VIII. Copyright Litigation and Remedies

In this section, we will cover two principal subjects: (1) the various procedural issues that attend copyright infringement litigation, and (2) the remedies available to successful plaintiffs in a copyright infringement action. We will also briefly examine the Copyright Act's provisions regarding *criminal* liability for copyright infringement, and how those provisions have been interpreted.

A. Subject Matter Jurisdiction

Under federal law, subject matter jurisdiction over copyright infringement actions is given exclusively to federal courts. The relevant provision, 28 U.S.C. § 1338(a), provides:

> *The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to … copyrights …. No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to … copyrights.*

In most cases, determining whether the cause of action arises under copyright law, and is thus within the exclusive jurisdiction of federal courts, will be unproblematic. But there are some cases in which the determination poses some difficulty. Most of these cases involve so-called "hybrid" claims that raise both copyright and contract law issues. An example is *T.B. Harms Co. v. Eliscu*, 339 F.2d 823 (2d Cir. 1964), which involved a dispute over whether a defendant had assigned his interest in a copyright to the plaintiff, or whether the defendant had retained his interest and assigned it at a later date to a second defendant. The plaintiff advanced no infringement claim and sought no relief grounded in the Copyright Act's remedies provisions. In determining whether the case was properly within the federal courts' jurisdiction, the Second Circuit held that a claim "arises under" the Copyright Act if:

> (1) "[T]he complaint is for a remedy expressly granted by the Act, e.g., a suit for infringement or for the statutory [mechanical] royalties …"; or
> (2) "[T]he complaint … asserts a claim requiring construction of the Act …."

Applying the test, the Second Circuit held that the lawsuit in *T.B. Harms* did not "arise under" the Copyright Act and that the federal courts accordingly lacked subject matter jurisdiction.

NOTES

1. If not all cases connected to copyright law will be heard in federal court, what are the implications for copyright policy?

2. In the Copyright Remedy Clarification Act of 1990 (CRCA), Pub. L. No. 101-553, 104 Stat. 2749 (1990) (*codified at* 17 U.S.C. §§ 501(a), 511)), Congress amended the Copyright Act to permit copyright infringement suits against states. There is a substantial question whether the CRCA constitutes a valid congressional abrogation of the states' Eleventh Amendment sovereign immunity. In *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), the Supreme Court held that Congress may not abrogate state sovereign immunity via an exercise of its Article I legislative powers. As a consequence, Congress's decision in the CRCA to abrogate state sovereign immunity cannot be founded on either the Intellectual Property Clause (Article I, § 8, clause 8) or the Commerce Clause (Article I, § 8, clause 3). Some have argued, however, that because copyrights may be framed as a property right, Congress may have the power under the Fourteenth Amendment's due process clause to abrogate state sovereign immunity in the case of copyright infringement claims. *See, e.g.,* John T.

Cross, *Intellectual Property and the Eleventh Amendment After* Seminole Tribe, 47 DEPAUL L. REV. 519 (1998).

B. Statute of Limitations

Section 507(b) of the Copyright Act provides that "[n]o civil action shall be maintained under the [Act] unless it is commenced within three years after the claim accrued." That short provision has spawned a surprising number of ambiguities. One such ambiguity is when a copyright infringement claim should be held to have "accrued." A legal claim ordinarily accrues when the conduct that gives rise to the claim occurs. *See* Bay Area Laundry & Dry Cleaning Pension Trust Fund v. Ferbar Corp. of Cal., 522 U.S. 192 (1997). In the case of copyright infringement, under this ordinary understanding—often referred to as the "injury rule"—the claim would "accrue," and the statute of limitations begin to run, when an infringing act occurs. But most courts that have considered the question have abandoned the injury rule in favor of a "discovery rule," holding that a copyright infringement claim "accrues" only when "the plaintiff discovers, or with due diligence should have discovered, the injury that forms the basis for the claim," and that the running of the statute of limitations is therefore "tolled" until the plaintiff discovers the infringement or reasonably should have. *See, e.g.,* William A. Graham Co. v. Haughey, 568 F.3d 425, 433 (3d Cir. 2009).

Note that the Copyright Act's statute of limitations works on a "rolling" basis—that is, for each new act of infringement of a work, even by the same infringer, a new three-year clock begins to run. This means that a particular infringer's liability can potentially continue for decades. Given the "discovery" rule that most courts apply to copyright infringement, what is the argument in favor of a "rolling" statute of limitations for copyright infringement? Does the rolling statute of limitations give copyright owners any benefit that the discovery rule does not in combating infringement that is discovered more than three years after it commences? On the other hand, the rolling statute of limitations does raise the possibility that a rightsholder may delay, possibly for many years, in bringing suit against an open and notorious infringer. Is this fair?

The Supreme Court considered this question in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663 (2014). In particular, the Court considered whether the common law equitable defense of laches should apply to limit copyright infringement claims in which the rightsholder had known about continuing infringement and brought suit only after a lengthy period. Six justices, in an opinion authored by Justice Ginsburg, held that the defense of laches was unavailable in copyright infringement lawsuits:

> *If the rule were, as MGM urges, "sue soon, or forever hold your peace," copyright owners would have to mount a federal case fast to stop seemingly innocuous infringements, lest those infringements eventually grow in magnitude. Section 507(b)'s three-year limitations period, however, coupled to the separate-accrual rule, avoids such litigation profusion. It allows a copyright owner to defer suit until she can estimate whether litigation is worth the candle. She will miss out on damages for periods prior to the three-year look-back, but her right to prospective injunctive relief should, in most cases, remain unaltered.*

Note, however, that Justice Ginsburg preserved the possibility that defendants may prevail on an equitable estoppel argument "when a copyright owner engages in intentionally misleading representations concerning his abstention from suit, and the alleged infringer detrimentally relies on the copyright owner's deception." In such a case, "the doctrine of estoppel may bar the copyright owner's claims completely, eliminating all potential remedies." A dissent by Justice Breyer, joined by Chief Justice Roberts and Justice Kennedy, would have held that laches was available as a defense to copyright infringement claims, noting that "it may well be inequitable for the owner of a copyright, with full notice of an intended infringement, to stand inactive while the proposed infringer spends large sums of money in its exploitation, and to intervene only when his speculation has proved a success." Justice Breyer argued that laches was a necessary corrective in cases where lengthy and knowing delay by the copyright owner in bringing suit could prejudice the defendant, possibly because witnesses had died or evidence was lost.

NOTES

1. Do you agree with the Supreme Court's decision in *Petrella* that the equitable defense of laches does not apply to copyright infringement claims? Is there a reason to treat copyright infringement claims differently from other claims?

2. In general, statutes of limitations have two primary purposes: (1) to provide repose—a period after which potential defendants can be assured that they no longer face the threat of legal liability for old acts—and (2) to encourage potential plaintiffs to bring suit in a timely manner, before witnesses and evidence disappear and memories fade. If these are the purposes that underlie statutes of limitations, then how well does the Copyright Act's rolling statute of limitations align with them?

C. Standing

As you learned in Chapter III, under § 201 of the Copyright Act, copyright ownership "vests initially in the author or authors of the work." Moreover, as you will learn in more detail in Chapter X, assignments or exclusive licenses of copyrights operate as "transfer[s] of copyright ownership." *See* 17 U.S.C. § 101 (defining "transfer of copyright ownership"). In the context of copyright litigation, it is important to understand who is the owner of the copyright rights alleged to have been infringed because under § 501(b) of the Copyright Act, only *copyright owners* have standing to sue for infringement of the copyright(s) they own. Section 501(b) provides as follows:

> *The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.*

Section 501(b) gives standing to both "legal" and "beneficial" owners. A legal owner can be the person or entity in which ownership of the copyright originally vested (including in the case of an owner who is not a natural person, via operation of the doctrine of works made for hire, which you learned about in Chapter III). A legal owner can also be a person to whom, or an entity to which, a copyright has been assigned or exclusively licensed. In contrast, a non-exclusive licensee is not a legal owner and does not have standing to sue for infringement.

In the case of an exclusive license, the scope of the licensee's rights, and consequently of his or her standing to sue for infringement, will vary according to the terms of the license. A licensee with an exclusive license to the entirety of a copyright will have standing to sue for any act of infringement of that copyright that occurs during the term of the license. A licensee with an exclusive license that conveys less than the entirety of the original copyright owner's rights under the Copyright Act will have standing to sue for acts of infringement that occur during the term of the license *only if those infringing acts implicate the particular rights, or subdivisions of rights, that are conveyed to the licensee via the exclusive license*. For example, a licensee who has an exclusive license to distribute a copyrighted work cannot sue for acts of infringement that involve only unauthorized reproduction, but not distribution. Or consider a licensee who has an exclusive license to reproduce and distribute a copyrighted work east of the Mississippi River. That licensee lacks standing to sue for infringement with respect to unauthorized reproduction and distribution of the work that occurs wholly on the west side of the Mississippi River.

Section 501(b) of the Copyright Act also grants standing to "beneficial" owners of a copyright. As per the Act's legislative history, a "beneficial" owner of copyright includes "an author who ha[s] parted with legal title to the copyright in exchange for percentage royalties based on sales or license fees." H.R. REP. NO. 94-1476, 94th Cong., 2d Sess. 159 (1976). For example, a songwriter who has transferred the copyright in her musical work to a music publishing company in return for a certain percentage of royalties collected from licensing of that work (as has been the typical arrangement in the music industry, as you learned in Chapter V) is a "beneficial" owner who has standing to sue for infringement of that work. That said, often the songwriter will agree, in assigning the copyright to the music publishing company, that the publisher—and not the songwriter—will bring infringement suits respecting the work that has been assigned.

Finally, note that § 501(b) grants standing *only* to legal and beneficial owners. It does not grant standing to parties, like agents, administrators, and others, who are not owners but who may nonetheless have an interest in a copyright—for example, via a contract specifying that the party will provide services related to the copyright, such as negotiating and executing licenses and collecting and remitting royalties, in exchange for fees. A party's interest in a copyright that does not amount to legal or beneficial *ownership* is insufficient to confer standing on that party to sue for infringement of the copyright. For similar reasons, the mere assignment of *the right to sue for infringement* is not sufficient to create standing in the assignee. Righthaven LLC v. Hoehn, 716 F.3d 1166, 1169 (9th Cir. 2013). Only the assignment or exclusive license of a *copyright right* is sufficient. Nor do associations have standing to sue for copyright infringement on behalf of their members. Authors Guild, Inc. v. HathiTrust, 755 F.3d 87, 94 (2d Cir. 2014).

Do you think it is good or bad for copyright policy that a party that acquires a copyright owner's right to sue does not have standing to sue for infringement? For an exploration of this issue, see Shyamkrishna Balganesh, *Copyright Infringement Markets*, 113 COLUM. L. REV. 2277 (2013); Shyamkrishna Balganesh, *The Uneasy Case Against Copyright Trolls*, 86 S. CAL. L. REV. 723 (2013).

NOTES

1. The Copyright Act's legislative history makes the purpose of § 501(b) clear: It was intended to allow "the owner of a particular right to bring an infringement action in that owner's name alone, while at the same time insuring to the extent possible that the other owners whose rights may be affected are notified and given a chance to join the action." H.R. REP. NO. 94-1476, 94th Cong., 2d Sess. 159 (1976). Reread the last two sentences of § 501(b) above to see how Congress effectuated the second purpose it articulated in the legislative history.

2. As you learned in Chapter IV, § 411 of the Copyright Act, which is referenced in § 501(b), requires the owner of any United States work to register the owner's copyright claim in that work before the commencement of an infringement action. (As you also learned, the U.S. Supreme Court recently held that a copyright owner satisfies this requirement only when registration has been *granted or refused by the Copyright Office* prior to filing suit rather than merely by submitting a registration *application* prior to commencing an infringement action. Fourth Estate Pub. Benefit Corp. v. Wall-Street.com, LLC, 139 S. Ct. 881 (2019).)

3. Parties facing a substantial threat of copyright infringement liability may initiate litigation seeking a declaration that their conduct does not infringe. Under the Declaratory Judgment Act, 28 U.S.C. § 2201, a court has subject matter jurisdiction over an action seeking a declaratory judgment if the party facing a threat

of infringement liability—the "declaratory judgment plaintiff"—(1) demonstrates a real and reasonable apprehension that she will be subject to liability if she continues to engage in the potentially infringing conduct, and (2) some statement or action of the copyright owner caused the declaratory judgment plaintiff's apprehension. Shloss v. Sweeney, 515 F. Supp. 2d 1068 (N.D. Cal. 2007).

D. Judicial Deference to Copyright Office

Copyright is an area of law that interacts with the United States Copyright Office, which is a division of the Library of Congress. The primary function of the Copyright Office is to register claims of copyright in works of authorship. When the Register of Copyrights (the official who heads the Copyright Office) issues a certificate of registration of a claim of copyright in a work before or within five years after the work's publication, the Copyright Act directs courts to treat the certificate as prima facie evidence of the copyright's validity. 17 U.S.C. § 410(c). Of course, the presumption is a limited one; it does not conclusively establish copyrightability but rather shifts to the defendant the burden of proving that the plaintiff's work is not copyrightable. *See* Ets-Hokin v. Skyy Spirits, Inc. 225 F.3d 1068, 1075 (9th Cir. 2000) (explaining that the certificate of registration entitles plaintiff to a "rebuttable presumption of originality").

The Copyright Office is also granted limited regulatory authority. The Copyright Act provides the Register of Copyrights with authority to "establish regulations not inconsistent with law for the administration of the functions and duties made the responsibility of the Register under this title. All regulations established by the Register under this title are subject to the approval of the Librarian of Congress." 17 U.S.C. § 702. Those regulations are made expressly subject to the Administrative Procedures Act. *Id.* § 701(e).

Because the Copyright Office is an arm of Congress and is not part of the executive branch, some have questioned the constitutional basis for *any* regulatory authority granted by Congress to this entity. *See, e.g.*, Andy Gass, *Considering Copyright Rulemaking: The Constitutional Question*, 27 BERKELEY TECH. L.J. 1047 (2012).

