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# Downloading, Distributing, and Damages in the Digital Domain: The Need for Copyright Remedy Reform

Joe Donnini

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# DOWNLOADING, DISTRIBUTING, AND DAMAGES IN THE DIGITAL DOMAIN: THE NEED FOR COPYRIGHT REMEDY REFORM

Joe Donnini<sup>†</sup>

## *Abstract*

*Should copyright remedy laws be changed to address the proliferation of sharing of online content? On one hand, harsh penalties may improve compensation and infringement deterrence; on the other hand, harsh penalties may harm the interests of free expression and the enrichment of society through sharing. This article focuses on identifying the ideal level of enforcement and proposes a new remedy scheme to appropriately address social media sharing versus commercial misappropriation.*

*In order to do that, Part I of this article explores the purposes of compensation and deterrence that are behind the copyright statutory remedy scheme. Thereafter, Part II sheds light on the history and policy choices made by courts and Congress as the remedy scheme evolved from the Copyright Act of 1790 up to the Copyright Act of 1976. Part III analyzes the Copyright Act of 1976 with respect to damages as set forth in § 504. From this analysis, it is clear that there has been a theme of arbitrary and punitive awards that has carried over into the online world. Finally, Part IV recommends building a stronger foundation for a revised remedy scheme to address the original purposes of statutory damages in the new digital age.*

*This article will reveal how the Copyright Act of 1976, with respect to statutory damages, was built upon an improper foundation. Therefore, the proposed changes in copyright remedies are designed to tie back to the purposes of compensation and deterrence, to meet the demands of the new media age. The article also recommends a two-tiered system that would more effectively balance the competing*

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*interests of protecting expression and allowing sharing for societal benefit. The proposed system would allow courts flexibility in assessing damages while providing more directed guidance to prevent excessive awards.*

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## INTRODUCTION

In order to know where we should be going with respect to copyright law remedy reform, it is helpful to understand where we have been and where we are currently. The starting point for this analysis dates back to the first United States copyright law enacted in 1790.<sup>1</sup> From there, the article explores the subsequent copyright acts and the courts’ interpretations of statutory damages. Seemingly, much inconsistency arises with respect to statutory damage applications, translating to arbitrary, excessive or even punitive awards. This inconsistency is extremely prevalent within the context of online digital domain cases. Much litigation and commentary surfaced relating to the downloading and distributing of online content and how to effectively compensate and deter infringement. While Congress had dealt with variations excepting from liability private non-commercial home use, these limited areas never materialized in the modern digital world—at least not yet. This article will examine and provide alternatives to this troubled statutory damage arrangement so that it may comply with the original purpose of statutory damages and the realities of the digital world.

### I. PURPOSE OF STATUTORY REMEDIES

Why are there statutory damages for copyright infringement? Unlike other areas of intellectual property law, copyright always had a statutory remedy scheme since its inception.<sup>2</sup> Back in 1899, the Court in *Brady v. Daly* stated that the purpose of statutory remedies is to provide full compensation to the proprietor of the infringed work for any damages sustained.<sup>3</sup> In the event damages are difficult to prove, *minimum* recoveries are offered by a statutory scheme that

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1. See generally Copyright Act of 1790, ch. 15, 1 Stat. 124 (1790).

2. *Id.* This is a concept originally included in the Statute of Anne. See Act for the Encouragement of Learning (Statute of Anne), 1710, 8 Ann., c. 19 (Gr. Brit.).

3. *Brady v. Daly*, 175 U.S. 148, 154 (1899).

allows for larger recoveries when and if actual damages can be proven.<sup>4</sup> Penalties were not to be the purpose of the damages; rather the idea of damages focused upon compensation.<sup>5</sup> Implied in this statement is the premise that statutory damages are an alternative to actual damages if actual damages are difficult to prove. For example, a defendant may have disposed of some of the physical goods infringed and kept inadequate records of sales; or it may be difficult to obtain information on lost license fees in markets a defendant may have actually sold infringed goods. It is arguable in these situations that damages may be challenging to prove and that having a statutory remedy would compensate the copyright owner by providing a minimum recovery. As we will see, the commentary from the *Brady* court regarding “minimum recoveries” has disappeared from the vocabulary of courts over the years.

Furthermore, related to this notion of compensation is its cousin—deterrence. It is believed that by imposing a minimum level of recovery for the plaintiff, the defendant and possibly others will be deterred from infringement.<sup>6</sup> It is possible that deterrence draws a fine line to punishment, but punishment is not the goal of copyright remedies.<sup>7</sup>

While these concepts seem rather straightforward, their application in American copyright jurisprudence over the past two hundred years has been anything but straightforward. Thus, the question becomes whether courts and Congress have built a copyright statutory remedy scheme on a foundation that does not serve the intended purposes of compensation and possible deterrence. An unintended consequence of the application of statutory damages has been arbitrary, excessive, or punitive awards, continued infringements and a lack of balance between a fundamental theme of copyright law in general: balancing societal interests versus author’s incentive to create. As the digital age proliferates, now is the time to rebuild that

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4. *Id.*

5. *Id.*

6. *See Reed v. Inhabitants of Northfield*, 30 Mass. (13 Pick.) 94, 101 (1832) (“All damages for neglect or breach of duty, operate to a certain extent as punishment; but the distinction is, that it is prosecuted for the purpose of punishment, and to deter others from offending in like manner.”); *see also Bucklew v. Hawkins, Ash, Baptie & Co.*, 329 F.3d 923, 933 (7th Cir. 2003) (noting that the purpose of allowing the plaintiff to recover the infringer’s lost profits is to make infringing “worthless to the infringer.”); *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 568 (7th Cir. 2003) (“[L]ost profit damages eliminate a major incentive to steal the copyright instead of fairly negotiating for its use with the owner.”).

7. *See Brady*, 175 U.S. at 154.

foundation. It would be prudent to do so before courts continue to apply this statutory damage rule in ways that give courts too much leeway. This results in awards that are the equivalent of arbitrary, excessive, or punitive damages and out of line with traditional purposes.

## II. HISTORY OF STATUTORY REMEDIES: A LOOK AT THE COPYRIGHT ACT OF 1790 AND SUBSEQUENT ACTS UP TO THE COPYRIGHT ACT OF 1976

### A. *Statutory Damages and Copyright Acts of 1790 and 1831 with Subsequent Amendments*

The newly formed United States looked to its British roots in enacting the first federal copyright law.<sup>8</sup> The Statute of Anne provided for a fundamental shift by giving protection to authors as opposed to publishers.<sup>9</sup> Authors had a term of fourteen years for books to be published and twenty-one years for those books already in print at the time the statute came into effect on April 10, 1710.<sup>10</sup> Additionally, the Statute of Anne required the “offender” of any author’s copyright to forfeit the sum of “One Penny [sic] for every Sheet which shall be found in his, her, or their Custody, either Printed or Printing, Published or Exposed to Sale.”<sup>11</sup> Half of this amount went to the author, with the other half going to the Crown.<sup>12</sup> Presumably, since we are dealing with books, a per sheet infringement can equate to a sizable damage award—even back in the 1700’s.

