

Copyright damages in crosshairs

Sheri Qualters

March 28, 2011

Between 2003 and 2008, the recording industry brought thousands of lawsuits against individuals who illegally downloaded copyrighted music. It was an aggressive effort to deter the practice, which the industry claimed cost it millions of dollars in lost sales.

The vast majority of defendants quickly settled rather than face steep damages, but two decided to go to trial. Now, for the first time, one such case is on the docket of a federal appeals court. At issue: whether the Copyright Act's statutory damages provision is constitutional.

The April 4 oral argument in *Sony BMG Music Entertainment v. Tenenbaum* at the U.S. Court of Appeals for the 1st Circuit will address whether the Copyright Act's damages provision, which allows damages of \$750 to \$150,000 for each infringement, violates the U.S. Constitution's due process clause.

In July 2009, a District of Massachusetts jury slapped Joel Tenenbaum, a Boston University graduate student, with a \$675,000 verdict — \$22,500 for each of the 30 songs whose copyright he infringed. A year later, District Judge Nancy Gertner cut the jury's verdict by 90% to \$67,500. Gertner ruled that the jury's damages award could not withstand scrutiny under the due process clause. She called the verdict "wholly out of proportion with the government's legitimate interests in compensating the plaintiffs and deterring unlawful file-sharing."

Copyright and trademark lawyer Andrew Berger, a counsel to New York-based Tannenbaum Helpert Syracuse & Hirschtritt, said Gertner's ruling is the first time a judge has thrown out a jury's damages award that fell within the statutory range on due process grounds.

For the Recording Industry Association of America, which has taken a lead role in the record companies' cases, the Copyright Act's damages provision "is essential to what we do." So said Jennifer Pariser, the RIAA's senior vice president of litigation and legal affairs. "Without a sufficient deterrent mechanism we can't enforce our copyrights effectively," she said.

The plaintiffs in the Tenenbaum case are Sony Music Entertainment, Universal Music Group and Warner Music Group. Paul Clement, a Washington partner at Atlanta-based King & Spalding, will argue for the music labels.

Tenenbaum's lawyer, Harvard Law School professor Charles Nesson, said Congress didn't intend for courts to make massive copyright infringement awards against individual consumers. "It's a fiction that Congress prescribed any kind of approach like that to be made against consumers."

Nesson said he would share his oral argument time with Harvard Law student Jason Harrow, who won the school's Ames Moot Court Competition, and possibly with a lawyer from the Electronic Frontier Foundation, which filed an amicus brief in the case.

The Tenenbaum case is one of the two trials out of thousands of music company lawsuits against alleged infringers. The other is *Capitol Records Inc. v. Thomas-Rasset*, a case in the District of Minnesota against Jammie Thomas-Rasset, which has been to trial three times.

Thomas-Rasset was found liable in a 2007 trial for infringing 24 songs and ordered to pay \$222,000. The judge granted her motion for a new trial because there was a jury instruction error. The second jury issued a damages award of \$1.92 million in 2009, but the judge called that shocking and cut the award to \$54,000. The record labels refused to accept the lower amount, and the third jury slapped Thomas-Rasset with a \$1.5 million verdict last year.

'VENIAL' OFFENDERS

Tenenbaum is asking the court to hold that the Copyright Act's statutory damages remedy is unavailable in his case because it doesn't apply to "venial offenders" like him, according to his 1st Circuit brief. "[Statutory damages] should be unavailable where harm caused by a particular defendant has not been proved and there is neither purpose nor fact of profit," the brief stated.

"The idea that Congress ever authorized anything like this against consumers who are not in the copying business at all is just a figment of imagination," Nesson said.

Tenenbaum's initial and reply briefs argue that courts have misapplied a 1998 U.S. Supreme Court case, *Feltner v. Columbia Pictures Television Inc.* *Feltner* gave copyright defendants the right to a jury trial on the statutory damages issue.