In addition to regulations created pursuant to the requirements of the Administrative Procedure Act, the Copyright Office also publishes an important document, the *Compendium of Copyright Office Practices*. The *Compendium* is a summary of the *practices* of the Copyright Office. It is not a compendium of copyright law generally, or of any aspect of copyright law that lies outside of the Copyright Office's administrative functions. As noted in its introduction, the "primary focus" of the Compendium is "on the registration of copyright claims, documentation of copyright ownership, and recordation of copyright documents, including assignments and licenses." For further clarification, the introduction notes that "[t]he Compendium does not override any existing statute or regulation. The policies and practices set forth in the Compendium do not in themselves have the force and effect of law and are not binding upon the Register of Copyrights or U.S. Copyright Office staff."

NOTES

1. The Register of Copyrights is appointed by (and is removable by) the Librarian of Congress, a presidential appointee. Recently, bills were introduced in both the U.S. House of Representatives and Senate to make the Register a presidential appointee with a fixed term in office. *See* H.R. 1695, Register of Copyrights Selection and Accountability Act of 2017; S. 1010, Register of Copyrights Selection and Accountability Act of 2017. The House of Representatives bill passed there on April 26, 2017. As of this writing (May 15, 2019), there has been no vote in the Senate on its bill.

2. The proposal to remove the Register from the control of the Librarian and make the position subject to presidential appointment is generally supported by content owners and opposed by librarians and many

content users. Can you think of reasons why that might be so?

As you read the following case, consider how much deference the Copyright Office's pronouncements get. Is this result helpful as a matter of copyright policy?

Capitol Records, LLC v. Vimeo, LLC

826 F.3d 78 (2d Cir. 2016)

LEVAL, J.:

[1] This is an interlocutory appeal on certified questions from rulings of the United States District Court for the Southern District of New York interpreting the Digital Millennium Copyright Act of 1998. The DMCA establishes a safe harbor in § 512(c), which gives qualifying Internet service providers protection from liability for copyright infringement when their users upload infringing material on the service provider's site and the service provider is unaware of the infringement. Defendant Vimeo, LLC is an Internet service provider, which operates a website on which members can post videos of their own creation, which are then accessible to the public at large. Plaintiffs are record companies and music publishing companies, which own copyrights in sound recordings of musical performances. Their complaint alleges that Vimeo is liable to Plaintiffs for copyright infringement by reason of 199 videos posted on the Vimeo website, which contained allegedly infringing musical recordings for which Plaintiffs owned the rights.

[2] .... This interlocutory appeal focuses on ... whether the safe harbor of § 512(c) applies to pre-1972 sound recordings ....

[3] We affirm the district court's rulings in part and vacate in part.... On ... whether the safe harbor protects service providers from infringement liability under state copyright laws[,] we conclude it does and accordingly vacate the district court's grant of partial summary judgment to Plaintiffs on this question....

I. Pre-1972 Recordings

[4] The first question we consider is whether the district court erred in granting partial summary judgment to Plaintiffs, rejecting the availability of the DMCA's safe harbor for infringement of sound recordings fixed prior to February 15, 1972. (For convenience, we use the terms "pre-1972" and "post-1972" to refer to sound recordings fixed before, or after, February 15, 1972.) The district court concluded that, with respect to sound recordings, the safe harbor established by § 512(c) protects only against liability under the *federal* copyright law, and that the DMCA consequently gives service providers no protection for pre-1972 recordings, which are protected only by *state* laws of copyright.

[5] Confusion on this issue results from Congress's convoluted treatment of sound recordings. Although sound recordings have existed since the 19th century, for reasons not easily understood Congress first included them within the scope of federal copyright protection on February 15, 1972, and the grant of federal copyright protection to sound recordings on that date applied only to sound recordings to be made thereafter. UNITED STATES COPYRIGHT OFFICE, FEDERAL COPYRIGHT PROTECTION FOR PRE-1972 SOUND RECORDINGS 5 (2011), *available at* http://copyright.gov/docs/sound/pre-72-report.pdf ["Pre-1972 Sound Recordings Report"]. Pre-1972 recordings have never been covered by the federal copyright. Accordingly, copyright protection of pre-1972 sound recordings has depended on the copyright laws of the states.

[6] In 1976, Congress enacted an overall revision of the law of copyright. Section 301 of the new statute, in subsection (a), asserted federal preemption (ousting all state laws) with respect to works covered by the federal copyright. {You will study § 301 and preemption in greater detail in Chapter X.} The preemption did not include pre-1972 sound recordings as these were not covered by the federal copyright. Subsection (c) of § 301 provided with respect to pre-1972 sound recordings that "any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until" February 15, 2047. After that date, federal law would preempt state law, so that state laws of copyright previously protecting pre-1972 sound recordings would cease to have effect, and all pre-1972 sound recordings would pass into the public domain. Subsequently, when Congress extended the duration of the federal copyright term, it passed parallel amendments to § 301(c), which similarly extended the period during which pre-1972 sound recordings would continue to be protected by state copyright laws. Section 301(c) in its present form postpones the date at which pre-1972 sound recordings will pass into the public domain until February 15, 2067—95 years after February 15, 1972.

[7] Plaintiffs argued in the district court, with success, and argue again on this appeal, that the interrelationship of § 301(c) with the safe harbor provision of § 512(c) requires that the latter be interpreted to have no application to pre-1972 sound recordings. Section 512(c), the safe harbor, provides that service providers meeting the qualifications of the statute "shall not be liable ... for infringement of copyright." Plaintiffs argue that, if this safe harbor provision is interpreted to protect service providers from infringement liability under state copyright laws, it conflicts irreconcilably with § 301(c)'s provision that, until 2067, "rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title." According to Plaintiffs' argument, the proper way to reconcile § 301(c) with § 512(c), so as to avoid the conflict, is to construe § 512(c)'s guarantee that service providers "shall not be liable ... for infringement of copyright" as meaning that they shall not be liable for infringement of the federal copyright, but as having no application to any liability service providers may incur under state laws.

[8] On this question, the district court accepted without discussion the position taken by the United States Copyright Office in a report prepared in 2011 that the safe harbor does not protect against liability for infringement of pre-1972 sound recordings. The portion of the Report directed to § 512(c) begins by stating that the Office "sees no reason—and none has been offered—why the section 512 'safe harbor' from liability ... should not apply to the use of pre-1972 sound recordings." It observes that § 512 was "innovative legislation" and that "the concept of providing safe harbors for certain good faith acts on the Internet remains a sound principle." The Report found "no policy justification to exclude older sound recordings from section 512." We agree completely with those conclusions.

[9] Nonetheless, the Report concluded that § 512(c)'s safe harbor does not apply to pre-1972 sound recordings, which are protected only by state law. The Report rejected interpreting § 301(c) as prohibiting "all subsequent regulation [by Congress] of pre-1972 recordings," but nonetheless concluded that "Congress did [not] in fact subsequently regulate pre-1972 sound recordings in section 512(c)."

[10] The Pre-1972 Sound Recordings Report arrived at its conclusion that § 512(c)'s safe harbor applies only to post-1972 sound recordings by the following reasoning: The term "infringement of copyright," which is employed in § 512(c), "is defined in section 501(a) as the violation of 'any of the exclusive rights of the copyright owner as provided by sections 106 through 122.'" Therefore, that term, when used in § 512(c), "only refers to infringement of rights protected under title 17, and does not include infringement of rights protected under [state] law." The Report buttressed its conclusion by reference to two canons of statutory interpretation: (1) that exemptions from liability "must be construed narrowly, and any doubts must be resolved against the ... exemption"; and (2) that one section of a statute "cannot be interpreted in a manner that implicitly repeals another section."

[11] While we unhesitatingly acknowledge the Copyright Office's superior expertise on the Copyright Act, we cannot accept its reading of § 512(c). It is based in major part on a misreading of the statute. The Report's main argument—that § 501(a) defines the words "infringement of copyright" as meaning infringement of the rights granted by the federal statute—misreads this provision. And as for the arguments based on canons of statutory construction, a subject not within the special expertise of the Copyright Office, we respectfully conclude that the pertinent canons were misunderstood and misapplied.

[12] The Report begins its analysis by asserting that § 512(c)'s term "infringement of copyright" is defined in § 501(a) as the violation of "any of the exclusive rights of the copyright owner as provided by sections 106 through 122." Section 501(a), however, does not contain such a definition. The Copyright Act's definitions are set forth in § 101, and do not include a definition for "infringement of copyright." Neither does § 501(a) purport to define "infringement of copyright." It reads: "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 ... is an infringer of the copyright." The statement that one who violates rights identified in specified sections is an "infringer of copyright" does not purport to set forth an exclusive definition of "infringer of copyright." This provision of § 501(a) is in no way incompatible with interpreting the safe harbor as applying to infringement of state copyright laws. To state that conduct *x* violates a law is not the same thing as saying that conduct *x* is the *only conduct* that violates the law. And, in fact, within the terms of the Copyright Act, infringements are specified that are not among those specified in sections 106-122.

[13] A literal and natural reading of the text of § 512(c) leads to the conclusion that its use of the phrase "infringement of copyright" *does* include infringement of state laws of copyright. One who has been found liable for infringement of copyright under state laws has indisputably been found "liable for infringement of copyright." In this instance, Congress did not qualify the phrase "infringement of copyright" by adding, as it did in other circumstances, the words, "under this title." To interpret § 512(c)'s guarantee that service providers "shall not be liable ... for infringement of copyright" to mean that they may nonetheless be liable for infringement of copyright under state laws would be, at the very least, a strained interpretation—one that could be justified only by concluding that Congress must have meant something different from what it said.

[14] In contrast, there is every reason to believe that Congress meant exactly what it said.... [W]hat Congress intended in passing § 512(c) was to strike a compromise under which, in return for the obligation to take down infringing works promptly on receipt of notice of infringement from the owner, Internet service providers would be relieved of liability for user-posted infringements of which they were unaware, as well as of the obligation to scour matter posted on their services to ensure against copyright infringement. The purpose of the compromise was to make economically feasible the provision of valuable Internet services while expanding protections of the interests of copyright owners through the new notice-and-takedown provision. To construe § 512(c) as leaving service providers subject to liability under state copyright laws for postings by users of infringements of which the service providers were unaware would defeat the very purpose Congress sought to achieve in passing the statute. Service providers would be compelled either to incur heavy costs of monitoring every posting to be sure it did not contain infringing pre-1972 recordings, or incurring potentially crushing liabilities under state copyright laws. It is not as if pre-1972 sound recordings were sufficiently outdated as to render the potential liabilities insignificant. Some of the most popular recorded music of all time was recorded before 1972, including work of The Beatles, The Supremes, Elvis Presley, Aretha Franklin, Barbra Streisand, and Marvin Gaye.

[15] Whether we confine our examination to the plain meaning of the text, or consider in addition the purpose the text was intended to achieve, we find no reason to doubt that § 512(c) protects service providers from all liability for infringement of all copyrights established under the laws of the United States, regardless whether established by federal law or by local law under the sufferance of Congress, and not merely from liability under the federal statute.

[16] Nor do we find persuasive force in the Report's reliance on canons of statutory interpretation. The Report argued that interpreting § 512(c) as protecting service providers from liability under state law would ignore the "general rule of statutory construction that exemptions from liability ... must be construed narrowly, and any doubts must be resolved against the one asserting the exemption." As authority for this "rule," the Report cited our decision in *Tasini v. New York Times Co*., 206 F.3d 161, 168 (2d Cir. 2000), *aff'd*, 533 U.S. 483 (2001). The argument is flawed in several respects.

[17] First, the Report's conception that, under the canon it cited, statutes "must be construed" in a certain way misconceives what such canons are. They are not *rules*, but rather suggestive "guides." Such guides are based on commonsense logic and can aid in the interpretation of a legislature's intentions in the face of an ambiguous provision, but only to the extent that the logical propositions on which they are based make sense in the particular circumstance.

[18] Second, the proposition cited by the Report with citation to our *Tasini* decision was not the proposition we espoused in *Tasini*. What we said in that case was that reading a statutory exception to a general rule "as broadly as appellees suggest would cause the exception to swallow the rule," contravening the principle stated by the Supreme Court in *Commissioner v. Clark*, 489 U.S. 726, 739 (1989), that "when a statute sets forth exceptions to a general rule, we generally construe the exceptions narrowly in order to preserve the primary operation of the provision." The difference between the proposition cited in the Report and the statements in *Tasini* and *Clark* is significant. The proposition of *Tasini* and *Clark* is supported by commonsense logic. When a statute sets forth a general principle, coupled with an exception to it, it is logical to assume, in the face of ambiguity in the exception, that the legislature did not intend the exception to be so broad as to leave nothing of the general principle. In contrast, the proposition stated by the Report—that exceptions must in all circumstances be construed narrowly, "and any doubts must be resolved against the one asserting the exception"—is arbitrary and without logical foundation. There is simply no reason to assume as a general proposition that a legislature intended all exceptions to all general principles to be construed narrowly—or broadly for that matter.

[19] The logical principle noted in *Tasini* and *Clark* has no application to the relationship between the general rule of § 301(c) and the exception provided by § 512(c). To construe the safe harbor of § 512(c) as protecting Internet service providers against liability under state law for posted infringements of which they were unaware establishes a tiny exception to the general principle of § 301(c)—that state law will continue for 95 years to govern pre-1972 sound recordings, without interference from the federal statute. The exception does not come close to nullifying the general rule, and the principle of interpretation cited in *Tasini* therefore has no application to these facts. Further, the proposition cited by the Report is particularly without logical force where, as here, the limitation is asserted by a *federal* statute curtailing the operation of *state* law on a matter placed by the Constitution within the authority of Congress.