Congress enacted the Copyright Act of 1790, which broadened the scope of authors’ rights outlined in the Statute of Anne by including not only books, but also maps and charts.<sup>13</sup> Furthermore, section 2 of the Act set damages for published works at 50¢ for “every sheet which shall be found in [offender’s] possession.”<sup>14</sup> Half of this amount went to the author while the other half went to the United States government.<sup>15</sup> Section 6 provided for general damages

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8. Act for the Encouragement of Learning (Statute of Anne), 1710, 8 Ann., c. 19 (Gr. Brit.).

9. *Id.* § 1.

10. *Id.* § 2.

11. *Id.*

12. *Id.*

13. Copyright Act of 1790, ch. 15, 1 Stat. 124 (1790) (repealed 1831).

14. *Id.* § 2.

15. *Id.*

for infringement upon unpublished works.<sup>16</sup> The language of the Copyright Act of 1790 was almost identical to that of the Statute of Anne.<sup>17</sup>

There have been several amendments to the Copyright Act of 1790, which have expanded the statutory damage provisions. First, the Copyright Act of 1831 added musical compositions to the category of works<sup>18</sup> and segregated infringements on published books at 50¢ per sheet,<sup>19</sup> while infringements for every “map, chart, musical composition, print, cut, or engraving” shall be \$1 per sheet.<sup>20</sup> An amendment in 1856 changed statutory damages to the point that we started to see a range evolve.<sup>21</sup> Granted, this amendment only dealt with adding protection for the right to publicly perform dramatic compositions, but it stated that damages cannot be less than \$100 for the first infringement, and \$50 for each subsequent infringement, as the court shall deem just.<sup>22</sup>

In 1895 Congress amended the Copyright Act of 1870<sup>23</sup> by further delineating statutory damages as follows: \$1 per sheet for infringements in all works then covered by the statute, except that in the case of a painting, statue, and statuette, the amount increased to \$10 per sheet.<sup>24</sup> Notwithstanding that, damage amounts for “a photograph made from any object not a work of fine arts” were not to be less than \$100 and not greater than \$5,000.<sup>25</sup> Damage amounts for any “painting, drawing, statue, engraving, etching, print, or model or design for a work of the fine arts or of a photograph of a work of the fine arts” were not to be less than \$250 and not greater than \$10,000.<sup>26</sup>

The amounts set forth in the 1856 amendment regarding dramatic compositions remained the same. Thereafter, based upon the 1897 amendment, any infringer of a dramatic or musical composition

16. *Id.* § 6.

17. Compare Copyright Act of 1790, ch. 15, 1 Stat. 124 (1790) (repealed 1831) with Act for the Encouragement of Learning (Statute of Anne), 1710, 8 Ann., c. 19 (Gr. Brit.).

18. Copyright Act of 1831, ch. 16, § 1, 4 Stat. 436, 436 (1831) (repealed 1909).

19. *Id.* § 6.

20. *Id.* § 7.

21. See Act of Aug. 18, 1856, ch. 169, 11 Stat. 138 (1856) (repealed 1870).

22. *Id.*

23. Act of Mar. 2, 1895, ch. 194, 28 Stat. 965 (1895) (repealed 1909) (amending Copyright Act of 1870, ch. 230, 16 Stat. 198 (1870) (repealed 1952)).

24. *Id.*

25. *Id.*

26. *Id.*

faced not only monetary damages, but, if the infringement was “willful and for profit,” the infringer may have been charged with a misdemeanor and sentenced up to a year in jail.<sup>27</sup> From the early days of applying copyright damages, the main goal was to compensate the plaintiff from the infringements, as opposed to punish the infringer.<sup>28</sup> It is clear how this evolution of the law from 1790 expanded the structure of a statutory damage scheme.

### B. Early Case Law on Statutory Damages

As courts applied the damage aspect of these statutes to various cases, an unintended consequence of the application has been arbitrary or punitive damage awards. The following cases illustrate this issue.

In *Falk v. Heffron*,<sup>29</sup> the defendants made 2,400 copies of a photograph of actress and singer Lillian Russell, but had positioned approximately 21-22 photographs per sheet, equating to a total of 115 sheets.<sup>30</sup> At the time (1890s) the per-sheet infringement award totaled \$1 per sheet<sup>31</sup>; therefore, the jury returned a verdict for 115 sheets, or \$115.<sup>32</sup> On appeal, while looking at the Copyright Act of 1790, the court clearly stated that the language of the statute provided for a per-sheet award for each sheet found in a defendant’s possession.<sup>33</sup> Since the evidence supported the jury’s finding, the award was affirmed.<sup>34</sup>

In *Bolles v. Outing Co.*,<sup>35</sup> defendant made a photogravure of a yacht photograph plaintiff had taken and then published it in a magazine without plaintiff’s consent.<sup>36</sup> Since the plaintiff could only prove that defendant sold one copy of the work to plaintiff’s employee, the court found \$1 in statutory damages under section 4965 of the Revised Statutes.<sup>37</sup> This statute required a defendant to turn over any plates whereby the copying had taken place and to pay \$1 for each sheet found in defendant’s possession (half to the plaintiff

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27. Act of Jan. 6, 1897, ch. 4, 29 Stat. 481 (1897) (repealed 1909) (amending section 4966 of the Revised Statutes, U.S. Rev. Stat. tit. 60, § 4966 (1873)).

28. *Brady v. Daly*, 175 U.S. 148, 154 (1899).

29. *Falk v. Heffron*, 56 F. 299 (C.C.E.D.N.Y. 1893).

30. *Id.* at 299.

31. Act of Aug. 18, 1856, ch. 169, 11 Stat. 138 (1856) (repealed 1870).

32. *Falk*, 56 F. at 299.

33. *Id.* at 300.

34. *Id.*

35. *Bolles v. Outing Co.*, 175 U.S. 262 (1899).

36. *Id.* at 263.