In that case, Columbia Pictures sued C. Elvin Feltner, who owned three television stations, for running television shows after the company revoked its license for them. Tenenbaum's initial brief argues that *Feltner* "shifted the determination of the amount of statutory damages from judge to jury rather than simply declaring the statute unconstitutional," but it "failed to provide any structure for guiding the jury's use of the wide power shifted to it."

Pariser of the RIAA said she's not aware of any post-*Feltner* decisions that say a jury must be instructed on the guideposts they need to consider when

making a damages determination. "There is not really a strong body of law that says juries must be instructed," she said. Even if juries were always instructed on the factors they should weigh, their discretionary power means that awards will be unpredictable, Pariser said.

In the third Thomas-Rasset trial in Minnesota, the lawyers had a lengthy debate in front of the judge about what factors should be set out for the jury. The defendants fought to have the jury consider "other mitigating factors" in any award against Thomas-Rasset.

"We said, 'That comes from nowhere, that's meaningless,' " Pariser said. "If you're going to say mitigating factors you should also say aggravating factors."

The judge sided with the defendant on the jury instruction language, but the jury still came back with a higher verdict than in the Tenenbaum case.

"A jury gets a lot of instruction, not all of it leaning towards us, but nevertheless they exercise their discretion based on the facts they hear and they come out with a judgment," Pariser said.

In the Tenenbaum case, both sides agreed on a set of factors Gertner could give to the jury, Pariser said. These include the harm plaintiffs suffered, whether Tenenbaum continued his conduct after being put on notice, the amount of his illegal conduct and whether his conduct was willful, Pariser said.

'CRAZY AWARDS'

Thomas-Rasset's lawyer, Kiwi Camara of Houston-based Camara & Sibley, said Nesson is correct in his analysis that, since *Feltner*, "the lower courts have not done a good job of fleshing out how to guide juries," in setting copyright damages. "Congress set out a big range it expected courts to apply," Camara said. "When, in light of *Feltner*, you take that system without giving the jury any guidance, you get crazy awards."

The possibility of a \$150,000 damages award for each act of copyright infringement is a "chilling innovation," said the Electronic Frontier Foundation's intellectual property director, Corynne McSherry.

Many people who believe they would be making a fair use of another party's copyrighted material are not in a position to risk those kinds of damages, McSherry said. "If you're not 100% sure you'd win, you'd worry about taking the chance," McSherry said. "These statutory damage provisions could put you on the hook for a lot of money."

McSherry also said the threat of exorbitant damages gives too much power to so-called copyright trolls. These are companies that use their copyrights to demand licenses from or sue alleged infringers. "Setting aside whether

people have engaged in infringement, we have abuse of the judicial process," McSherry said. "That abuse is being heightened by the hammer of the statutory damages provision."

The upcoming appeal is about far more than whether Joel Tenenbaum did something wrong and should be held liable, McSherry said. "There's a bigger question: How are we going to understand copyright law going forward? Is the court willing to rein in statutory damages so that the copyright law and damage rules serves its ultimate purpose, which is to promote creativity?"

The Tenenbaum jury awarded only 15% of a possible \$4.5 million in statutory damages, said Berger of Tannenbaum Helpert, who isn't involved in the Tenenbaum case. "I wonder how excessive that really is," Berger said. If Gertner's decision is affirmed on appeal, "many meritorious copyright claims may never be brought."

Such a ruling would require copyright owners to prove actual damages as a precondition to recovering statutory damages, he said. Some copyrighted items really don't have any actual value, and the value of others changes drastically over the life of the copyright, Berger said. The copyright for the unpublished novel of a first-time author is an example of a copyright that has little actual value at first, he said. He added that it's already hard to get a jury to grant substantial statutory damages in a copyright case because you've got to show willfulness.

If Tenenbaum wins on appeal, every time a plaintiff gets substantial damages, a defendant is going to raise the flag of due process, Berger said. "It's another barrier to a copyright holder's ability to enforce [its] copyrights."

Sheri Qualters can be contacted at squalters@alm.com.