknowledged at 2010 WL 2705499, *6 "[i]n reviewing the jury's award, I must 'accord 'substantial defer-

C. The second *Gore* guidepost weighs the relationship between the punitive award and the actual harm.⁷ But this guidepost has no application to statutory damages which may be awarded without any showing of harm.⁸

D. The third *Gore* guidepost judges the propriety of the award by focusing on its relationship with the applicable statutory penalty.⁹ But this guidepost is irrelevant here because the award is, by definition, the applicable statutory penalty.

The Court Creates a Safe Harbor for File Sharers

Tenenbaum avoided the identity between the jury award and penalty by reaching an extraordinary conclusion. The court stated that the statutory damages scheme in the Digital Theft Deterrence Act of 1999 was not intended to apply to "noncommercial infringers sharing and downloading music through peer-to-peer networks."¹⁰ Judge Nancy Gertner added there was "substantial evidence indicating that Congress did not contemplate that the Copyright Act's broad statutory damages provision would be applied to college students like *Tenenbaum* who file-shared without any pecuniary gain."¹¹

No doubt college students across the country are toasting this result. But the "substantial evidence" the court relied on were off-hand comments by Sens. Orrin G. Hatch (R-Utah) and Patrick J. Leahy (D-Vt.) made at hearings held after Congress passed the Digital Theft statute.¹²

In fact, the legislative history of the aptly-named Digital Theft Deterrence Act demonstrates the opposite—that it sought to address the growing online theft of intellectual property by all infringers whether college-age or not. Congress expressed the need for this legislation in words that echo *Tenenbaum's* conduct:

By the turn of the century . . . the development of new technology will create additional incentives for copyright thieves to steal protected works. Many computer users . . . simply believe that they will not be caught or prosecuted for their internet conduct. Also many infringers do not consider the current copyright infringement penalties a real threat and continue infringing even after a copyright owner puts them on notice.¹³

The text of the Digital Theft Deterrence Act does not distinguish between classes of infringers nor immunize file sharers from statutory damages. Because the statutory language was plain, the court should not have ex-

ence' to legislative judgments concerning appropriate sanctions for" copyright infringement. *BMW*, 517 U.S. at 583."

⁷ 517 U.S. at 580.

⁸ *Eastern America Trio Products Inc. v. Tang Electric Corp.*, 97 F. Supp. 2d 395, 419, 54 USPQ2d 1776 (S.D.N.Y. 2000) (60 PTCJ 55, 5/19/00). (Statutory damages awarded because "[t]he paucity of evidence presented to the Court makes it impossible to determine the benefits or detriments to either party resulting from the infringement.")

⁹ 517 U.S. at 583.

¹⁰ 2010 WL 2705499, *19.

¹¹ *Id.* at 6.

¹² *Id.* at 20-22.

¹³ *Id.* at 19.

amined congressional intent, much less relied on post hoc comments from two senators.¹⁴

In light of the above, it is not surprising that *Tenenbaum* is the first case to apply the *Gore* guideposts in a due process review of a statutory damages award. Other courts have opted for the more deferential standard established in *Williams*. There the court held that a statutory damages award of \$75, for a violation that resulted in actual damages of 66 cents, was within the statutorily-authorized range of \$50 to \$300 and thus was constitutional.¹⁵

The Williams Standard Is Applicable

Applying the *Williams* standard here makes more sense because *Williams* also dealt with a due process review of a damages award that fell within a statutorily authorized damage range. *Williams* cautioned that an award would violate due process only if it were “so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable” giving “due regard for the interests of the public, the numberless opportunities for committing the offense, and the need for securing uniform adherence to [the law].”¹⁶ The court rejected the defendant’s attempt to test the constitutionality of the “large” penalty by comparing it with the actual damage, stating that statutory remedies for a “public wrong” is not required to “be confined or proportioned to [plaintiff’s] loss or damages.”¹⁷

The jury’s verdict in *Tenenbaum*, although substantial, appears to fit within the *Williams* framework. The award was 15 percent of the maximum of \$4.5 million the jury could have been assessed and therefore seems

not “obviously unreasonable” or “oppressive” considering that *Tenenbaum*’s conduct defines willfulness.¹⁸

Tenenbaum’s Adverse Impact on Copyright Enforcement

Tenenbaum, if affirmed on appeal, will negatively impact copyright enforcement for a number of reasons.

First, *Tenenbaum* may prevent many meritorious cases from being brought. That is because the copyright owner will be unable to show actual damage, which under *Tenenbaum* is a prerequisite to obtaining statutory damages. Demonstrating actual damages is difficult in cases where the value of a copyright is, by its nature, uncertain. How much is a new author’s unpublished novel worth? Although *Tenenbaum* acknowledged the difficulty of proving actual damages, it nevertheless stated there should be “some nexus” between those damages and the jury’s statutory damages award.¹⁹

Second, in cases involving public performances, the only direct loss to the copyright owner is the lost license fee. Limiting the owner to that fee invites infringers to infringe with no risk of loss.

Third, actual damages are often less than the cost of detecting, investigation and, for sure, litigating. So why bother?

Finally, although actual damages include the infringer’s profits attributable to the infringement, there may be none to collect either because an infringer earned none, conveniently lost its sales records, or never kept any.

Hopefully the U.S. Court of Appeals for the First Circuit will be less willing to make illegal behavior affordable.

¹⁴ See *Caminetti v. United States*, 242 U.S. 470, 485, 490 (1917) (“[I]f [a statute’s language] is plain, and if the law is within the constitutional authority of the lawmaking body which passed it, the sole function of the courts is to enforce it according to its terms,” unless doing so would “lead [] to absurd or wholly impracticable consequences.”).

¹⁵ 251 U.S. at 66-67; thus the court approved a statutory-to-actual-damages ratio of approximately 114:1.

¹⁶ *Id.*

¹⁷ *Id.* at 66.

¹⁸ *Tenenbaum* started file sharing in 1999 and continue through 2007, “downloading thousands of songs for free and without authorization.” *Tenenbaum* “was aware his conduct was illegal” and even continued it after receiving a cease and desist letter. When sued he tried to shift responsibility for his downloading to others and lied during his “sworn responses to discovery requests” and “made several misleading or untruthful statements in his deposition testimony.” 2010 WL 2705499, *7-8.

¹⁹ *Id.* *17-18.