37. *Id.*



and half to the U.S. government).<sup>38</sup> Plaintiff's argued that the number of copies of the magazine printed should be the measure for the \$1 recovery; while defendant argued that he only possessed the one copy that he sold to plaintiff's employee. The court affirmed the defendant's argument, awarding plaintiff \$1 in damages.<sup>39</sup>

The *Bolles* court stated that section 4965 of the Revised Statutes is

clearly a penal statute in that it fixes a single and arbitrary measure of recompense to the plaintiff, irrespective of the damages actually sustained by him, or of the profits realized by the defendant; and in the further provision that one half of the amount recovered shall be to the use of the United States. It makes no pretence of awarding damages, and simply imposes a forfeiture of a specified sum.<sup>40</sup>

The court further reasoned that since the statute was a penalty, it must be strictly construed and it would not expound the definition of "found in his possession."<sup>41</sup>

So what do these two case examples mean with respect to the unintended consequences of remedies becoming arbitrary and punitive? These cases show how the United States borrowed the "per sheet" basis for determining infringement from Britain's Statute of Anne. By doing so, as copyright evolved, there's no relationship between the sheets criteria and the actual realities of infringement that occur. I posit that these cases also show how the United States used statutory damages as an incoherent methodology for calculating damages that were not connected to any aspect of the cases.

In *Falk*, rather than looking at the evidence of the allegedly infringed 2,400 copies, the court had no choice but to look at the 115 sheets at issue. The statutory handcuff guided the court into determining that 115 sheets at \$1 per sheet was the appropriate remedy. Rather than applying an actual damage award analysis to the 2,400 alleged infringements, the focus was on the technical language of sheets so as to give a statutory award.<sup>42</sup> While the court is correct in its application of the statutory language; there is a lack of connectivity between the infringements and the strict interpretation of the per sheet requirement of the statute. The effect is an arbitrary award having no causal connection to the infringement. It is

38. *Id.* at 264.

39. *Id.* at 268.

40. *Id.* at 264.

41. *Id.* at 265-66.

42. *Falk v. Heffron*, 56 F. 299, 300 (C.C.E.D.N.Y. 1893).

challenging to argue that at least the statutory award is providing a minimum recovery for a plaintiff. While the dollar amount may be minimal, the calculation analysis is flawed since it's not based upon anything other than the arbitrary statutory language.

In *Bolles*, the Court unequivocally stated that the then current statute was a penalty.<sup>43</sup> Both *Bolles* and *Brady* were decided in the same year—1899. In these cases, the Supreme Court proclaimed that either statutory damage provisions were penalties<sup>44</sup> or nothing more than random assessments of damage bearing no basis to the infringement or facts of the case.<sup>45</sup> Yet the United States continued with this premise, and built upon this jurisprudence with the passage of the Copyright Act of 1909 (1909 Act).<sup>46</sup>

### C. Copyright Act of 1909

Because it had been over 115 years since the last major enactment of a copyright statute, in 1905 President Roosevelt told Congress:

Our copyright laws urgently need revision. They are imperfect in definition, confused and inconsistent in expression; they omit provision for many articles which, under modern reproductive processes, are entitled to protection; they impose hardships upon the copyright proprietor which are not essential to the fair protection of the public; they are difficult for the courts to interpret and impossible for the Copyright Office to administer with satisfaction to the public. Attempts to improve them by amendment have been frequent, no less than 12 acts for the purpose having been passed since the Revised Statutes. To perfect them by further amendment seems impracticable. A complete revision of them is essential.<sup>47</sup>

The President's comments echoed those of Thorvald Solberg, then Register of Copyrights, who stated:

It is doubtful if the enactment of further merely partial or temporizing legislation will afford satisfactory remedies for the insufficiencies and inconsistencies of the present laws. The subject should be dealt with as a whole, and the insufficient and antiquated

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43. *Bolles*, 175 U.S. at 265.

44. *Id.*

45. *Brady*, 175 U.S. at 157.

46. Copyright Act of 1909, ch. 320, 35 Stat. 1075 (1909) (repealed 1976).

47. H.R. REP. NO. 2222, at 1 (1909) (quoting President Theodore Roosevelt's State of the Union address to Congress on December 5, 1905).

laws now in force be replaced by one consistent, liberal, and adequate statute.

The laws as they stand fail to give the protection required, are difficult of interpretation, application, and administration, leading to misapprehension and misunderstanding, and in some directions are open to abuses.<sup>48</sup>

It appears, based upon the above language that one of the inadequacies referred to by Register Solberg related to damages. As we saw in the preceding section,<sup>49</sup> the problems in the application of the Copyright Act of 1790 and subsequent revisions and amendments still left challenges in ascertaining proper damages and how to account for things such as an infringer's profits. The original §§ 25 and 28 of the 1909 Act<sup>50</sup> (later codified as §§ 101 and 104, respectively, in a 1947 amendment<sup>51</sup>) sought to correct this issue by giving a plaintiff the option between getting actual damages and profits or statutory damages, "as to the court shall appear to be just."<sup>52</sup> Additionally, Congress added recovery for infringer's profits, requiring that plaintiff only prove sales, while the defendant had to prove "every element of cost which he claim[ed]."<sup>53</sup> Section 28 potentially criminalized infringements that were proven to be committed "willfully and for profit" by providing up to one year in prison or not less than \$100 or greater than \$1,000 in fines, or both.<sup>54</sup>

In § 101, there are several categories of works; however, with respect to "undramatized or nondramatic work[s] by means of motion pictures", where Congress specifically set forth damages at no greater than \$100 so long as the infringer did not know he or she was infringing and it wasn't reasonably foreseeable that they were infringing.<sup>55</sup> By contrast, Congress also set forth, in the case of "dramatic or dramatico-musical work[s] by a maker of motion pictures and his agencies," that if such infringer didn't know they were infringing a work that they were *distributing* to exhibitors, and

48. *Id.* at 2 (quoting THORVALD SOLBERG, COPYRIGHT IN CONGRESS 1789-1904, COPYRIGHT OFF. BULL. NO. 8, at 7 (1905)).

49. *See supra* Part II.A-B.

50. Codified at 17 U.S.C. §§ 25, 28 (1926).

51. Act of July 30, 1947, Pub. L. No. 80-281, ch. 391, 61 Stat. 652 (1947) (codified at 17 U.S.C. §§ 101, 104 (1952)) (repealed 1976).

52. Copyright Act of 1909, ch. 320, §§ 25, 28, 35 Stat. 1075, 1081-82 (1909) (repealed 1976).

53. *Id.* § 25.

54. *Id.* § 28.

55. Act of July 30, 1947, § 101(b), 61 Stat. at 661.

such infringements could not be reasonably foreseeable, then damages could not exceed \$5,000 or be less than \$250.<sup>56</sup> We will explore this distinction further, drawing parallels when we talk about online content sharing and downloading versus distributing and how damages are assessed.

While Congress enacted §§ 101 and 104 in order to clear up the inconsistencies, inadequacies, and confusion articulated by President Roosevelt and Register Solberg, history would prove that it did exactly the opposite. Let's now take a look at the application of the 1909 Act and its shortcomings.