[20] We also disagree with the Report's citation of *Tennessee Valley Authority v. Hill*, 437 U.S. 153, 189 (1978), for the proposition that "one section of a statute cannot be interpreted in a manner that implicitly repeals another section." The Report substantially overstated, and misapplied, what the Supreme Court said, which was merely that "repeals by implication are not favored." The argument rejected by the Supreme Court was that Congress, by repeatedly funding the construction of a dam, had *by implication* repealed a provision of federal law protecting a wildlife species, the snail darter, whose habitat would be harmed by the operation of the dam. Those circumstances had little in common with this one. Here, to the extent that Congress can be said to have repealed by § 512(c) an aspect of the rule it had previously enacted in § 301(c), it was not by implication but by specific statement. In the *Hill* case, the appropriations funding the dam had made no mention of any rule affecting protection of the snail darter, so that repeal through those acts of appropriation could only have been *by implication*. Here, in contrast, the partial repeal of § 301(c) was by the explicit

statement in § 512(c) that "[a] service provider shall not be liable ... for infringement of copyright ...." The *Hill* principle has no application to this issue.

[21] Finally, construing the safe harbor of § 512(c) as not granting protection to service providers from liability for state-law-based copyright infringements would substantially defeat the statute's purposes. Internet service providers that allow the public to post works on their sites would either need to incur enormous expenses to monitor all postings to ensure the absence of infringing material (contravening the provision of § 512(m) excusing them from such obligation), or would incur state-law-based liabilities for copyright infringement by reason of user-posted infringements of which they were unaware. The financial burdens in either case would be substantial and would likely either dissuade service providers from making large investments in the expansion of the growth and speed of the Internet (which Congress sought to encourage) or perhaps cause them to charge so much for the service as to undermine substantially the public usefulness of the service Congress undertook to promote.

[22] Although an opinion expressed by the Copyright Office in such a report does not receive *Chevron* deference of the sort accorded to rulemaking by authorized agencies, we do recognize the Copyright Office's intimate familiarity with the copyright statute and would certainly give appropriate deference to its reasonably persuasive interpretations of the Copyright Act. *See Skidmore v Swift & Co.*, 323 U.S. 134, 140 (1944) (explaining that the weight of such an interpretation "will depend upon the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all those facts which give it power to persuade, if lacking power to control"). In this instance, however, for the reasons explained above, we cannot accept its interpretation of § 512(c). We conclude that the safe harbor established by § 512(c) protects a qualifying service provider from liability for infringement of copyright under state law. We therefore vacate the district court's grant of summary judgment to Plaintiffs as to the availability of the DMCA safe harbor to Vimeo in relation to liability for infringement of pre-1972 sound recordings....

E. Remedies

The Copyright Act makes available a set of powerful civil remedies for infringement. Section 502 furnishes courts the power to "grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." Section 503(a) provides that a court

> *may order the impounding, on such terms as it may deem reasonable—*
>
> > *(A) of all copies or phonorecords claimed to have been made or used in violation of the exclusive right of the copyright owner;*
> >
> > *(B) of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced; and*
> >
> > *(C) of records documenting the manufacture, sale, or receipt of things involved in any such violation, provided that any records seized under this subparagraph shall be taken into the custody of the court.*

Section 503(b) further directs that "[a]s part of a final judgment or decree, the court may order the destruction or other reasonable disposition of all copies or phonorecords found to have been made or used in violation of the copyright owner's exclusive rights, and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced."

Section 504 provides for monetary damages, giving successful plaintiffs the option to elect to receive either actual damages and profits as provided in § 504(b), or statutory damages as provided in § 504(c).

Finally, § 505 provides that a court may "in its discretion ... allow the recovery of full costs by or against any party other than the United States or an officer thereof. Except as otherwise provided by this title, the court may also award a reasonable attorney's fee to the prevailing party as part of the costs."

1. Injunctive Relief

In cases outside the context of copyright, courts traditionally have required plaintiffs requesting either preliminary or permanent injunctive relief to establish the need for such relief. Courts typically assess the need for permanent injunctive relief according to four factors, which, although phrased with some variation, boil down to a requirement that the plaintiff show:

> *(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.*

eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006).

In copyright cases, courts until recently tended to short-circuit this analysis. In particular, most courts were willing to presume irreparable harm based on a showing of likely infringement (in the preliminary injunction context) or proven infringement (in the permanent injunction context). *See, e.g.*, Triad Sys. Corp. v. Southeastern Express Co., 64 F.3d 1330, 1335 (9th Cir. 1995); Video Trip Corp. v. Lightning Video, Inc., 866 F.2d 50, 51-52 (2d Cir. 1989).

The Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), ended this practice. In that case, the Supreme Court ruled that courts could not presume irreparable harm based on the mere fact of infringement, and instead that a plaintiff must establish the need for injunctive relief according to the traditional four-factor test it set out, and, further, that the "decision to grant or deny permanent injunctive relief is an act of equitable discretion by the ... court." *eBay* was a patent infringement case, but the Court made clear that its holding applied to copyright infringement cases too, and indeed that its holding was "consistent with [its] treatment of injunctions under the Copyright Act." The Court continued, that it "has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed."

As you read the next case, think about the range of instances in which an injunction may or may not be appropriate. Do you think an injunction would have been ordered, given the facts of the case, even under pre-*eBay* law?

Christopher Phelps & Associates, LLC v. R. Wayne Galloway

492 F.3d 532 (4th Cir. 2007)

NIEMEYER, J.:

[1] After R. Wayne Galloway began construction of his retirement home on Lake Wylie, near Charlotte, North Carolina, using architectural plans designed and copyrighted by Christopher Phelps & Associates, LLC, without permission, Phelps & Associates commenced this action against Galloway for copyright infringement. Phelps & Associates sought damages, disgorgement of profits, and injunctive relief. A jury found that Galloway infringed Phelps & Associates' copyright and awarded it $20,000 in damages, the fee that Phelps & Associates traditionally charged for such plans. The jury also found that Galloway had realized no profits to disgorge. The district court thereafter declined to enter an injunction, finding that the jury verdict had made Phelps & Associates "whole," and entered judgment in favor of Phelps & Associates for $20,000. From that judgment, Phelps & Associates appeals, requesting … the entry of an injunction prohibiting the future lease or sale of the infringing house and mandating the destruction or return of the infringing plans….

[2] We agree with Galloway's contention that the court in the circumstances presented here did not abuse its discretion in refusing to enter a permanent injunction, as requested by Phelps & Associates, prohibiting Galloway from ever leasing or selling the house. Such an injunction would be overly broad and would unduly restrain the alienation of real property. Other injunctive relief, however, might be available in applying the general principles of equity, as required by *eBay Inc. v. MercExchange*, L.L.C., 547 U.S. 388 (2006), which was decided after the district court's order denying relief in this case. Accordingly, we vacate portions of the district court's order denying injunctive relief and remand for the limited purpose of reconsidering other equitable relief, such as an order requiring Galloway to destroy the infringing plans or return them to Phelps & Associates.

I

[3] R. Wayne Galloway, in anticipation of retirement, planned to build his "dream home" on a lot that he owned on the North Carolina side of Lake Wylie, southwest of Charlotte, North Carolina. Displeased with the design work done by an architect whom he had hired, Galloway went with his son-in-law to view the designs of homes on Lake Norman, an expensive residential area about 30 miles north of Lake Wylie, where his son-in-law was working as an iron-work subcontractor. There, Galloway saw a French-country style house that he liked. His son-in-law approached the builder of the house, Simonini Builders, Inc., and asked the superintendent for a copy of the plans. The superintendent said that Galloway would have to speak with the owner, Mrs. Gina Bridgeford, because "she purchased the plans, they were actually drawn for her." Galloway contacted Mrs. Bridgeford, who gave Galloway her consent for use of the plans "as long as you don't build in our area." As to her authority to give consent, Mrs. Bridgeford testified at trial, "I felt with all we had paid, we owned the plans at that time." Galloway assured Mrs. Bridgeford that he would not build in the area, telling her that he planned to build on Lake Wylie about 30 miles away. With Mrs. Bridgeford's permission, the superintendent at Simonini Builders gave Galloway a copy of the plans for "The Bridgeford Residence." Each page of the plans included the copyright notice, in small print, of the designing architect as follows:

© 2000 Copyright—Christopher Phelps & Assoc., L.L.C. These plans are protected under the federal copyright laws. The original purchaser of this plan is authorized to construct one and only one home using this plan. Modifications or reuse of this plan is prohibited.

[4] Galloway altered the plans only to cover the name and address of "The Bridgeford Residence" with the name and address of "The Galloway Residence," and then he copied them for constructing his house.

[5] Phelps & Associates, which designed the Bridgeford Residence, is an architectural firm in Charlotte, North Carolina, that designs upscale custom houses. It created the design for the Bridgeford Residence .... The Bridgefords paid Phelps & Associates $20,000 for The Bridgeford Residence design, and the Bridgefords built their house on Lake Norman in accordance with that design.

[6] Acting as his own general contractor, Galloway began construction of his house in September 2001, using the Phelps & Associates plans for the Bridgeford Residence.... Phelps & Associates did not then know that the construction was being pursued without permission. Galloway's framing contractor, who had been asked to do some work for Galloway's brother-in-law using pirated Phelps & Associates plans, surmised that Galloway did not have permission to use the plans and approached Galloway to warn him that he could "get in trouble constructing a copyright plan." Galloway "shrugged his shoulders and said something to the effect: 'They've got to find me, catch me first.'"

[7] Through rumors from subcontractors, Phelps & Associates learned in early 2003 that Galloway was constructing a house using its designs. After confirming that fact, Phelps & Associates sent Galloway a cease and desist letter in July 2003. Upon receipt of the letter, Galloway stopped construction on his house, which was then over half completed. Thereafter, in August 2003, Phelps & Associates registered its plans for The Bridgeford Residence with the Copyright Office and then commenced this action against Galloway for copyright infringement...

[8] At the end of the trial, the jury returned a verdict in favor of Phelps & Associates, finding that Galloway had infringed Phelps & Associate's architectural design copyright; awarding Phelps & Associates $20,000 in actual damages; and finding that Galloway had no profits to disgorge. Thereafter, Phelps & Associates requested injunctive relief from the court (1) ordering that the infringing copy of the plans be returned or destroyed; (2) enjoining completion of the house; and (3) permanently enjoining the lease or sale of the house. The court "in its discretion" denied all injunctive relief, finding that the $20,000 jury award made Phelps & Associates "whole." Accordingly, the court entered judgment in favor of Phelps & Associates for $20,000 in damages.

[9] On appeal, Phelps & Associates contends ... that the district court's refusal to enter an injunction was error as a matter of law because it had proved a past infringement and a likelihood of future infringement.

[10] Phelps & Associates did not obtain an injunction pending appeal, and, according to representations made at oral argument, Galloway has completed the construction of his house, where he now resides. Galloway has also satisfied the $20,000 money judgment.

II ...

[11] Phelps & Associates contends that in denying injunctive relief, the district court erred as a matter of law. It argues that the court denied injunctive relief simply because Phelps & Associates received damages and thereby had been made "whole." It maintains that "the mere fact that a copyright owner may recover damages does *not* negate his right to injunctive relief." Phelps & Associates argues affirmatively that when copyright infringement has been proved and there is a threat of continuing infringement, the copyright holder is "*entitled* to an injunction." Because Phelps & Associates says that it made that showing, it claims that it was entitled to injunctive relief.

[12] Insofar as Phelps & Associates suggests that it is *entitled* to injunctive relief, we reject the argument. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). In *eBay*, the Supreme Court rejected any notion that an injunction automatically follows a determination that a copyright has been infringed. The Supreme Court reaffirmed the traditional showing that a plaintiff must make to obtain a permanent injunction in any type of case, including a patent or copyright case:

> *A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.*

Moreover, the Court reiterated that even upon this showing, whether to grant the injunction still remains in the equitable discretion of the court.

[13] Rejecting Phelps & Associates' claim to an automatic injunction or an "entitlement" to one, we now apply traditional equity principles to each of Phelps & Associates' requests for injunctive relief to determine whether the district court abused its discretion.

A

[14] Phelps & Associates' first request, that Galloway be enjoined from completing the house, appears to be moot. At oral argument, the parties represented that the house had been completed.

B

[15] Phelps & Associates' second request for equitable relief, that Galloway be permanently enjoined from leasing or selling the completed house, is argued with the following syllogism: *First,* the completed house is an infringing copy of Phelps & Associates' copyrighted work. *Second,* as the copyright holder, Phelps & Associates has the exclusive right to "distribute" its copyrighted work "by sale or other transfer of ownership." *Therefore*, Galloway may never lease or sell the house without infringing Phelps & Associates' copyright. Because it is likely that Galloway will lease or sell the house, Phelps & Associates believes this lease or sale should be foreclosed by a permanent injunction.

[16] We agree with Phelps & Associates that Galloway will inevitably sell or transfer his house within the period during which Phelps & Associates still holds the copyright—i.e. 95 years—and that such a sale could, absent this action, expose Galloway to further relief. But Phelps & Associates has requested relief for that inevitable transaction now *in this action,* as part of the panoply of remedies available under the Copyright Act, and therefore entitlement to that relief can be and is resolved in this action under the principles of *eBay*.

[17] The first two *eBay* criteria for injunctive relief—irreparable injury and the inadequacy of monetary damages—have most likely been demonstrated. Irreparable injury often derives from the nature of copyright violations, which deprive the copyright holder of intangible exclusive rights. Damages at law will not remedy the continuing existence of Phelps & Associates' design in the Galloway house. Moreover, while the calculation of future damages and profits for each future sale might be possible, any such effort would entail a substantial amount of speculation and guesswork that renders the effort difficult or impossible in this case. Accordingly, we conclude that Phelps & Associates most likely has satisfied the first two *eBay* factors.

[18] When considering the third and fourth factors, however—the balance of hardships and the public interest—Phelps & Associates' showing has fallen short.

