

## Determining Limits On Copyright Statutory Damages

Law360, New York (November 07, 2011, 1:18 PM ET) -- In two high-profile cases, the U.S. Court of Appeals for the First Circuit and a district court in Minnesota recently addressed the constitutional limits on statutory damage awards under the Copyright Act. Both cases involved illegal downloading of music by individuals that resulted in juries awarding extraordinarily large statutory damages — \$675,000 in one case and \$1.5 million in the other.

The two cases provide guidance on the procedures for addressing arguably excessive jury awards in copyright cases and what courts may view as the maximum statutory damages permitted under the U.S. Constitution.

The Copyright Act provides for statutory damages ranging from \$750 to \$150,000 for each copyrighted work infringed. See 17 U.S.C. § 504(c). Because statutory damages are awarded on a per-work basis, cases involving large numbers of infringed works can sometimes result in total damage awards far greater than \$150,000. In particular instances, a jury's award may be so excessive in relation to the defendant's wrongful conduct that it violates the Constitution's due process clause, even though the award is within the range permitted by the Copyright Act.

Courts also have a nonconstitutional tool to correct excessive jury awards called remittitur, a process in which a court can reduce a jury award, but the plaintiff may reject it and instead proceed to a new trial on damages. The two recent court decisions addressed these constitutional and procedural methods for correcting excessive statutory damage awards.

### **Sony BMG Music Entertainment v. Tenenbaum, 100 U.S.P.Q. 2d 1161 (1st Cir. 2011)**

The defendant in Tenenbaum was a college student who downloaded and made available to others thousands of music recordings using his parents' home computers. At trial, he was found to have infringed the copyrights on 30 recordings. The jury awarded statutory damages of \$22,500 for each infringed recording, resulting in a total award of \$675,000.

The defendant moved for a new trial or, alternatively, remittitur. The trial court, however, reasoned that remittitur would be futile because, in the court's view, the plaintiff would never accept the reduced damage award and a new trial would result in yet another excessive award.

Instead, the district court ruled that the jury's award violated due process and reduced the award to \$67,500, or \$2,250 per song. The \$2,250 per-recording award was equivalent to three times the minimum amount of statutory damages. In reaching its decision, the district court applied factors set forth in *BMW v. Gore*, 517 U.S. 559, (1996), the seminal decision addressing the constitutionality of punitive — not statutory — damage awards.

The First Circuit reversed the district court's due process ruling, finding that it was error to decide a constitutional question when a nonconstitutional issue, remittitur, could have been decided first. The First Circuit rejected the district court's suggestion that remittitur and a new trial would have been futile, reasoning that the constitutional issue would have been avoided if the plaintiff accepted a lower damages award or, if it did not, a new trial on damages resulted in a lower jury award that the defendant would not have sought to reduce.

The First Circuit noted that by deciding the due process issue, "[t]he path the court chose unnecessarily embroiled it in several issues of constitutional dimension," including whether the standard from the *Gore* case was even applicable to statutory damage awards. Both the plaintiff and the United States argued that an earlier U.S. Supreme Court case, *St. Louis, I.M. & S. Ry. Co. v. Williams*, 251 U.S. 63, 67 (1919), rather than *Gore*, was the controlling law. The matter was remanded for the trial court to consider the issue of remittitur.

### **Capitol Records Inc. v. Thomas-Rasset, 100 U.S.P.Q. 2d 1183 (D. Minn. 2011)**

During the summer of 2011, the U.S. District Court for the District of Minnesota reached the constitutional issues that the First Circuit had avoided. The district court in *Thomas-Rasset* held that a jury verdict of \$1.5 million in statutory damages for copyright infringement arising from an individual defendant's downloading of 24 musical recordings was unconstitutional, and reduced the total award to \$54,000, based upon \$2,250 per recording.

However, the court reached that decision only after first ordering remittitur of a previous, even larger, jury award. The plaintiff had rejected that remitted award, resulting in a new trial on damages and the \$1.5 million damage award. It was only after this second trial that the court addressed the constitutionality of the award.

The court first addressed the legal standard and determined that the Supreme Court's decision in *Williams*, rather than *Gore*, applied to awards of statutory damages. Under *Williams*, a statutory damages award satisfies due process if it is not "so severe and oppressive as to be wholly disproportioned to the offense or obviously unreasonable." 251 U.S. at 67. The court found that because *Gore* addressed the constitutionality of punitive damages, not statutory damages, it was not applicable.

The court reasoned that although copyright statutory damages have a punitive component, they also contain a compensatory component and, thus, are distinct from punitive damages awards. In addition, the *Gore* decision was premised on the fact that defendants have no advance notice of how large a punitive damages award might be, whereas defendants have notice of potential statutory damage awards because, as the name implies, they are published in statutes.

To assess whether the jury award was too "severe and oppressive," the court looked at a number of factors, including the proportionality between the actual harm and the jury's damages award, evidence of willfulness and need for deterrence, and three factors set forth in *Williams*: "[1] the interests of the public, [2] the numberless opportunities for committing the offense, and [3] the need for securing uniform adherence." *Williams*, 251 U.S. at 67.

The court reasoned that strict proportionality between actual harm and damages is not required because statutory damages by their nature do not require a plaintiff to present proof of actual damages and are designed to have both compensatory and punitive components. However, the court explained, there still must be some relation between the actual harm caused by the defendant's acts and the total damage award.

The court rejected both parties' arguments about what the actual damages to the plaintiff were (defendant arguing \$1 per song; plaintiff citing to billions of dollars in damages from online piracy), concluding that some harm was caused, but that the defendant's contribution to losses caused by online piracy in general was miniscule.

The court also accepted the jury's finding that the defendant acted willfully, which weighed in favor of a larger award because of the need for strong deterrence. Finally, with respect to the three *Williams* factors, the court found that: (1) the public interest favors rewarding and protecting copyright owners; (2) peer-to-peer networks, as used by the defendant, provide numberless opportunities to infringe; and (3) there is a need for uniform adherence, plus, again, a need for deterrence.

Although many of these factors suggested that a substantial damages award was justified, the court nonetheless held that \$1.5 million was excessive. The specific facts regarding the defendant were crucial to the decision. The court described her as "an individual consumer, of limited means, acting with no attempt to profit," who copied the recordings "for personal use."

The court also reasoned that although an award must be large enough to justify the costs a plaintiff must spend to pursue infringers, again, the defendant's role in the overall online piracy problem was miniscule. Under the circumstances, the court stated that the \$1.5 million award was "appalling" and unconstitutionally excessive under *Williams*.

The court's reduced award of \$2,250 per recording was based on tripling the \$750 minimum award permitted by the Copyright Act. The court reasoned that treble damages awards are a common penalty for willful behavior and cited numerous federal and state statutes as examples. The court found those statutes persuasive in determining the constitutional limit of damages under the facts of this case, while acknowledging that the Copyright Act itself provides no treble damages provision.

The *Thomas-Rasset* and *Tenenbaum* cases provide important guidance regarding statutory damage awards under the Copyright Act. Although determinations about whether an award is excessive will always depend upon the specific facts of the case and the circumstances of the defendant, it is clear that district courts wishing to reduce jury awards must go through the remittitur process before declaring that an award is unconstitutionally excessive. When district courts do reach the constitutional issue, they must apply the *Williams* factors to determine whether the award is excessive.

Finally, both cases suggest that district courts may use \$2,250 per infringed work (triple the minimum statutory damages) as a rule of thumb when deciding what statutory damages are appropriate in cases involving individual defendants with no profit motive. Although both cases arose in the context of downloading music, the holdings of these cases may be applicable in a variety of other copyright contexts.

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