#### *D. Interpretation of the Copyright Act of 1909*

Even though the damage provisions of the 1909 Act were much more detailed than they had been in past, ample room for ambiguity surfaced in the area of plaintiff's lost profits and defendant's gained profits.<sup>57</sup> Several cases illustrate this point, which resulted in inequitable recoveries for plaintiffs.<sup>58</sup> Granted, this profit analysis is

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56. *Id.*

57. *See, e.g.*, *Miller v. Universal City Studios, Inc.*, 650 F.2d 1365, 1376 (5th Cir. 1981) (holding that statute provided for recovery of both actual damages *and* profits, and that plaintiff was entitled to recover both); *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 592 F.2d 651, 657 (2d Cir. 1978) (affirming an award of damages that found each defendant liable for half its realized profits and awarded statutory damages in lieu of plaintiff's lost profits); *Peter Pan Fabrics, Inc. v. Jobela Fabrics, Inc.*, 329 F.2d 194, 196-97 (2d Cir. 1964) (holding that the district court erred by failing to consider awarding statutory damages when appellant was unable to provide evidence of actual damages and infringer's profits); *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354, 368, 375-76 (9th Cir. 1947) (affirming the lower court's award of damages and upholding principle that uncertainty of lost profits does not bar recovery by plaintiff); *Ziegelheim v. Flohr*, 119 F. Supp. 324, 329 (E.D.N.Y. 1954) (finding that plaintiff had overestimated its lost profits as well as defendant's profits, and substituted its own calculation of damages); *Gordon v. Weir*, 111 F. Supp. 117, 123 (E.D. Mich. 1953), *aff'd*, 216 F.2d 508 (6th Cir. 1954) (unpublished table decision) (stating that Congress intended to mirror patent law damages with its new copyright statutes and that plaintiff was entitled, for each infringement, to recover *either* its actual damages or profits of defendants); *Sebring Pottery Co. v. Steubenville Pottery Co.*, 9 F. Supp. 384, 385-86, 390 (N.D. Ohio 1934) (electing to award minimal statutory damages after finding difficulty in calculating damages where losses were largely intangible); *Atlantic Monthly Co. v. Post Publ'g Co.*, 27 F.2d 556, 560 (D. Mass. 1928) (finding that damages were not warranted, but for purposes of appeal calculated lost profits and infringing profits, and found them to be far less than plaintiff submitted).

58. *See, e.g.*, *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 231-34 (1952) (awarding the plaintiff the statutory maximum of \$5,000 in damages when defendant's gross profits were only \$899.16); *Arthur A. Kaplan Co., v. Panaria Int'l, Inc.*, No. 96 CIV. 7973(HB), 1998 WL 603225, at \*5 (S.D.N.Y. Sept. 11, 1998), *aff'd*, 205 F.3d 1321 (2d Cir. 2000) (awarding \$15,000 in damages despite evidence of \$661.50 in gross revenue); *see also* 6 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 22:100 (2012) ("[W]here plaintiff recovers defendant's profits, plaintiff may on occasion obtain a windfall, since such profits may be awarded where plaintiff has suffered no actual damages, or has suffered actual damages but in

not the same as excessive statutory damages, which will be discussed in Part III of this article, but the point is that since the 1909 Act the language has been unclear, the result has been various dollar ranges of remedies, that in some instances have created de facto double recovery, with no apportionment.<sup>59</sup> As we will see, the inconsistent application of damages under the 1909 Act has equated to excessive damages, which still continues under the Copyright Act of 1976 (1976 Act),<sup>60</sup> particularly under statutory damages. The flexible language of “as the court shall appear to be just” of the 1909 Act has had the presumably unintended effect of creating excessive damage awards, which defeats the compensatory nature of copyright damages in the first place.<sup>61</sup>

### 1. Case Law

Some classic examples of this problem are illustrated in *Turner & Dahnken v. Crowley*.<sup>62</sup> *Turner* involved an infringement of a copyrighted song written by Crowley called “My California Rose.”<sup>63</sup> While interpreting what was then § 25 (later § 101) of the 1909 Act, the trial court held that Crowley was entitled to \$7,000 in statutory damages.<sup>64</sup> The court determined that there existed 7,000 copies of the song in the infringer’s possession and/or control that were distributed after receiving notice of the infringement.<sup>65</sup> Based upon § 25, the court mandated \$1 per infringing act, which in this case equated to 7,000 copies or \$7,000 in statutory damages.<sup>66</sup> Even though Crowley would have made only 8¢ per copy, or \$560 in total profit, the court relied upon *Gross v. Van Dyk Gravure Co.*<sup>67</sup> to justify higher award.<sup>68</sup> The court in *Gross* agreed with district judge’s assertion that courts have a duty to estimate damages as best they

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an amount less than defendant gained from the infringement.”).

59. See, e.g., *Miller*, 650 F.2d at 1376; *Lottie Joplin Thomas Trust*, 592 F.2d at 657; *Universal Pictures Co.*, 162 F.2d at 375-76.

60. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended at 17 U.S.C. (2011)).

61. See *Brady v. Daly*, 175 U.S. 148, 154 (1899) (noting that the purpose of statutory damages is to provide compensation, not to act as penalty).

62. *Turner & Dahnken v. Crowley*, 252 F. 749 (9th Cir. 1918).

63. *Id.* at 750.

64. *Id.*

65. *Id.*

66. *Id.*

67. *Gross v. Van Dyk Gravure Co.*, 230 F. 412 (2d Cir. 1916).

68. *Turner*, 252 F. at 752-54.

could.<sup>69</sup>

The Ninth Circuit in *Turner* ruled on appeal that while courts can use discretion where no proof of actual damages is set forth, they must have relation to “whole case of infringement” and must not be punitive.<sup>70</sup> The appellate court reduced the statutory damage award from \$7,000 to \$560.<sup>71</sup> While this particular decision was reversed on appeal, the trial courts clearly were not employing any causal connection between evidence of plaintiff’s damages and the amount actually awarded under the concept of what a court deems just.