[19] *First,* Phelps & Associates has been fully and adequately compensated for the copying and use of its design as manifested in the single Galloway house .... A sale of the house would not be a second copy or manifestation of the design, but merely a transfer of the structure in which the design was first copied. An injunction against sale would but slightly benefit Phelps & Associates' legitimate entitlements because the infringing house would retain the same form and location, remaining a permanent nuisance to the copyright regardless of whether there is an injunction. An injunction against sale would neither undo the prior infringement, nor diminish the chances of future copying. At the same time, a permanent injunction would impose a draconian burden on Galloway, effectively creating a *lis pendens* on the house and subjecting him to contempt proceedings simply for selling his own property.

[20] *Second,* a house or building, as an expression of the architect's copyrighted plans, usually has a predominantly functional character. This functional character was the reason American copyright law, pre-Berne Convention, denied protection to constructed architectural works altogether. This is the same reason that Congress manifested an expectation that injunctions will not be routinely issued against substantially completed houses whose designs violated architectural copyrights. H.R. REP. NO. 101-735, at 13–14 (1990) (explaining that buildings "are the only form of copyrightable subject matter that is habitable"). Those considerations are at their strongest when the architectural structure is completed and inhabited by the infringer, as here. While Galloway infringed the copyright, he now is living in a "copy" of the architectural work. His interest in remaining there, with the same rights as other homeowners to alienate his property, is substantial and, in this case, trumps Phelps & Associates' interests in any injunction prohibiting a lease or sale of the house.

[21] *Third,* an injunction against sale of the house would be overbroad, as it would encumber a great deal of property unrelated to the infringement. The materials and labor that went into the Galloway house, in addition to the swimming pool, the fence, and other non-infringing features, as well as the land underneath the house, would be restrained by the requested injunction. As such, the injunction would take on a fundamentally punitive character, which has not been countenanced in the Copyright Act's remedies. In a similar vein, the requested injunction would undermine an ancient reluctance by the courts to restrain the alienability of real property. For these reasons, the public interest would be disserved by the entry of an injunction.

[22] *Finally,* ultimate discretion to grant any such injunctive relief rests with the district court, and for the reasons enumerated, we conclude that deference to the district court's refusal is appropriate in the absence of any showing that such refusal was otherwise an abuse of discretion.

[23] Thus, with respect to the Galloway house as one manifestation of the Phelps & Associates' design, arising from a single infringing transaction, Phelps & Associates is limited to the other relief provided in this case. Upon satisfaction of that relief, Galloway will be entitled to peaceful ownership of the house, with good and marketable title. This is consistent with the result reached when a converter of property satisfies a judgment: if the judgment does not order return of the property, but rather other relief, the converter obtains good and marketable title to the property after satisfying the judgment. The same policies of promoting clear property rights and finality apply in the case of copyright actions involving single copies of completed structures. Indeed, they are perhaps stronger, as we are promoting the alienability of *real* property....

[24] For all of these reasons, we affirm the district court's order denying an injunction against the future lease or sale of Galloway's house.

C

[25] Finally, Phelps & Associates contends that the district court erred as a matter of law in refusing to grant injunctive relief to require the return or destruction of the infringing plans.

[26] Again, any relief granted in equity is at the discretion of the district court, and a petitioner cannot claim that it was *entitled* to injunctive relief. Nonetheless, the district court, without the benefit of *eBay*, may have denied equitable relief categorically, rather than basing its analysis on the traditional principles of equity.

[27] In denying Phelps & Associates' motion for an injunction, the district court stated:

> *The court finds that the Plaintiff has been made whole, and in its discretion, declines to order Defendant to destroy all copies of the plans at issue.*

[28] Being made whole in the circumstances of this case, however, could only have referred to the jury award of damages for the cost of a license and its finding that Galloway realized no profits for disgorgement. It could not have related to other questions, such as the existence of infringing plans or future acts of infringement.

[29] To explain its ruling, the court stated only,

> *Evidence at trial revealed that the house is substantially constructed and that only interior finish work remains to be done. Thus, there is no likelihood that completion of the house will result in further infringement.*

[30] It does not follow, however, that because the plans were not needed to complete the house, they should not therefore be returned or destroyed, as authorized by 17 U.S.C. § 503(b). The risk of future infringement includes the possible use of plans to build another house, publication of the plans, or other violations of the exclusive rights conferred by 17 U.S.C. § 106.

[31] When Phelps & Associates requested the return or destruction of the infringing plans, the district court was obligated to consider the traditional factors for equitable relief. Yet it appears that the court did not do so. At most, it stated without explanation that it declined "in its discretion … to order defendant to destroy all copies of the plans at issue." Considering the court's ruling in the context of the admonitions given in *eBay*, we cannot conclude that the district court properly performed its equitable functions. Therefore, we vacate that portion of its order as an abuse of discretion….

NOTES

1. Is the court's refusal to grant an injunction in *Phelps* effectively equivalent to the grant of a compulsory license? Why or why not? If the answer is yes, is that a reason to question the wisdom of the *eBay* rule?

2. In an empirical study of injunctive relief in copyright infringement cases post-*eBay*, Jiarui Liu finds that of the 506 copyright infringement decisions post-*eBay* through June 1, 2010, ruling on injunctive relief, only 57 cited *eBay*. Moreover, the plaintiffs obtained injunctive relief in 419 (or 82.8%) of these decisions. Jiarui Liu, *Copyright Injunctions After* eBay*: An Empirical Study*, 16 LEWIS & CLARK L. REV. 215 (2012). Despite the low number of citations to *eBay*, do you think these courts are following the *eBay* standard? Are you surprised by the high number of injunctions granted in copyright infringement cases post-*eBay*?

3. In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197 (N.D. Cal. 2007), the court considered whether a defendant's likely inability to pay damages for mass-scale infringement (as found in the Supreme Court's *Grokster* decision, which you read in Chapter VII) amounted to irreparable harm. The court

held that an injunction was appropriate, based in part on the plaintiffs' reasonable concern about the defendant's solvency:

> *Based on the undisputed evidence at summary judgment of massive end-user infringement, it is highly likely that the award of statutory damages that ultimately befalls StreamCast in this case will be enormous (especially considering the potential relationship between inducement and a finding of willfulness), and would far outstrip the amount of revenue the company has garnered in recent years. This Court's conclusion would also be the same even if Plaintiffs chose to forgo a damages award as part of this lawsuit. This is because the amount of infringement that StreamCast could induce in the future is so staggering that the recoverable statutory damages would very probably be well beyond StreamCast's anticipated resources. Because it is extremely unlikely that StreamCast will be able to compensate Plaintiffs monetarily for the infringements it has induced in the past, or the infringements it could induce in the future through Morpheus, Plaintiffs have and will continue to suffer irreparable harm.*

As this excerpt shows, the court thinks that a strong likelihood of inability to pay damages can demonstrate the irreparable harm that supports injunctive relief.

4. In *Perfect 10, Inc. v. Google, Inc.*, 653 F.3d 976 (9th Cir. 2011) (recall the case from Chapters V and VII), the Ninth Circuit considered a situation that was essentially the obverse of *Grokster*. In *Perfect 10*, the plaintiff argued that it would be irreparably harmed, absent a preliminary injunction, because the prospect of continuing infringement would drive it out of business. The Ninth Circuit upheld a district court order denying the plaintiff's request for an injunction:

> *Perfect 10's theory of irreparable harm is that Google's various services provide free access to Perfect 10's proprietary images, and this access has both destroyed its business model and threatened it with financial ruin, since no one would be willing to pay a subscription fee for material that is available without charge.... Given the limited nature of th[e] evidence [the plaintiff presented on this point], the district court did not abuse its discretion in concluding that Perfect 10 failed to establish that Google's operations would cause it irreparable harm. While being forced into bankruptcy qualifies as a form of irreparable harm, Perfect 10 has not established that the requested injunction would forestall that fate. To begin with, Perfect 10 has not alleged that it was ever in sound financial shape.... In sum, Perfect 10 has not shown a sufficient causal connection between irreparable harm to Perfect 10's business and Google's operation of its search engine. Because Perfect 10 has failed to satisfy this necessary requirement for obtaining preliminary injunctive relief, the district court's ruling was not an abuse of discretion.*

---

2. Actual Damages

Section 504(a) of the Copyright Act provides that

> *an infringer of copyright is liable for either—*
>
> > *(1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or*
> >
> > *(2) statutory damages, as provided by subsection (c).*

Section 504(b) further provides that

> *[t]he copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.*

The Copyright Act does not further define either "actual damages" or "profits," and courts have been left to fill in the meaning of these terms. Courts have also developed rules (or at least guidelines) for proving damages in cases in which the infringed work has been incorporated into a new work that also contains non-infringing material, thus necessitating assessment of the relative importance of infringing and non-infringing content when calculating the percentage of a defendant's profits from the work that were connected to the defendant's infringement of plaintiff's work.

> Review §§ 504(a) and (b) carefully before you read next two cases. Pay attention to the burdens of proof with regard to proving damages.

Frederick E. Bouchat v. Baltimore Ravens Football Club

346 F.3d 514 (4th Cir. 2003)

KING, J.:

[1] This appeal arises from the damages phase of a protracted copyright dispute involving the Baltimore Ravens football team. Frederick Bouchat, the holder of the infringed copyright, raises several challenges to the district court's conduct of proceedings that culminated in a jury verdict finding him entitled to no portion of the infringers' profits. In particular, Bouchat asserts that the court erroneously failed to accord him the benefit of a statutory presumption that an infringer's revenues are entirely attributable to the infringement. For the reasons explained below, we affirm.

I.

[2] On November 6, 1995, the National Football League ("NFL") announced that one of its teams, the Cleveland Browns, would shortly be moving to Baltimore. The team was to leave its entire Browns identity in Cleveland, and thus would need a new name and logo when it moved to its new Maryland home. Bouchat, a Baltimore security guard and amateur artist, became interested in the new team, and he began drawing logo designs based on the various names that the team was considering, including the name "Ravens." On or about December 5, 1995, Bouchat created a drawing of a winged shield (the "Shield Drawing") as a "Ravens" logo.

[3] In March of 1996, the Baltimore team adopted the name "Ravens." In early April, Bouchat sent the Shield Drawing via fax to the Maryland Stadium Authority. Beside the Shield Drawing, Bouchat penned a note asking the Chairman of the Authority to send the sketch to the Ravens' president. Bouchat also requested that if the Ravens used the Shield Drawing, they send him a letter of recognition and an autographed helmet.

[4] In a jury trial on the issue of liability, Bouchat's Shield Drawing was found to have been mistakenly used by National Football League Properties, Inc. ("NFLP") in NFLP's production of the Ravens' new logo, the "Flying B."[1] The Ravens had no knowledge that the NFLP had infringed anyone's work and assumed that the Flying B was an original work owned by NFLP. The Ravens used the Flying B as their primary identifying symbol, and the logo appeared in every aspect of the Ravens' activities, including uniforms, stationery, tickets, banners, on-field insignia, and merchandise.

Figure 115: Frederick Bouchat's Baltimore Ravens logo drawing (left), and NFL's Baltimore Ravens logo (right)

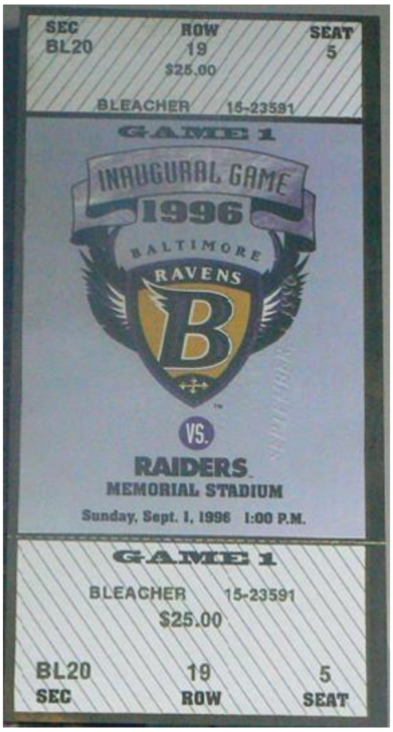


Figure 116: Baltimore Ravens game ticket

[1] NFLP is the Ravens' licensing agent: it grants third parties the right to use the logos and trade/service marks of the various NFL teams in connection with a variety of products and services. In this capacity, NFLP both helped to develop the Ravens' new Flying B logo, and sold to third parties the right to incorporate the Flying B in a wide range of merchandise, including apparel, books, athletic bags, and video tapes.

II.

[5] On May 8, 1997, Bouchat filed suit in the District of Maryland, alleging that the Ravens and NFLP ... had infringed his copyright on the Shield Drawing and on several other drawings, and seeking ten million dollars in damages.... On November 3, 1998, the jury found that Bouchat had proven infringement of the Shield Drawing....

[6] Bouchat sought damages from the Ravens and NFLP pursuant to 17 U.S.C. § 504(a)(1), which renders an infringer liable for "the copyright owner's actual damages and any additional profits of the infringer, as provided by [17 U.S.C. § 504(b)]."[2] Section 504(b), in turn, entitles the copyright owner to recover both "the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." Because Bouchat made no claim for actual damages, the sole question presented for resolution in the damages trial was the amount, if any, of the Defendants' profits that was attributable to the infringement.

[7] In his complaint, Bouchat contended that some portion of essentially *all* of the Defendants' revenues was attributable to the infringing use of Bouchat's artwork. To satisfy his initial burden under § 504(b), Bouchat presented evidence of the gross receipts from all NFLP and Ravens activities. The district court, however, awarded partial summary judgment to the Defendants with respect to all revenues derived from sources other than (1) sales of merchandise bearing the Flying B logo, and (2) royalties obtained from licensees who sold such merchandise (collectively, the "Merchandise Revenues"). The court reasoned that "[i]f the use of the Flying B logo to designate the Ravens could not reasonably be found to have affected the amount of revenue obtained from an activity, the revenue from that activity could not reasonably be found attributable to the infringement." Concluding that only the Merchandise Revenues could reasonably be found to have been affected by the Defendants' unlawful use of the Flying B, the court excluded, as a matter of law, the remainder of the Defendants' revenues (collectively, the "Non-Merchandise Revenues") from the pool of income that the jury could consider in awarding § 504 damages.[4]

[8] At the close of discovery, the district court further narrowed the scope of the Defendants' revenues from which the jury would be permitted to award § 504 damages, when it excluded certain portions of the Merchandise Revenues. Specifically, the court awarded partial summary judgment to the Defendants as to Bouchat's claims for profits from "minimum guarantee shortfalls,"[5] "free merchandise,"[6] trading cards, video games, and game programs (collectively, the "Excluded Merchandise Revenues"). Though it recognized that the Defendants "ha[ve] the burden of proof," the court nonetheless ruled that, with respect to the minimum guarantee shortfalls and the free merchandise, there could be no rational connection between the particular source of revenue and the act of infringement; and that, with respect to the trading cards, video games, and game program sales, the Defendants had produced unrebutted evidence establishing that the revenues received from those sources were not attributable to the infringement.... Both the Non-Merchandise Revenues and a substantial portion of the Merchandise Revenues having thus been excluded, only those

---

[2] Bouchat was not entitled to pursue statutory damages because the infringement was of an unpublished work and preceded copyright registration. 17 U.S.C. § 412(1).

[4] The Non–Merchandise Revenues would include, for instance, revenues from the sale of game tickets, stadium parking, food, drinks (with the exception of those sold in special logo-bearing cups), broadcast rights, and sponsorships.

[5] Under NFLP's retail licensing agreements, licensed vendors of official, logo-bearing merchandise are required to pay a certain sum each year, regardless of whether any sales of licensed products actually occur. Thus, if actual sales fall short of what would be required to generate the guaranteed minimum royalty, a vendor must tender payment in the amount needed to make up the difference. This sum is a "minimum guarantee shortfall" payment.

[6] Under NFLP's retail licensing agreements, a licensed vendor of official, logo-bearing merchandise must provide to NFLP, at no cost, a certain quantity of its licensed products each year. These products are referred to as "free merchandise."

revenues derived from the sale of t-shirts, caps, souvenir cups, and other items bearing the Flying B logo (collectively, the "Non-Excluded Merchandise Revenues") would go to the jury for a finding on attributability.

[9] .... [A]t the close of the evidence, the jury was asked to decide whether the Defendants had proven, by a preponderance of the evidence, that the Non-Excluded Merchandise Revenues were attributable entirely to factors other than the Defendants' infringement of Bouchat's copyright. If the jury found that they were not, then it was charged to decide the percentage of the Non-Excluded Merchandise Revenues attributable to factors other than the infringement.

[10] After a full day of deliberations, the jury answered the first question in the affirmative, thereby denying Bouchat any monetary recovery....

III.

A.

[11] Bouchat's primary contention on appeal is that the district court erred in awarding partial summary judgment to the Defendants with respect to certain portions of the Defendants' revenues. In particular, Bouchat asserts that the court failed to give him the benefit of the § 504 statutory presumption that an infringer's revenues are entirely attributable to the infringement. That presumption, he maintains, creates a question of material fact that cannot be resolved on summary judgment. Thus, he asserts, whether any portion of an infringer's revenues are attributable to some source other than the infringement is a question that can be resolved *only* by a jury. As explained below, we disagree....

[12] Bouchat seeks to recover damages pursuant to 17 U.S.C. § 504(b) for the Defendants' infringement of his copyright. Section 504(b) entitles a successful copyright plaintiff to recover "any profits of the infringer that are attributable to the infringement." The statute goes on to specify that,

> *[i]n establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.*

Thus, § 504(b) creates an initial presumption that the infringer's "profits ... attributable to the infringement" are equal to the infringer's gross revenue. Once the copyright owner has established the amount of the infringer's gross revenues, the burden shifts to the infringer to prove either that part or all of those revenues are "deductible expenses" (i.e., are not profits), or that they are "attributable to factors other than the copyrighted work." Although § 504(b) places the burden on the infringer to demonstrate that certain portions of its revenues were due to factors other than the infringement, the infringer need not prove these amounts with mathematical precision....

[13] Despite the existence of § 504(b)'s burden-shifting provision, summary judgment in favor of an infringer with respect to some portion of the infringer's gross revenues may, in the proper circumstances, be appropriate. Though our Court has not spoken directly on this point, several of our sister circuits have awarded partial summary judgment to infringers, excluding as a matter of law certain portions of an infringer's revenues from the jury's § 504(b) attributability inquiry....

[14] ... [T]he Defendants could properly be awarded summary judgment with respect to any given revenue stream if either (1) there exists no conceivable connection between the infringement and those revenues; or (2) despite the existence of a conceivable connection, Bouchat offered only speculation as to the existence of a causal link between the infringement and the revenues. It is to these inquiries that we turn next....

[15] The Defendants derive revenues from six major sources: (1) sponsorships; (2) broadcast and other media licenses; (3) sale of tickets; (4) miscellaneous business activities, which appear to include provision of game-day stadium parking; (5) sale of official team merchandise; and (6) royalties from licensees who sell official team merchandise. The first four of these sources we characterize as the "Non-Merchandise Revenues," while the fifth and sixth are the "Merchandise Revenues."...

[16] Bouchat contends that, because of the Defendants' widespread use of the Flying B as the primary logo—and as an integral marketing tool—for the Baltimore Ravens, some portion of the revenues that the Defendants earned from both the Non-Merchandise Revenues and the Excluded Merchandise Revenues is attributable to the Defendants' infringement of his copyright. When the district court awarded summary judgment to the Defendants as to large segments of their revenues, however, it denied Bouchat the opportunity to prove this contention to the jury. Despite the fact that § 504(b) places on the infringer the burden of proving that revenues are not attributable to the infringement, summary judgment was appropriate with respect to both the Non-Merchandise Revenues and the Excluded Merchandise Revenues.

[17] As detailed above, we analyze the excluded revenue streams in two steps. We first consider whether any of the Non-Merchandise Revenues and the Excluded Merchandise Revenues lacked a conceivable connection to the infringement. If so, summary judgment in favor of the Defendants with respect to those revenues was proper. Turning then to the remaining excluded revenues, we inquire whether, despite the existence of a conceivable connection between those revenues and the infringement, Bouchat offered only speculative evidence of such a causal link in response to a properly supported motion for summary judgment. If so, then summary judgment in favor of the Defendants was appropriate with respect to these revenues as well.

a.

[18] Of all the excluded revenues, only the revenues from minimum guarantee shortfalls and free merchandise lack all conceivable connection to the Defendants' infringement of Bouchat's copyright. Because no rational trier of fact could find that these two subcategories of the Excluded Merchandise Revenues were affected by the Defendants' adoption of the infringing Flying B logo, the court properly removed them from the pool of Defendants' revenues submitted to the jury for consideration under § 504(b).

[19] The levels of each licensee's minimum guarantee and free merchandise obligation were established, *ex ante*, by the terms of the licensee's contract with NFLP; neither figure could fluctuate in response to consumer behavior. As a consequence, the amount of revenue that the Defendants received in the form of minimum guarantee shortfalls and free merchandise was necessarily independent of any reaction that any individual might have had to the Flying B logo. Whereas it is at least hypothetically possible (albeit highly unlikely) that an individual became so enamored of the infringing aspects of the Flying B logo that he was thus inspired to purchase tickets for the Ravens' games, to pay for parking, to buy non-logo-bearing concessions, and thus to boost the Defendants' revenues from these sources, a similar scenario cannot be conjured with respect to revenues whose levels were fixed and immutable before licensees had an opportunity to stock their shelves with logo-bearing goods. No rational trier of fact could find that the infringing Flying B logo enabled the defendants to generate more income from these two sources than they would otherwise have done. Because no portion of the Defendants' gross revenues from minimum guarantee shortfalls and free merchandise could be attributable to the infringement of Bouchat's copyright, the court did not err in awarding summary judgment to the Defendants with respect to these two sub-categories of the Excluded Merchandise Revenues.

b.

[20] Having concluded that summary judgment in favor of the Defendants was proper with respect to both the minimum guarantee short-falls and the free merchandise, we turn now to the Non-Merchandise Revenues and the remaining sub-categories of the Excluded Merchandise Revenues (i.e., the revenues from trading cards, video games, and game programs). Our inquiry on this point is whether, despite the existence of a conceivable connection between the infringement and the level of revenue that the Defendants earned from these sources, the court was correct in excluding them through summary judgment. Because Bouchat offered only speculative evidence of a causal link between the infringement and the level of the revenues that the Defendants earned from these sources, and because the Defendants' request for summary judgment was supported by unrebutted evidence demonstrating that these revenues were not, in fact, in any way attributable to the infringement, there was no issue of material fact for consideration by the jury. As a result, the court did not err in awarding summary judgment to the Defendants with respect to these remaining categories of revenue.

[21] When they moved for summary judgment, the Defendants successfully carried their initial burden of demonstrating the absence of a genuine issue of material fact. In support of their initial motion for summary judgment, the Defendants proffered affidavits showing that Non-Merchandise Revenues are driven by business and consumer interest in NFL football, and are in no way responsive to logo design. In support of their subsequent summary judgment motion, the Defendants again proffered numerous affidavits, this time showing that sales of trading cards, video games, and game programs are driven by consumer interest in NFL football, and likewise are in no way responsive to logo design. The supporting affidavits established beyond reasonable debate that neither any portion of the Defendants' Non-Merchandise Revenues, nor any portion of their revenues from trading cards, video games, or game programs, was attributable to the Defendants' selection and use of the infringing Flying B rather than some other logo.

[22] Having met their initial burden, the Defendants successfully shifted the onus onto Bouchat to come forward and demonstrate that such an issue does, in fact, exist.… Bouchat, however, produced no specific facts showing that there was a genuine issue for trial; in fact, he declined to respond to the summary judgment motions with any evidence at all, resting instead on his initial, and sole, evidentiary proffer: the total receipts generated by all NFLP and Ravens activities. Because Bouchat failed to offer any nonspeculative evidence demonstrating the existence of a genuine dispute of material fact, the court appropriately awarded summary judgment to the Defendants on the ground that the Non-Merchandise Revenues and the revenues from trading cards, video games, and game programs could not reasonably be found attributable to the infringement.…

[23] For the foregoing reasons, the judgment of the district court is affirmed.

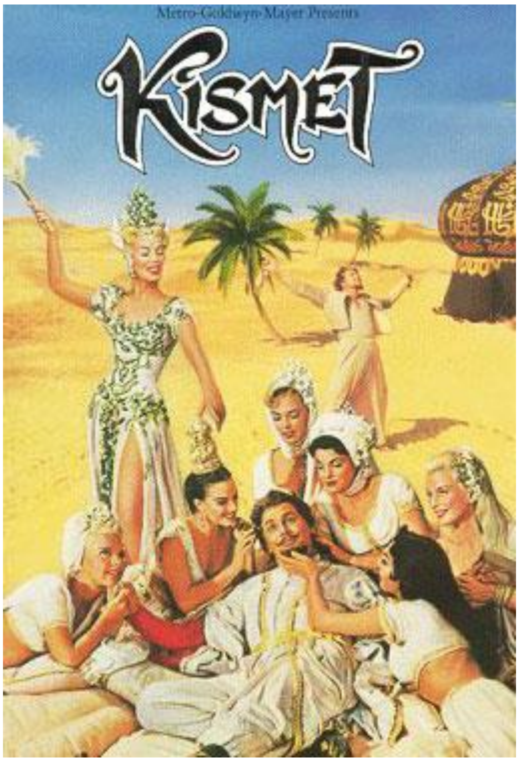
Frank Music Corp. v. Metro-Goldwyn-Mayer Inc.

886 F.2d 1545 (9th Cir. 1989)

FLETCHER, J.: …

[1] …. Plaintiffs are the copyright owners and authors of *Kismet,* a dramatico-musical work. MGM, Inc., under license produced a musical motion picture version of *Kismet.* Beginning April 26, 1974, MGM Grand presented a musical revue entitled *Hallelujah Hollywood* in the hotel's Ziegfeld Theatre. *Hallelujah Hollywood* was largely created by an employee of MGM Grand, Donn Arden, who also staged, produced and directed the show. The show comprised ten acts, four billed as "tributes" to MGM motion pictures. Act IV was entitled "Kismet," and

was a tribute to the MGM movie of that name. It was based almost entirely on music from *Kismet*, and used characters and settings from that musical. Act IV "Kismet" was performed approximately 1700 times, until July 16, 1976, when, under pressure resulting from this litigation, MGM Grand substituted a new Act IV.



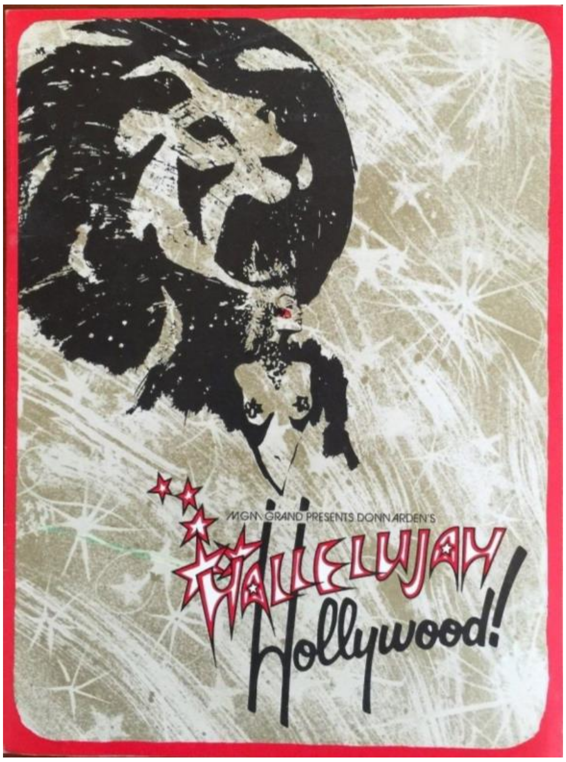


Figure 117: MGM *Kismet* movie poster (left), and MGM Grand *Hallelujah Hollywood!* program cover (right)

[2] Plaintiffs filed suit, alleging copyright infringement .... In *Frank Music I* [a previous appeal in this case], we affirmed the district court's conclusion that the use of *Kismet* in *Hallelujah Hollywood* was beyond the scope of MGM Grand's ASCAP license and infringed plaintiffs' copyright. In this appeal, the parties focus on the adequacy of damages ....