The inconsistencies continued in *Sheldon v. Metro-Goldwyn Pictures Corporation*.<sup>72</sup> In this case, the defendants had infringed upon plaintiffs’ play entitled “Dishonored Lady.”<sup>73</sup> Although liability was determined, the main issue was how to apportion damages attributable to the infringement.<sup>74</sup> The language of § 25(b) provided for actual damages and profits, or in lieu, such damages as the court deemed just.<sup>75</sup> Since actual damages were proven, the focus shifted to apportionment.<sup>76</sup> Based upon expert testimony, the district court stated it believed that damages should be apportioned to be 25% of defendants’ profits; however, the court ruled that all defendants’ net profits should go to plaintiffs, to ensure it was keeping in line with precedent.<sup>77</sup>

As for the court of appeals, it determined that plaintiff’s damages should be one-fifth of defendant’s net profits.<sup>78</sup> After the Supreme Court granted certiorari, it ruled that apportionment could be accomplished and that expert testimony would serve to guide that calculation.<sup>79</sup> If courts do not apportion damages, the result would be inequity and equate to being a penalty,<sup>80</sup> which is not the purpose of copyright damages.<sup>81</sup> Ultimately, the Supreme Court upheld the appellate court’s ruling, since expert testimony showed that damages

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69. *Gross*, 230 F. at 413-14.

70. *Turner*, 252 F. at 754.

71. *Id.*

72. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940).

73. *Id.* at 396.

74. *Id.*

75. *Id.* at 399.

76. *Id.*

77. *Id.* at 398.

78. *Id.*

79. *Id.* at 405.

80. *Id.*

81. *See supra* Part I.

attributable to the infringement ranged from 5% to 12%.<sup>82</sup> This case focused on actual damages as opposed to the statutory damage provision, yet the rationale regarding inequity and penalty is applicable to both actual and statutory damages.

Now it may appear that this result seems just fine as plaintiff is getting actual damages attributable to defendant's infringement. There appears to be a single recovery of damages, with no excessive damages being awarded. This may have been fine if the Supreme Court stayed with this interpretation of the 1909 Act's damages provision. The ambiguity started to unveil when the Supreme Court just twelve years later decided *F.W. Woolworth Co. v. Contemporary Arts, Inc.*,<sup>83</sup> a case that appears to result in permitting cumulative damages that equate to excessive recovery.

Quite frankly, the Court's reasoning in *F.W. Woolworth* regarding applicable damages is troubling. There are no clear standards for enforcing § 101, and the Court ultimately contradicts the reasoning in *Sheldon*.<sup>84</sup> In this case, there were infringements of a statuette of a cocker spaniel that were being sold in F.W. Woolworth retail stores.<sup>85</sup> After the court determined liability, F.W. Woolworth proved that its gross profit from the infringement was \$899.16.<sup>86</sup> Nonetheless, the Court stated that \$5,000 in statutory damages was appropriate and upheld the appellate court's decision.<sup>87</sup> As the Court reasoned, citing *Douglas v. Cunningham*:

The phraseology of the section [regarding statutory damages] was adopted to avoid the strictness of construction incident to a law imposing penalties, and to give the owner of a copyright some recompense for injury done him, in a case where the rules of law render difficult or impossible proof of damages or discovery of profits.<sup>88</sup>

But, isn't imposing penalties exactly what the Court did by ignoring the \$899.16 in actual proven damages, and instead ordering the then maximum statutory amount? It seems as if the Court is stretching for justification to allow the maximum statutory amount of \$5,000 though the evidence showed otherwise. The Court continued to validate

82. *Id.* at 408.

83. *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228 (1952).

84. *Id.* at 235 (Black, J., dissenting).

85. *Id.* at 229 (majority opinion).

86. *Id.* at 230.

87. *Id.* at 234.

88. *Id.* at 231 (quoting *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935)).

random calculations, as long as they were within the statutory framework as shown in *F.W. Woolworth*:

To fulfill that purpose, the statute has been interpreted to vest in the trial court broad discretion to determine whether it is more just to allow a recovery based on calculation of actual damages and profits, as found from evidence, or one based on a necessarily somewhat arbitrary estimate within the limits permitted by the Act.

....

Moreover, a rule of liability which merely takes away the profits from an infringement would offer little discouragement to infringers. It would fall short of an effective sanction for enforcement of the copyright policy. The statutory rule, formulated after long experience, not merely compels restitution of profit and reparation for injury but also is designed to discourage wrongful conduct. The discretion of the court is wide enough to permit a resort to statutory damages for such purposes. Even for uninjurious and unprofitable invasions of copyright the court may, if it deems it just, impose a liability within statutory limits to sanction and vindicate the statutory policy.<sup>89</sup>

This begs the original question: Do we want copyright damages to be an “arbitrary estimate” as the *F.W. Woolworth* court espouses above? Having damages speculative or within a wide range is contrary not only to intellectual property law, but to the inherent element of foreseeability in general damages law. We should not have parties in copyright infringement actions be subject to arbitrary estimates nor “sanctions” as the Court mentions above. If the Court is indicating that the policy behind such calculation of statutory damages is to “discourage wrongful conduct” by imposing sanctions, this seems to clearly equate to penalties, which was not the legislative purpose behind enacting statutory damages.<sup>90</sup> Further, scholars such as Professor Samuelson clearly addressed the concern that statutory damages should not equate to penalties since there would be constitutional violations.<sup>91</sup>

Interpretation of the 1909 Act left many unanswered questions. Did § 101 require that a plaintiff could choose between either

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89. *Id.* at 231-33.

90. *See supra* Part I (discussing the purpose of statutory remedies); *see also* Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 450-51 (2009).

91. *See Samuelson & Wheatland, supra* note 90, at 480-97 (discussing “examples of cases in which copyright statutory damage awards have been grossly excessive and inconsistent with the Supreme Court’s due process jurisprudence.”).



statutory damages *or* actual damages? And if either one was chosen (by plaintiff or the court), were they cumulative or did they stand alone? If profits were to be included, how were they apportioned? These unanswered questions left the door open for confusion. By implying arbitrariness, penalties, and a seemingly obvious contradiction to the rationale of *Sheldon*, the *F.W. Woolworth* court had certainly created ambiguity as to how § 101 worked. It appears that this ambiguity was furthered in other circuits by permitting excessive damages that sometimes included both profits and statutory damages.<sup>92</sup>

The foregoing cases illustrate a sampling of the divisiveness and confusion over application of statutory damages; however, it wasn't just the courts that became cognizant of this ambiguity. Former Register of Copyrights, Abraham Kaminstein, vocalized challenges with the 1909 Act and wrote to Congress about it in 1961.<sup>93</sup> While the law on copyright damages was evolving up to this point, courts slipped into a pattern of inconsistent interpretation, and often were not in tune with the alleged legislative framework's purposes of compensation and deterrence. We now explore how the stage was set for further reform that ultimately led to the enactment of the 1976 Act.

## 2. Register of Copyright's Comments on Needed Reform

While the courts were in conflict over the application of damages, both in terms of applying actual damages and/or profits and/or statutory damages, Register Kaminstein drafted his concerns over copyright remedies.<sup>94</sup> Although he stated several concerns with respect to copyright damages, his focus seems to center upon statutory damages and innocent infringers.