II. DISCUSSION

A. Apportionment of Profits

1. Direct Profits

[3] In *Frank Music I,* we upheld the district court's conclusion that the plaintiffs failed to prove actual damages arising from the infringement, but vacated the district court's award of $22,000 in apportioned profits as "grossly inadequate," and remanded to the district court for reconsideration.

[4] On remand, the district court calculated MGM Grand's net profit from *Hallelujah Hollywood* at $6,131,606, by deducting from its gross revenues the direct costs MGM Grand proved it had incurred. Neither party challenges this calculation.

[5] In apportioning the profits between Act IV and the other acts in the show, the district court made the following finding:

> *Act IV of "Hallelujah Hollywood" was one of ten acts, approximately a ten minute segment of a 100 minute revue. On this basis, the Court concludes that ten percent of the profits of "Hallelujah Hollywood" are attributable to Act IV.*

[6] Plaintiffs assert that this finding is in error in several respects. First, they point out that on Saturdays *Hallelujah Hollywood* contained only eight acts, not ten, and that on Saturdays the show ran only 75 minutes, not 100. Second, Act IV was approximately eleven and a half minutes long, not ten. Because the show was performed three times on Saturdays, and twice a night on the other evenings of the week, the district court substantially underestimated the running time of Act IV in relation to the rest of the show.[2]

[7] If the district court relied exclusively on a quantitative comparison and failed to consider the relative quality or drawing power of the show's various component parts, it erred. However, the district court's apportionment based on comparative durations would be appropriate if the district court implicitly concluded that all the acts of the show were of roughly equal value. While a more precise statement of the district court's reasons would have been desirable, we find support in the record for the conclusion that all the acts in the show were of substantially equal value.

[8] The district court went on to apportion the parties' relative contributions to Act IV itself:

> *The infringing musical material was only one of several elements contributing to the segment. A portion of the profits attributable to Act IV must be allocated to other elements, including the creative talent of the producer and director, the talents of performers, composers, choreographers, costume designers and others who participated in creating Act IV, and the attraction of the unique Ziegfeld Theatre with its elaborate stage effects.... While no precise mathematical formula can be applied, the Court concludes that ... a fair approximation of the value of the infringing work to Act IV is twenty-five percent.*

[9] The district court was correct in probing into the parties' relative contributions to Act IV. Where a defendant alters infringing material to suit its own unique purposes, those alterations and the creativity behind them should be taken into account in apportioning the profits of the infringing work. However, the district court appears to have ignored its finding in its previous decision that defendants used not only the plaintiffs' music, but also their lyrics, characters, settings, and costume designs, recreating to a substantial extent the look and sound of the licensed movie version of *Kismet.*

[10] While it was not inappropriate to consider the creativity of producers, performers and others involved in staging and adapting excerpts from *Kismet* for use in *Hallelujah Hollywood,* the district court erred in weighing these contributions so heavily. In performing the apportionment, the benefit of the doubt must always be given to the plaintiff, not the defendant. And while the apportionment may take into account the role of uncopyrightable elements of a work in generating that work's profits, the apportionment should not place too high a value on the defendants' staging of the work, at the expense of undervaluing the plaintiffs' more substantive creative contributions. Production contributions involving expensive costumes and lavish sets will largely be taken into account when deducting the defendants' costs. Indeed, defendants concede that had they produced *Kismet in toto,* it would have been proper for the district court to award 100% of their profits, despite their own creative efforts in staging such a production.

[2] There were twelve shows weekly which ran for 100 minutes, plus three on Saturdays which ran 75, totalling 1425 minutes per week. Act IV remained constant throughout the week, for a total of approximately 173 minutes. Accordingly, Act IV comprised 12% of the total weekly running time of *Hallelujah Hollywood.* Because the district court's findings differ from those previously found and affirmed in *Frank Music I,* we substitute 12% as the appropriate figure on which we base our subsequent calculations.

[11] The district court found that defendants' staging of the *Kismet* excerpts was highly significant to Act IV's success. While we believe that a defendant's efforts in staging an infringing production will generally not support more than a *de minimis* deduction from the plaintiff's share of the profits, we cannot say the district court's conclusion that the defendants' contributions were substantial in this case is clearly erroneous. We recognize that there will be shows in which the attraction of the costumes, scenery or performers outweighs the attraction of the music or dialogue. On the other hand, a producer's ability to stage a lavish presentation, or a performer's ability to fill a hall from the drawing power of her name alone, is not a license to use freely the copyrighted works of others.

[12] We conclude that apportioning 75% of Act IV to the defendants grossly undervalues the importance of the plaintiffs' contributions. Act IV was essentially *Kismet*, with contributions by the defendants; it was not essentially a new work incidentally plagiarizing elements of *Kismet.* A fairer apportionment, giving due regard to the district court's findings, attributes 75% of Act IV to elements taken from the plaintiffs and 25% to the defendants' contributions.[3]

2. Indirect Profits

[13] In *Frank Music I*, we held that the plaintiffs were entitled to recover, in addition to direct profits, a proportion of ascertainable indirect profits from defendants' hotel and gaming operations attributable to the promotional value of *Hallelujah Hollywood.* The district court considered the relative contributions of *Hallelujah Hollywood* and other factors contributing to the hotel's profits, including the hotel's guest accommodations, restaurants, cocktail lounges, star entertainment in the "Celebrity" room, the movie theater, Jai Alai, the casino itself, convention and banquet facilities, tennis courts, swimming pools, gym and sauna, and also the role of advertising and general promotional activities in bringing customers to the hotel. The district court concluded that two percent of MGM Grand's indirect profit was attributable to *Hallelujah Hollywood.* In light of the general promotion and the wide variety of attractions available at MGM Grand, this conclusion is not clearly erroneous.

B. Prejudgment Interest

[14] The district court, without comment, declined to award prejudgment interest. The availability of prejudgment interest under the Copyright Act of 1909 is an issue of first impression in this circuit.

[15] The 1909 Act does not mention prejudgment interest. {The 1976 Act likewise does not mention prejudgment interest.} Nevertheless, courts may allow prejudgment interest even though the governing statute is silent. The goal of compensating the injured party fairly for the loss caused by the defendant's breach of the statutory obligation should be kept in mind. Prejudgment interest compensates the injured party for the loss of the use of money he would otherwise have had.

[16] Defendants argue that Congress did not intend for prejudgment interest to be available under the 1909 Act. They ask us to infer this from the inclusion of prejudgment interest in the Patent Act and the omission of reference to prejudgment interest in either the 1909 Act or the Copyright Act of 1976. Because the Patent and Copyright Acts are similar statutes with similar purposes, defendants argue that differences between the two Acts with respect to prejudgment interest are intentional.

[17] Examination of the history of prejudgment interest in the patent context suggests this argument is flawed. Before Congress enacted 35 U.S.C. § 284, prejudgment interest was generally available in patent infringement cases from the date damages were liquidated, and in exceptional cases from the date of infringement. Such a remedy was available despite the fact that the patent laws then in effect made no

[3] Based on this allocation, plaintiffs are entitled to $551,844.54 as direct profits from the infringement.

mention of prejudgment interest. Indeed, the wording of the relevant patent statute was similar to that of … the 1909 Copyright Act.

[18] Thus, interpreting the 1909 Act in light of patent law doctrine existing at the time of its enactment and during much of its effective period, we cannot conclude that Congress intended from its silence that prejudgment interest would not be available under the 1909 Act. Just as courts awarded prejudgment interest in order to provide adequate compensation to patent holders before the enactment of 35 U.S.C. § 284, this same remedy should be available to copyright owners for the same purpose.

[19] We therefore hold that prejudgment interest is an available remedy under the 1909 Act. Whether the circumstances of this case warrant the remedy is a separate question. The common-law rule during much of the effective period of the 1909 Act awarded prejudgment interest only on damages that were liquidated or readily ascertainable by mathematical computations and did not rely on opinion or discretion. But even where damages were not liquidated or readily ascertainable, courts had the power to award prejudgment interest on unliquidated damages when necessary to compensate the plaintiff fairly.

[20] Because the 1909 Act allows plaintiffs to recover only the greater of the defendant's profits *or* the plaintiff's actual damages, an award of profits or damages under the 1909 Act will not necessarily be adequate to compensate a prevailing copyright owner. Accordingly, we conclude prejudgment interest ordinarily should be awarded.

[21] Awarding prejudgment interest on the apportioned share of defendant's profits is consistent with the purposes underlying the profits remedy. Profits are awarded to the plaintiff not only to compensate for the plaintiff's injury, but also and primarily to prevent the defendant from being unjustly enriched by its infringing use of the plaintiff's property. For the restitutionary purpose of this remedy to be served fully, the defendant generally should be required to turn over to the plaintiff not only the profits made from the use of his property, but also the interest on these profits, which can well exceed the profits themselves. Indeed, one way to view this interest is as another form of indirect profit accruing from the infringement, which should be turned over to the copyright owner along with other forms of indirect profit. It would be anomalous to hold that a plaintiff can recover, for example, profits derived from the promotional use of its copyrighted material, but not for the value of the use of the revenue generated by the infringement.[10]

[22] We accordingly remand to the district court to enter an award of prejudgment interest.[11] …

NOTES

1. The *Bouchat* court granted summary judgment to the defendants on most of Bouchat's categories of alleged infringement, on the grounds that there could be no conceivable connection between the alleged infringement and revenues. Do you agree with that holding? Even if not, do you agree that Bouchat should recover nothing?

2. The Ninth Circuit in *Frank Music* reversed the district court's apportionment, holding that the district court's 75-25 split in favor of the defendant was clear error and should be flipped to 25-75 in favor of plaintiff. On what basis did the appellate court make this reallocation? Does a rule emerge from the case regarding how to

[10] Prejudgment interest will, of course, be available on both the direct and indirect profits earned by MGM Grand, since both forms of profit are equally attributable to the infringement.

[11] Plaintiffs requested prejudgment interest only from the date of the last infringing performance. This is an acceptable date from which to start the running of interest. We need not decide in this case whether an award of prejudgment interest from some earlier point in time, such as the first infringement or date of notice, would be appropriate.

calculate the relative value of infringing versus non-infringing aspects of the defendant's work for the purpose of apportioning profits?

3. Does copyright policy support awarding a defendant's indirect profits, as the Ninth Circuit did in *Frank Music*? How accurate do you think a court is likely to be in measuring awards of indirect profits?

4. Note that the Copyright Act provides for recovery of both actual damages, often equivalent to a reasonable license fee, and *profits* (not already counted in the damages award). Disgorgement of profits prevents defendants from benefiting from their infringement. This award makes sense if we believe that part of the purpose of copyright law is to force parties to channel their transactions through voluntary negotiations, rather than allowing defendants to infringe and then to pay whatever damages the court orders—with the court, in effect, setting the price for the equivalent of a compulsory license. Note, however, that this is not an iron-clad justification for copyright's disgorgement remedy. Sometimes negotiations are expensive, especially when there are many potential plaintiffs, and it would be cheaper to have a court set a price for use of the work. We might label such instances "efficient copyright infringement," and, but for the Copyright Act's disgorgement remedy, we might argue that courts should permit continued infringement, subject to a judicially-determined license price. *See* David Fagundes, *Efficient Copyright Infringement*, 98 IOWA L. REV. 1791 (2013).

5. One commentator has proposed conditioning the availability of the disgorgement remedy on timely registration of the work, arguing that this revision to § 504(b) would be a powerful inducement to timely-register commercially valuable works, and is permissible under the rules of international copyright treaties. *See* Christopher Jon Sprigman, *Berne's Vanishing Ban on Formalities*, 28 BERKELEY TECH. L.J. 1565 (2013).

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3. Statutory Damages

Section 504(c) makes statutory damages available at a plaintiff's election and in lieu of actual damages and profits. Section 504(c) provides courts discretion to award statutory damages in the following amounts:

> *(1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, 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, in a sum of not less than $750 or more than $30,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.*
>
> *(2) In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $150,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200.…*

Why do you think copyright law provides an option for statutory damages in lieu of actual damages and profits? Why might a plaintiff find statutory damages attractive instead of actual damages? Might a defendant prefer statutory damages too?

Note that a plaintiff's ability to recover statutory damages for infringement of a work is conditioned on timely registration of the work (even for non-U.S. works), as you learned in Chapter IV.

Notice also the very wide range of possible statutory damages for infringement. Why do you think the statutory damages range is so large? Does the Copyright Act's statutory damages scheme provide predictability for either plaintiffs or defendants? For a critical take on the statutory damages provisions, see Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439 (2009).

Please review § 504(c) carefully before reading the next case.

Capitol Records, Inc. v. Jammie Thomas-Rasset

692 F.3d 899 (8th Cir. 2012)

COLLOTON, J.:

[1] This appeal arises from a dispute between several recording companies and Jammie Thomas-Rasset. There is a complicated procedural history involving three jury trials, but for purposes of appeal, it is undisputed that Thomas-Rasset willfully infringed copyrights of twenty-four sound recordings by engaging in file-sharing on the Internet. After a first jury found Thomas-Rasset liable and awarded damages of $222,000, the district court granted a new trial on the ground that the jury instructions incorrectly provided that the Copyright Act forbids making sound recordings available for distribution on a peer-to-peer network, regardless of whether there is proof of "actual distribution." A second jury found Thomas-Rasset liable for willful copyright infringement under a different instruction, and awarded statutory damages of $1,920,000. The district court remitted the award to $54,000, and the companies opted for a new trial on damages. A third jury awarded statutory damages of $1,500,000, but the district court ultimately ruled that the maximum amount permitted by the Due Process Clause of the Fifth Amendment was $54,000 and reduced the verdict accordingly. The court also enjoined Thomas-Rasset from taking certain actions with respect to copyrighted recordings owned by the recording companies.