### *a. Statutory Damages*

Register Kaminstein agreed with the concept of statutory

92. See, e.g., *F.E.L. Publ'ns, Ltd. v. Catholic Bishop of Chi.*, 754 F.2d 216, 219 (7th Cir. 1985) (stating that a trial judge may award statutory damages "in lieu of or in addition to actual damages"); *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 592 F.2d 651, 657 (2d Cir. 1978) (stating that statutory and actual damages are not mutually exclusive); *Fitzgerald Publ'g Co. v. Baylor Publ'g Co.*, 670 F. Supp. 1133, 1141 (E.D.N.Y. 1987) (awarding plaintiff both actual and statutory damages).

93. H. COMM. ON THE JUDICIARY, 87TH CONG., REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW ix-x (Comm. Print 1961).

94. *Id.* at 101-07.

damages;<sup>95</sup> however, he stated the application was not clear.<sup>96</sup> For example, § 101(b) set forth a schedule of different amounts of damages for different types of works for each infringement or performance.<sup>97</sup> According to Register Kaminstein, this part of the statute proved to be faulty

because the amounts are arbitrary and the number of copies or performances is only one of many factors to be considered in assessing damages. In most cases the courts have not applied the mathematical formula of the schedule, and in a few cases where this has been done the results are questionable. To some extent the fear of excessive awards under the present statute is founded on the possibility of a merely mathematical application of the schedule. The schedule adds a needless complication to the scheme of statutory damages. We would omit it.<sup>98</sup>

It appears that while Register Kaminstein was not opposed to statutory damages as serving the compensatory and deterrent purposes, he recognized the challenges of excessive awards that resulted from too much flexibility given to courts in their application. Interestingly enough, he uses the word “arbitrary” in his description of statutory amounts as did the court in *F.W. Woolworth*.<sup>99</sup> It’s disturbing that a theme of arbitrariness seemed to develop with respect to calculation of copyright damages, yet there’s no fundamental addressing of this concept in furtherance of the goals of compensation and deterrence.

### *b. Innocent Infringers*

Register Kaminstein’s report also indicates that there should be more room for protection of innocent infringers and that the burden of proving innocence rests upon the alleged innocent infringer.<sup>100</sup> At that time the minimum statutory damage award equated to \$250.<sup>101</sup> The Register stated that there had been commentary that the mandatory minimum amount of \$250 be eliminated for innocent infringers.<sup>102</sup> Under § 101(b), he further realized that doing so would be more

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95. *Id.* at 102.

96. *Id.*

97. *Id.* at 104.

98. *Id.* at 106.

99. *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 232 (1952).

100. See REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, *supra* note 93, at 103-04.

101. *Id.* at 103.

102. See *id.*

consistent with what was already in place for innocent infringers in three distinct categories: reproductions of newspaper photographs (\$50-\$200 range),<sup>103</sup> \$100 as the maximum statutory damage if one innocently infringes nondramatic works in motion pictures,<sup>104</sup> and \$100 as the maximum statutory damage if one innocently infringes nondramatic literary works in broadcasts.<sup>105</sup> Since there were already three carved out categories, he felt that it would be “equally justify[able]” to apply it to other situations involving innocent infringers,<sup>106</sup> which in turn would position the mandatory minimum becoming irrelevant or non-existent.

Register Kaminstein did not advocate for abolishing the mandatory minimum for innocent infringers (as I alluded to that being a probable effect in the previous sentence); rather, he wanted the statutory minimum flexible for courts to be able to evaluate whether an innocent infringer met the burden of proof establishing his or her innocence, and if met, have the discretion to not award any damages.<sup>107</sup> Register Kaminstein felt that this standard would also eliminate the three carve-outs for innocent infringers, which added, in his opinion, to the inconsistency and “special treatment” implying inequitable results.<sup>108</sup>

Various interpretations of copyright law through 1960 show us that actual damages and profits and statutory damages are being effectuated excessively and inconsistently.<sup>109</sup> This causes one to question whether the compensatory and deterrent theories behind copyright law remedies are being adequately served. I say no, and base that upon the cases illustrated and referenced in this article, as well as Register Kaminstein’s comments. Additionally, it is fairly safe to argue that during the 1960s most would not oppose reform of the copyright remedy laws. The true question is how do we solve these problems of excessive awards and inconsistency in application by courts? Much effort and time went into the creation of the 1976

103. *Id.* at 104.

104. *Id.*

105. *Id.*

106. *Id.*

107. *Id.*

108. *Id.*

109. *Id.* at 102-03; *see also* F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228 (1952) (awarding the plaintiff the statutory maximum of \$5,000 in damages when defendant’s gross profits were only \$899.16); Arthur A. Kaplan Co. v. Panaria Int’l, Inc., No. 96 CIV. 7973(HB), 1998 WL 603225 (S.D.N.Y. Sept. 11, 1998), *aff’d*, 205 F.3d 1321 (2d Cir. 2000) (awarding \$15,000 in damages despite evidence of \$661.50 in gross revenue).

Act.<sup>110</sup> It was believed that creating § 504 of the 1976 Act would alleviate these problems. Unfortunately, as we shall see, the problem not only continued but got worse in the new online world called the “digital domain.”

### III. EVOLUTION OF STATUTORY REMEDIES: THE COPYRIGHT ACT OF 1976 AND REMEDIES REVISITED

#### A. *Section 504 of the Copyright Act of 1976*

After many years of preparation and meetings and acknowledging the need for a fundamental change to copyright laws, Congress finally enacted a completely new copyright act.<sup>111</sup> This act is much more detailed and it has fundamentally changed copyright laws as we knew them.<sup>112</sup> If one looks at the general comments regarding damages in the legislative history of the 1976 Act, Congress’s intent is clear:

to give the courts specific unambiguous directions concerning monetary awards, thus avoiding the confusion and uncertainty that have marked the present law on the subject, and, at the same time, . . . to provide the courts with reasonable latitude to adjust recovery to the circumstances of the case, thus avoiding some of the artificial or overly technical awards resulting from the language of the existing statute.<sup>113</sup>

Congress felt that § 504(a) permitted recovery for actual damages plus infringer’s profits or statutory damages.<sup>114</sup> The plaintiff could

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110. See WILLIAM S. STRAUSS, COPYRIGHT OFFICE STUDY NO. 22: THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW (Comm. Print 1956).

111. Copyright Act of 1976, Pub. L. No. 94-553, § 504, 90 Stat. 2541 (1976) (codified as amended at 17 U.S.C. § 504 (2011)).

112. See H.R. REP. NO. 94-1476 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659; STRAUSS, *supra* note 110. See also *Jasper v. Sony Music Entertainment, Inc.*, 378 F. Supp. 2d 334, 341 (S.D.N.Y. 2005) (stating that the copyright act made “major changes in pre-existing copyright law”); *Peer Int’l Corp. v. Latin Am. Music Corp.*, 161 F. Supp. 2d 38, 46 (D.P.R. 2001) (noting that the 1976 Copyright Act “overhauled the copyright system by introducing many changes”); *Encyclopaedia Britannica Educ. Corp. v. Crooks*, 447 F. Supp. 243, 248 n.2 (W.D.N.Y. 1978) (stating that the Copyright Revision Act of 1976 made “extensive changes in the copyright law, many of which were designed to address issues raised by rapidly changing technology”). See generally Robert A. Gorman, *An Overview of the Copyright Act of 1976*, 126 U. PA. L. REV. 856 (1978).

113. H.R. REP. NO. 94-1476, at 161.

114. *Id.*; see also 17 U.S.C. § 504(a)-(b) (2011).

(a) In General.—Except as otherwise provided by this title, an infringer of copyright is liable for either—

(1) the copyright owner’s actual damages and any additional profits of the

make the election of actual damages plus infringer's profits or statutory damages as set forth in § 504(c).<sup>115</sup> And, if statutory

infringer, as provided by subsection (b); or

(2) statutory damages, as provided by subsection (c).

(b) Actual Damages and Profits.—The 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.

*Id.*

115. H.R. REP. NO. 94-1476, at 162; *see also* 17 U.S.C. § 504(c).

(c) Statutory Damages.—

(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. The court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107, if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords; or (ii) a public broadcasting entity which or a person who, as a regular part of the nonprofit activities of a public broadcasting entity (as defined in section 118(f)) infringed by performing a published nondramatic literary work or by reproducing a transmission program embodying a performance of such a work.

(3) (A) In a case of infringement, it shall be a rebuttable presumption that the infringement was committed willfully for purposes of determining relief if the violator, or a person acting in concert with the violator, knowingly provided or knowingly caused to be provided materially false contact information to a domain name registrar, domain name registry, or other domain name registration authority in registering, maintaining, or renewing a domain name used in connection with the infringement.

(B) Nothing in this paragraph limits what may be considered willful infringement under this subsection.

(C) For purposes of this paragraph, the term "domain name" has the meaning given that term in section 45 of the Act entitled "An Act to provide for the

damages were elected, nothing prevented the courts from using evidence of actual damages and profits in calculating the statutory damage award.<sup>116</sup> Congress continued by stating that § 504(b) recognizes the “different purposes” of awarding actual damages versus profits.<sup>117</sup> Actual damages are “to compensate the copyright owner for losses from the infringement;”<sup>118</sup> whereas, recovery of defendant’s profits can be obtained “to prevent the infringer from unfairly benefiting from a wrongful act.”<sup>119</sup> The first part of this statement appears to address the goals of compensation, while the second part appears to address the goals of deterrence. Furthermore, in assessing actual damages and profits, courts are supposed to prevent double recovery by not calculating the same damage under both categories.<sup>120</sup> It is the defendant’s burden to show that any profit made was not “attributable to the infringement” so that proper apportionments can be ascertained.<sup>121</sup>

Now, as a part of the statutory damage scheme, courts were given latitude to increase damage awards up to \$50,000<sup>122</sup> in the event plaintiff could prove “willful infringement,” and decrease damage awards to a low of \$100<sup>123</sup> where the defendant proves it is an “innocent infringer”.<sup>124</sup> The claimed purpose of having a minimum statutory damage amount for an innocent infringer is to preserve the deterrent effect, so the innocent infringer still faces liability if plaintiff cannot disprove his or her innocence.<sup>125</sup> Yet if the burden of proof is on the defendant to prove innocence, and defendant meets the burden by providing sufficient evidence, should it matter whether plaintiff can refute defendant’s innocence finding? In other words, should it be

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registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes” approved July 5, 1946 (commonly referred to as the “Trademark Act of 1946”; 15 U.S.C. § 1127).

*Id.*

116. H.R. REP. NO. 94-1476, at 161.

117. *Id.*; see also 17 U.S.C. § 504(c).

118. H.R. REP. NO. 94-1476, at 161.

119. *Id.*

120. *Id.*; see also § 504(b).

121. H.R. REP. NO. 94-1476, at 161; see also § 504(b).

122. H.R. REP. NO. 94-1476, at 162. This later changed, and amounts have since gone up to \$150,000. See § 504(c)(2).

123. H.R. REP. NO. 94-1476, at 162. Amounts have since gone up to \$200 per infringement. See § 504(c)(2).

124. H.R. REP. NO. 94-1476, at 162-63.

125. *Id.* at 163.

that so long as defendant meets that burden, defendant is innocent and similar to other areas of law, would not incur any liability and subsequent damages? These questions may have been debated prior to enactment of the 1976 Act, but they were never answered directly.<sup>126</sup>

So far, the basic language of § 504 sounds easy enough for courts to follow to avoid the excessiveness and inconsistency affiliated with prior law. As the world became more technologically advanced, however, statutory damages came into application more often, bringing more uncertainty and inconsistent application, as we will see from the following cases.

*B. Courts' Continued Confusion: Applying Statutory Remedies  
Based Upon § 504*

The term “willfulness” set forth in § 504(c)(2) has not been clearly defined by Congress. Based upon the language “willfully,” there’s an implication that an infringer must have the requisite intent to infringe; however, we get no further delineation on definitions from Congress. Therefore, some commentators have equated willfulness to knowledge, meaning that if an infringer knows that they are infringing, then the infringement is willful.<sup>127</sup> On the other hand, some courts have decided that willful means proof of something less than actual knowledge.<sup>128</sup> Furthermore, other courts have held that knowledge and hence willfulness can be proved if it can be shown that the infringer acted with “reckless disregard” with respect to the infringement.<sup>129</sup>

Additionally, the concept of innocent infringer is not defined in § 504(c)(2). The language of the statute provides that if the infringer “was not aware and had no reason to believe that his or her acts constituted an infringement of copyright,”<sup>130</sup> then the consequence is

126. The act does carve out exceptions from statutory liability for teachers, librarians, archivists, and public broadcasters (and their institutions) if they honestly believe what they were doing constituted a fair use. § 504(c)(2). If you are innocent by not believing you have infringed on any copyright, you are free from liability, and, furthering this logic, it would appear that if a defendant proved his or her innocence, there does not need to be any burden shifting for plaintiff to disprove, nor any statutory minimum award to deter future infringements.

127. See 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14-04[B][3] (2010); see also *Fitzgerald Publ'g Co. v. Baylor Publ'g Co.*, 807 F.2d 1110, 1115 (2d Cir. 1986).