[2] The companies … object to the district court's ruling on damages, and they seek an award of $222,000, which was the amount awarded by the jury in the first trial.… In a cross-appeal, Thomas-Rasset argues that *any* award of statutory damages is unconstitutional, and urges us to vacate the award of damages altogether.

[3] For reasons set forth below, we conclude that the recording companies are entitled to … damages of $222,000 ….

I. …

[4] On the question of damages, we conclude that a statutory damages award of $9,250 for each of the twenty-four infringed songs, for a total of $222,000, does not contravene the Due Process Clause. The district court erred in reducing the third jury's verdict to $2,250 per work, for a total of $54,000, on the ground that this amount was the maximum permitted by the Constitution.

[5] The Supreme Court long ago declared that damages awarded pursuant to a statute violate due process only if they are "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." St. Louis, I. M. & S. Ry. Co. v. Williams, 251 U.S. 63, 67 (1919). Under this standard, Congress

possesses a wide latitude of discretion in setting statutory damages. *Williams* is still good law, and the district court was correct to apply it.

[6] Thomas-Rasset urges us to consider instead the "guideposts" announced by the Supreme Court for the review of punitive damages awards under the Due Process Clause. When a party challenges an award of punitive damages, a reviewing court is directed to consider three factors in determining whether the award is excessive and unconstitutional: "(1) the 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 the civil penalties authorized or imposed in comparable cases." State Farm Mut. Auto. Ins. Co. v. Campbell, 538 U.S. 408, 418 (2003); *see also* BMW of N. Am., Inc. v. Gore, 517 U.S. 559, 574–75 (1996).

[7] The Supreme Court never has held that the punitive damages guideposts are applicable in the context of statutory damages. Due process prohibits excessive punitive damages because elementary notions of fairness enshrined in our 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. This concern about fair notice does not apply to statutory damages, because those damages are identified and constrained by the authorizing statute. The guideposts themselves, moreover, would be nonsensical if applied to statutory damages. It makes no sense to consider the disparity between "actual harm" and an award of statutory damages when statutory damages are designed precisely for instances where actual harm is difficult or impossible to calculate. Nor could a reviewing court consider the difference between an award of statutory damages and the "civil penalties authorized," because statutory damages *are* the civil penalties authorized.

[8] Applying the *Williams* standard, we conclude that an award of $9,250 per each of twenty-four works is not "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." Congress, exercising its "wide latitude of discretion," set a statutory damages range for willful copyright infringement of $750 to $150,000 per infringed work. 17 U.S.C. § 504(c). The award here is toward the lower end of this broad range. As in *Williams*, "the interests of the public, the numberless opportunities for committing the offense, and the need for securing uniform adherence to [federal law]" support the constitutionality of the award.

[9] Congress's protection of copyrights is not a special private benefit, but is meant to achieve an important public interest: to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired. With the rapid advancement of technology, copyright infringement through online file-sharing has become a serious problem in the recording industry. Evidence at trial showed that revenues across the industry decreased by fifty percent between 1999 and 2006, a decline that the record companies attributed to piracy. This decline in revenue caused a corresponding drop in industry jobs and a reduction in the number of artists represented and albums released.

[10] Congress no doubt was aware of the serious problem posed by online copyright infringement, and the "numberless opportunities for committing the offense," when it last revisited the Copyright Act in 1999. To provide a deterrent against such infringement, Congress amended § 504(c) to increase the minimum per-work award from $500 to $750, the maximum per-work award from $20,000 to $30,000, and the maximum per-work award for willful infringement from $100,000 to $150,000....

[11] In holding that any award over $2,250 per work would violate the Constitution, the district court effectively imposed a treble damages limit on the $750 minimum statutory damages award. The district court based this holding on a "broad legal practice of establishing a treble award as the upper limit permitted to

address willful or particularly damaging behavior." Any "broad legal practice" of treble damages for statutory violations, however, does not control whether an award of statutory damages is within the limits prescribed by the Constitution. The limits of treble damages to which the district court referred, such as in the antitrust laws or other intellectual property laws, represent congressional judgments about the appropriate maximum in a given context. They do not establish a *constitutional* rule that can be substituted for a different congressional judgment in the area of copyright infringement....

[12] Thomas-Rasset's cross-appeal goes so far as to argue that *any* award of statutory damages would be unconstitutional, because even the minimum damages award of $750 per violation would be "wholly disproportioned to the offense" and thus unconstitutional. This is so, Thomas–Rasset argues, because the damages award is not based on any evidence of harm caused by her specific infringement, but rather reflects the harm caused by file-sharing in general. The district court similarly concluded that "statutory damages must still bear *some* relation to actual damages." The Supreme Court in *Williams*, however, disagreed that the constitutional inquiry calls for a comparison of an award of statutory damages to actual damages caused by the violation. Because the damages award "is imposed as a punishment for the violation of a public law, the Legislature may adjust its amount to the public wrong rather than the private injury, just as if it were going to the state." The protection of copyrights is a vindication of the public interest, and statutory damages are by definition a substitute for unproven or unprovable actual damages. For copyright infringement, moreover, statutory damages are designed to discourage wrongful conduct, in addition to providing restitution of profit and reparation for injury.

[13] Thomas-Rasset highlights that if the recording companies had sued her based on infringement of 1,000 copyrighted recordings instead of the twenty-four recordings that they selected, then an award of $9,250 per song would have resulted in a total award of $9,250,000. Because that hypothetical award would be obviously excessive and unreasonable, she reasons, an award of $222,000 based on the same amount per song must likewise be invalid. Whatever the constitutionality of the hypothetical award, we disagree that the validity of the lesser amount sought here depends on whether the Due Process Clause would permit the extrapolated award that she posits. The absolute amount of the award, not just the amount per violation, is relevant to whether the award is "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." The recording companies here opted to sue over twenty-four recordings. If they had sued over 1,000 recordings, then a finder of fact may well have considered the number of recordings and the proportionality of the total award as factors in determining where within the range to assess the statutory damages. If and when a jury returns a multi-million dollar award for noncommercial online copyright infringement, then there will be time enough to consider it.

* * *

[14] For the foregoing reasons, we conclude that the recording companies are entitled to the remedies that they seek on appeal. The judgment of the district court is vacated, and the case is remanded with directions to enter a judgment for damages in the amount of $222,000 ....

NOTES

1. The Copyright Act's statutory damages provisions distinguish between ordinary and "willful" infringement, raising the top of the range for willful infringement from $30,000 to $150,000 per work infringed. For infringement to be "willful," it must be done "with knowledge that [one's] conduct constitutes copyright infringement." *Princeton Univ. Press v. Mich. Doc. Servs., Inc.*, 99 F.3d 1381, 1392 (6th Cir. 1996). Does this knowledge justify the five-fold increase in potential maximum statutory damages?

2. Note that a finding that infringement is "willful" *raises only the top of the statutory damages range*. It does not change the bottom of the range, which remains $750. Of course, it may be unlikely in most cases that a court would award statutory damages at the bottom of the range for willful infringement, but the option remains available. Note also that the Act provides the possibility of a lower award—as low as $200 per work infringed—for cases of innocent infringement—situations in which the infringer "was not aware and had no reason to believe that his or her acts constituted an infringement of copyright." 17 U.S.C. § 504(c)(2).

3. Section 504(c) gives district courts discretion to award statutory damages within the specified ranges, and appellate review is therefore limited to abuse of discretion. *See* Zomba Enterprises, Inc. v. Panorama Records, Inc., 491 F. 3d 574 (6th Cir. 2007). Note that the statute provides no guidance regarding what factors should inform the district court's discretion in setting statutory damages awards, and courts have similarly refrained from specifying what factors should and should not count in the calculus.

4. The Copyright Act directs that a court's award of statutory damages shall be made "with respect to any one work, for which any one infringer is liable" regardless of the number of "infringements involved in the action." 17 U.S.C. § 504(c). What constitutes "one work"? The only guidance the statute provides is that "parts of a compilation or derivative work constitute one work." *Id.*

5. Do you agree with *Thomas-Rasset* that the Copyright Act's statutory damages provisions raise no due process concerns because the Act establishes outer limits for such awards? Is the establishment of "outer limits" equivalent to the "fair notice" sufficient to allay due process concerns?

6. *Thomas-Rasset* held that the Supreme Court's relatively permissive standard in *St. Louis, I. M. & S. Ry. Co. v. Williams*, 251 U.S. 63 (1919), governs statutory damages awards. Under the *Williams* standard, a statutory damages award violates due process only when the defendant shows that it is "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." Can you imagine a statutory damages award that would meet this standard? What about a case in which there was a willful infringement of a single work that the defendant can show resulted in actual damages of $0.01, but for which a plaintiff is awarded the maximum statutory damages of $150,000? What about a case involving the willful infringement of 100 works that the defendant can show resulted in actual damages of $1.00, but for which a plaintiff is awarded the maximum statutory damages of $15,000,000?

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4. Costs and Attorney's Fees

Section 505 of the Copyright Act provides that "[a] court in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof. Except as otherwise provided by this title, the court may also award a reasonable attorney's fee to the prevailing party as part of the costs."

Note that recovery of attorney's fees and other costs for infringement of a work is conditioned on timely registration of the work, as you learned in Chapter IV.

Section 505 makes clear that attorney's fees and other costs may be awarded to any "prevailing party"—that is, to prevailing plaintiffs and defendants alike. *See* Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994). Court have recognized that an award of attorney's fees to the prevailing party "is the rule rather than the exception, and should be awarded routinely." McGaughey v. Twentieth Century Fox Film Corp., 12 F.3d 62, 65 (5th Cir. 1994). This does not mean, however, that prevailing plaintiffs or defendants are *always* granted attorney's fees. The Supreme Court has made clear that courts have discretion whether to order an award. *Fogerty*, 510 U.S. at 533.

One important question is which factors should inform a court's exercise of discretion in deciding whether to award attorney's fees and costs. In *Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S. Ct. 1979 (2016) ("*Kirtsaeng II*"), the Supreme Court held that a district court should give substantial weight to the objective reasonableness of the losing party's position, while still considering other circumstances relevant to awarding attorney's fees. Those other circumstances include "several nonexclusive factors" identified in *Fogerty*, such as frivolousness, motivation, objective unreasonableness, and the need in particular cases to advance considerations of compensation and deterrence. The Supreme Court directed lower courts to continue to give substantial weight to the reasonableness of the losing party's position. But *Kirtsaeng II* makes clear that objective reasonableness is not the decisive factor:

> *All of that said, objective reasonableness can be only an important factor in assessing fee applications—not the controlling one. As we recognized in* Fogerty, *§ 505 confers broad discretion on district courts and, in deciding whether to fee-shift, they must take into account a range of considerations beyond the reasonableness of litigating positions. That means in any given case a court may award fees even though the losing party offered reasonable arguments (or, conversely, deny fees even though the losing party made unreasonable ones).*

In particular, the Supreme Court observed that notwithstanding a party's reasonableness, a court may order fee-shifting because of a party's litigation misconduct or to deter repeated instances of copyright infringement or overaggressive assertions of copyright claims: "Although objective reasonableness carries significant weight, courts must view all the circumstances of a case on their own terms, in light of the Copyright Act's essential goals."

NOTES

1. Note that the usual rule in U.S. civil litigation is that each party pays its own attorney's fees, win or lose. Why do you think the Copyright Act departs from this so-called "American Rule"? Do you think the departure is justified? What effect do you think the Copyright Act's fee-shifting provision has on who brings copyright infringement litigation, and on what sort of claims are brought?

2. Note again that plaintiffs are eligible to recover attorney's fees only if they have timely registered the infringed work. Is this likely to be a powerful inducement to register? For some works, or for all?

F. Criminal Copyright Law

Section 506 of the Copyright Act authorizes criminal liability for "[a]ny person who willfully infringes a copyright" if the infringement was committed:

> *(A) for purposes of commercial advantage or private financial gain;*
>
> *(B) by the reproduction or distribution, including by electronic means, during any 180-day period, of 1 or more copies or phonorecords of 1 or more copyrighted works, which have a total retail value of more than $1,000; or*
>
> *(C) by the distribution of a work being prepared for commercial distribution, by making it available on a computer network accessible to members of the public, if such person knew or should have known that the work was intended for commercial distribution.*

In § 101, the Copyright Act in § 101 defines "financial gain" broadly: "The term 'financial gain' includes receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works." The Copyright Act offers no definition of the term "willfully."

The version of the Copyright Act passed in 1976 authorized only misdemeanor criminal liability for infringement (as had the predecessor Copyright Act of 1909). In 1982, Congress reclassified certain commercial-scale infringements of sound recordings and motion pictures as felony criminal violations. In 1992, Congress upgraded to felonies *all* infringements qualifying for criminal prosecution under § 506.

> Read § 506 carefully, and then also read 18 U.S.C. § 2319, which sets forth the penalties for criminal copyright infringement. As you read the next case, focus on the court's definition of "willfully." Is that term clearly defined? Is the definition sufficient to distinguish between ordinary copyright infringement and infringement that may be prosecuted criminally?

United States of America v. Julius Chow Lieh Liu

731 F.3d 982 (9th Cir. 2013)

NGUYEN, J.:

[1] Julius Liu appeals his convictions and sentence for criminal copyright infringement .... Liu's company, Super DVD, commercially replicated CDs and DVDs for various clients on a scale that subjects him to substantial criminal liability if a client—and, by extension, Liu—lacked permission from the copyright holder to make the copies.

[2] Under the relevant criminal statutes, Liu's guilt turns on whether he acted "willfully"..... We hold that the term "willfully" requires the government to prove that a defendant knew he was acting illegally rather than simply that he knew he was making copies.... Because the district court improperly instructed the jury otherwise, we vacate Liu's convictions and remand...

BACKGROUND ...

II. The Investigation of Liu and Super DVD

[3] Liu has worked in the replication industry since the early 1990s. In 2000, he founded, and became the CEO of, a DVD-manufacturing company called Super DVD. By 2001, Super DVD employed about 65 people and operated four replication machines at its Hayward, California warehouse....

[4] Meanwhile, the government had become suspicious of Super DVD's operations. In May 2003, Immigration and Customs Enforcement agents raided the warehouse of Vertex International Trading, a computer software reseller based in Coral Springs, Florida, where agents recovered counterfeit copies of the Symantec software "Norton Anti-Virus 2003" and related documentation. The documentation included purchase orders, handwritten notes, and FedEx shipping labels from more than 50 vendors, including Super DVD.

[5] Later that month, private investigator Cynthia Navarro, working on behalf of Symantec, posed as a potential lessee to investigate Super DVD's warehouse. While there, Navarro observed a man using one of two machines that she believed were used for CD or DVD replication. Through a window, she could see into a locked room that was filled wall to wall with spindles of CDs.

[6] At the end of July 2003, agents executed a search warrant on the Super DVD warehouse and recovered thousands of DVDs and CDs. One room stored CDs and DVDs, and another held stampers, artwork, and masters. The CDs included a compilation of rap tracks, *Rap Masters Vol. 2*; three compilations of Latin music tracks, *Los Tucanes de Tijuana: Romanticas*, *Lo Mejor de la Mafia,* and *3 Reyars* [sic] *del Tex Mex: Romanticas;* and a greatest hits album, *Beatles 1.* The agents also recovered DVD copies of the film *Crouching Tiger, Hidden Dragon.* Liu did not have authorization from the copyright holders to replicate any of these works.

[7] During an interview and at trial, Liu admitted that Super DVD manufactured the *Crouching Tiger* DVDs in 2001 for a company called R & E Trading. R & E gave Super DVD a stamper with the name "Tiger" on it but not the full title of the film. The DVDs were still in Super DVD's warehouse at the time the search warrant was executed because R & E had rejected them, claiming that the movies would freeze. Liu stated that when R & E refused to pay for the order, he became personally involved and realized that R & E did not have the rights to duplicate such a famous movie. Super DVD filed a lawsuit against R & E alleging that R & E deceived it about the copyrights. The lawsuit sought payment from R & E on about 40 invoices totaling approximately $85,000, including work done on the *Crouching Tiger* movie. Super DVD obtained a jury verdict for approximately $600.

[8] Liu generally denied any knowledge of or involvement in replicating the other works. Liu explained that he became involved with the Latin music compilations when one of the former Super DVD engineers introduced Liu to his uncle, Juan Valdez, a famous mariachi singer. Liu and Valdez got together and played music—Liu on the guitar, Valdez singing. Valdez expressed interest in publishing CDs, and Liu told him that he didn't have the facility to do it but suggested companies that could take care of the mastering, printing, and even the sleeve. Liu volunteered to do the overwrapping for Valdez because it only cost him "pennies." Valdez told Liu that he created the tracks by mixing his voice with music from a Karaoke machine and that he had paid for the license. Liu listened to some of the tracks and, believing that it was Valdez's voice, thought that the music "belong[ed] to him."

III. Liu's Convictions and Sentence

[9] The government charged Liu with three counts of criminal copyright infringement under 17 U.S.C. § 506(a)(1)(A) and 18 U.S.C. § 2319(b)(1) based on the music CDs, the *Crouching Tiger* DVD, and the Norton Anti-Virus software.... Following a three-day jury trial, Liu was convicted on all counts. The district court sentenced Liu to four years in prison followed by three years of supervised release....

ANALYSIS

I. The District Court Erred in Instructing the Jury on the "Willfulness" ... Element[] ...

[10] .... The [district] court instructed the jury that Liu "willfully infringed" if he "without authorization duplicated, reproduced or sold the copyright belonging to the owners of the works." The court further adopted the government's requested definition of willfully—that "[a]n act is done 'willfully' if the act is done knowingly and intentionally, not through ignorance, mistake or accident." ...

B. The "Willfulness" Element of Criminal Copyright Infringement Requires Knowledge That the Conduct Was Unlawful

[11] Copyright infringers have been subject to civil liability since the Nation's founding. In a civil suit, liability for copyright infringement is strict. The innocent intent of the defendant constitutes no defense to liability.

[12] Congress first imposed criminal liability for certain types of infringement in the late nineteenth century. The general approach to criminal copyright enforcement—then, as now—has been to punish only those violations that are both willful and economically motivated.

[13] Of the two factors that distinguish criminal from noncriminal copyright violations, willfulness and commerciality, the latter is of little practical importance. The Copyright Act defines "financial gain" broadly to include "receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works." 17 U.S.C. § 101. The commerciality requirement thus does not meaningfully winnow down the population of copyright defendants potentially liable to incarceration. The only bar against an overzealous prosecutor criminalizing nearly every copyright infringement case lies in the other prerequisite to criminal liability: willfulness.

[14] But the term "willfully" is ambiguous.[2] To infringe willfully could simply mean to intentionally commit the act that constitutes infringement. Alternatively, it could mean that the defendant must act with a bad purpose or evil motive in the sense that there was an intentional violation of a known legal duty. The 1976 Copyright Act does not define "willfully," and its legislative history offers little guidance.

[15] When faced with a criminal statute containing an ambiguous "willfulness" element, courts normally resolve any doubt in favor of the defendant. Although the general rule is that ignorance of the law or a mistake of law is no defense to criminal prosecution, the modern proliferation of statutes and regulations sometimes makes it difficult for the average citizen to know and comprehend the extent of the duties and obligations imposed by the laws. Thus, the government must prove that the defendant acted "willfully"—that is, with specific intent to violate the law—to be convicted of certain federal criminal offenses.

[16] In reviewing a conviction for criminal copyright infringement, we, and numerous other circuits, have assumed that proof of the defendant's specific intent to violate someone's copyright is required. We now explicitly hold that "willfully" as used in 17 U.S.C. § 506(a) connotes a voluntary, intentional violation of a known legal duty.

[17] The Copyright Act's legislative history supports our interpretation. In 1997, Congress updated the statutory provision governing criminal copyright infringement by inserting the language that Liu requested: "evidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement." No Electronic Theft (NET) Act, Pub. L. 105–147, § 2(b), 111 Stat. 2678, 2678 (1997) (codified as amended at 17 U.S.C. § 506(c)). This language was in response to the "on-going debate about what precisely is the 'willfulness' standard in the Copyright Act." 143 Cong. Rec. S12,689 (daily ed. Nov. 13, 1997) (statement of Sen. Orrin Hatch); *see also id.* at 12,690 (statement of Sen. Patrick Leahy) ("This clarification was included to address the concerns expressed ... because the standard of 'willfulness' for criminal copyright infringement is not statutorily defined and the court's interpretation[s] have varied somewhat among the Federal circuits.").[4] Upon passage of the bill in the Senate, Senator Hatch stated that

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[2] Even within the context of *civil* copyright infringement, we have defined "willful" to mean different things in different contexts. *See* Barboza v. New Form, Inc. (In re Barboza), 545 F.3d 702, 707–08 (9th Cir. 2008) ("The term 'willful' as used in copyright infringement cases is not equivalent to 'willful' as used in determining whether a debt is nondischargeable under the bankruptcy code.").

[4] Industry representatives and other stakeholders testifying before Congress expressed their hope that the term "willful" would be "given the interpretation that [the majority of] courts ha[d] given [it] in the criminal context," i.e., "that it is not enough for the defendant in a criminal case to have had an intent to copy the work; he must have acted with knowledge that his conduct constituted copyright infringement." *Copyright Piracy, and H.R. 2265, the No Elec. Theft (NET) Act: Hearing Before the Subcomm. on Courts and Intellectual Prop. of the Comm. on the Judiciary H.R.*, 105th Cong. 13–14 (1997) (statement of Marybeth Peters, Register of Copyrights); *see id.* at 157 (statement of David Nimmer, counsel, United States Telephone Association) ("The courts' divergent interpretations of Section 506(a) yield uncertainty.... Congress should specify that 'willful' ... requires a specific intent to violate a known legal duty."); *see also id.* at 37 (statement of Brad Smith, Associate General Counsel, Microsoft Corp.) ("[W]e are *only* talking about *willful infringement* of a copyright holder's rights.... [U]nder criminal law a willful act requires that it be intentionally done with knowledge that it was prohibited by law.").

willful "ought to mean the intent to violate a known legal duty.... As Chairman of the Judiciary Committee, that is the interpretation that I give to this term. Otherwise, I would have objected and not allowed this bill to pass by unanimous consent." 143 Cong. Rec. S12, 689.

[18] As a practical matter, requiring only a general intent to copy as a basis for a criminal conviction would not shield any appreciable amount of infringing conduct from the threat of prosecution. Civil liability will not lie if an author fortuitously creates a work that is substantially similar to another author's copyrighted work. To infringe a copyright, one must *copy* the protected work. Copying is of necessity an intentional act. If we were to read 17 U.S.C. § 506(a)'s willfulness requirement to mean only an intent to copy, there would be no meaningful distinction between civil and criminal liability in the vast majority of cases. That cannot be the result that Congress sought.

[19] In the present case, notwithstanding the parties' agreement to add an instruction that "[e]vidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement of a copyright," 17 U.S.C. § 506(a)(2), the district court did not include the requested language. In fact, the district court exacerbated the omission by defining willful infringement without the crucial knowledge component:

> *In order for the defendant to be found guilty of [copyright infringement], the government must prove each of the following elements beyond a reasonable doubt:*
>
> *First, that on a date beginning in 2001 and continuing to on or about July 31, 2003, in the Northern District of California, defendant willfully infringed, that is, without authorization, duplicated, reproduced, or sold compact disks that infringed the copyright belonging to the owners of the works....*

By defining "willfully infringed" without any requirement that the defendant knew he was committing copyright infringement, the district court instructed the jury to apply a civil liability standard.

[20] The district court further compounded this error a short time later, instructing the jury that "[a]n act is done 'willfully' if the act is done knowingly and intentionally, not through ignorance, mistake, or accident." We recently considered a virtually identical instruction in *United States v. Berry*, 683 F.3d 1015 (9th Cir. 2012). The district court had instructed the jury that "an act is done willfully if the defendant acted or failed to act knowingly and intentionally and did not act or fail to act through ignorance, mistake, or accident." Finding error, we explained that "the instruction given merged the concepts of 'knowing' and 'willful' without conveying the culpable state of mind that the term 'willfully' is designed to invoke in the criminal arena."

[21] We conclude that the district court in this case erred by defining willfulness such that the jury could have convicted Liu without finding that he knew that his actions were unlawful.

C. The Instructional Error Was Not Harmless

[22] Liu's convictions on the copyright infringement counts cannot stand unless the instructional error was harmless. An error in describing an element of the offense in a jury instruction is harmless only if it is clear beyond a reasonable doubt that a rational jury would have found the defendant guilty absent the error.

[23] The conclusion was irresistible that the infringing CDs and DVDs were replicated in the Super DVD warehouse. The discs all were found there with the exception of the Norton Anti-Virus software, which was discovered at the Vertex warehouse along with purchase orders and shipping labels linking it to Liu and Super DVD. Almost all of the music CDs bore Liu's initials, "JL." Liu admitted to reproducing the *Crouching Tiger* DVDs for R & E Trading, and there was a written agreement from early 2001 between Super DVD and R & E to

press 2,000 copies of the *Beatles* CD. Although Liu claimed to have no knowledge of how the other discs were made, suggesting that the orders may have been handled by his sales staff, it is unclear whether the jury disbelieved him, thought he had forgotten, or found his employees' acts attributable to him.

[24] Whatever the case, Liu's state of mind was critical. Liu was aware of copyright laws and admittedly had been sued for copyright infringement in the past. His guilt thus hinged on whether he knew that his clients did not have authorization to replicate the disks at issue.

[25] Liu presented evidence that his customers signed agreements stating that they had the copyright to the works in question and promising "to be responsible for all copyright related legal responsibilities." His expert witness testified that other replicators also rely on such agreements rather than carefully investigate each customer. Liu testified that he attempted to verify that there were no copyright violations on the Latin music compilations by listening to the some of the tracks and satisfying himself that it was Valdez's voice. He further claimed that he did not realize R & E's order for *Crouching Tiger* DVDs was unauthorized until he became embroiled in the payment dispute, at which time he filed a lawsuit against R & E. The fact that he initiated a lawsuit over a dispute involving thousands of infringing copies of *Crouching Tiger, Hidden Dragon* that he created is arguably compelling evidence that he did not understand his conduct to have been wrongful.

[26] We cannot say that the jury would not have credited some or all of this evidence had the jury appreciated its relevance. The evidence may have supported a finding that Liu did not know that he was illegally copying copyrighted material and thus he did not willfully infringe the copyrights. Therefore, the failure to provide a proper willfulness instruction was not harmless beyond a reasonable doubt….

[27] Accordingly, we vacate Liu's convictions and sentence for criminal copyright infringement on counts one through three and remand to the district court….

NOTES

1. *Liu* holds that the "willfulness" requirement limits criminal copyright liability to those infringers who are shown to have committed a "voluntary, intentional violation of a known legal duty." That is, the defendant must be shown to have subjectively understood that he or she was committing copyright infringement. What kind of evidence could a prosecutor offer to establish the requisite knowledge and intent?

2. Take another look at 18 U.S.C. § 2319. Do the punishments provided there fit the crime?

3. What is the purpose of criminal copyright liability? Does criminal liability plug some gap in the deterrent effect of civil liability? For an economic analysis of criminal copyright liability, and a (cautious) endorsement of its use in very narrow circumstances, see Christopher Buccafusco & Jonathan S. Masur, *Innovation and Incarceration: An Economic Analysis of Criminal Intellectual Property Law*, 87 S. CAL. L. REV. 275 (2014).

4. Criminal copyright prosecutions have a five-year statute of limitations, 17 U.S.C. § 507(a), as opposed to the three-year statute of limitations applicable to civil copyright claims. Can you think of a reason Congress provided a longer statute of limitations for criminal prosecutions?