128. *Fitzgerald Publ'g Co.*, 807 F.2d at 1115 (citing *Fallaci v. New Gazette Literary Corp.*, 568 F. Supp. 1172, 1173 (S.D.N.Y. 1983)).

129. *Id.* (citing *Lauratex Textile Corp. v. Allton Knitting Mills Inc.*, 519 F. Supp. 730, 733 (S.D.N.Y. 1981)).

130. See 17 U.S.C. § 504(c)(2).

not relief from liability, but rather a reduction in statutory damages. The implication here is that the infringer has no actual or constructive knowledge of the infringement. Furthermore, the categorization of innocent infringer is not available if the plaintiff complied with 17 U.S.C. §§ 401(d), 402(d), or 405(b) regarding notice on the copyrighted work.<sup>131</sup> If the plaintiff has appropriately labeled their copyrighted work in compliance with these sections, then an innocent infringement defense becomes unavailable. So, in essence, there is a sliding scale from \$200 per infringement if innocence is proven to \$150,000 per infringement if willfulness is proven, and quite a bit of an unknown in between. This leaves courts with a wide range of leeway in determining willfulness versus innocence, with a corresponding wide range of dollar amounts awarded on this continuum of vagueness.

We see that this gap between the two extremes lends itself to whatever the court deems just in accordance with § 504(c)(1). This paradigm of escalation or reduction of statutory damages seems to be incoherent. It does not appear to serve the purposes of compensation and deterrence, since it is so wide spread and there is no evidence that infringements have curtailed.<sup>132</sup> One can argue that any amount awarded would grant compensation to the plaintiff; however, if that amount is arbitrary and not based upon any benchmarks, it is contrary to our jurisprudence on reasonableness and foreseeability in damages law.<sup>133</sup> Moreover, it perpetuates the inconsistencies we have seen in the application of copyright law from 1790 to the date.

Having no clear basis for what willful and innocence mean, we end up with courts talking about what they think these two terms mean. For example, in *Fitzgerald Publishing Company*, the court concluded, “It is plain that ‘willfully’ infringing and ‘innocent intent’ are not the converse of one another. Thus, it is possible in the same action for a plaintiff not to be able to prove a defendant’s willfulness, and, at the same time, for the defendant to be unable to show that it acted innocently.”<sup>134</sup> Assuming this proposition is true, where does that leave us? Confused? Or should a court just pick \$14,500 per

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131. See *id.* §§ 401(d), 402 (d), 405(b).

132. See *Broadcast Music, Inc. v. DFK Entertainment, LLC*, No. 1:10-cv-1393 (GLS/DRH), 2012 WL 893470 (N.D.N.Y. Mar. 15, 2012) (granting plaintiff’s motion for summary judgment on five counts of willful copyright infringement by defendants).

133. See, e.g., RESTATEMENT (SECOND) OF CONTRACTS § 351 (1981); RESTATEMENT (SECOND) OF TORTS § 912 (1979).

134. *Fitzgerald Publ’g Co.*, 807 F.2d at 1115.



infringement since that is the approximate midpoint between \$750 and \$30,000 (the statutory amounts of damages not involving willfulness or innocence). Establishing a framework whereby courts and/or juries could still have equitable powers to award damages within non-arbitrary or excessive parameters would serve the overall damage structure.

### 1. Case Law—Music

Speaking of the concepts of arbitrariness and excessiveness, which were introduced early on in this article, our more recent line of cases serve as clear illustrations of how those concepts have permeated more modern case law. The most obvious and arguably the most notorious cases involve the music industry. We will explore three of those cases to demonstrate how the application of statutory damages in the modern era is applied using the weak statutory damage foundation built from the beginning of U.S. copyright law.

In *Capital Records, Inc. v. Thomas-Rasset*, the defendant had infringed copyrighted sound recordings by downloading and distributing them via online peer-to-peer file sharing applications (namely, one known as KaZaA or Kazaa).<sup>135</sup> During the first trial, the jury found willful infringement on twenty-four of plaintiff's sound recordings and awarded the plaintiffs \$9,250 per infringement equating to \$222,000 total.<sup>136</sup> Upon defendant's motion, the court vacated the award and granted a new trial based upon jury instruction error.<sup>137</sup> At the second trial, the jury found willful infringement on twenty-four of sound recordings, and this time awarded plaintiffs \$80,000 for each song, or \$1.92 million.<sup>138</sup> The trial court remitted this amount to \$54,000 in January of 2010, which plaintiffs refused to accept, thus necessitating a third trial solely on the damage issue.<sup>139</sup> In November 2010, the jury awarded plaintiffs \$1.5 million.<sup>140</sup> In July 2011, the court reduced the award to \$54,000 as it did previously in January 2010.<sup>141</sup> In August 2011, plaintiffs filed an appeal to contest

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135. *Capitol Records, Inc. v. Thomas-Rasset*, 680 F. Supp. 2d 1045, 1049 (D. Minn. 2010).

136. *Id.*

137. *Id.*

138. *Id.* at 1050.

139. *See id.* at 1061.

140. *Capitol Records, Inc. v. Thomas-Rasset*, 799 F. Supp. 2d 999, 1003 (D. Minn. 2011), *vacated*, 692 F.3d 899 (8th Cir. 2012), *petition for cert. filed*, No. 12-715 (U.S. Dec. 12, 2012).

141. *Id.* at 1001.

these damages.<sup>142</sup> One of plaintiffs' arguments was that "actual damages are irrelevant to statutory damages" and thus the award should be upheld out of deference to the latitude Congress gave in enacting the statutory damages.<sup>143</sup> In 2012 the original judgment was vacated on appeal, followed by Thomas-Rasset's petition for writ of certiorari to the Supreme Court.<sup>144</sup>

The fact that this case has gone through multiple phases of trial with respect to the damage award questions effective use of judicial resources, particularly with respect to the jury's verdict. Under the *Williams* standard, which assesses the constitutionality of damage awards so as not to be oppressive or disproportionate to the offense,<sup>145</sup>

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142. See Opening Brief of Appellants/Cross-Appellees at 1, *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899 (8th Cir. 2012) (Nos. 11-2820, 11-2858).

143. See *id.* at 56-57. Plaintiff's arguments include that the lower court judge (Judge Davis) erred in stating that the statutory damage awards were unconstitutional because due process wasn't protected since there was no relationship between actual and statutory damages. See *id.* at 54-59; see also Brief of the Motion Picture Association of America, Inc., as Amicus Curiae in Support of Plaintiffs-Appellants at 21, *Thomas-Rasset*, 799 F. Supp. 2d 999 (No. 11-2820). Ironically, the Motion Picture Association of America (MPAA) argues that the district court's lowering the statutory damage award after three juries have held otherwise "employs an arbitrary and unprecedented method of calculating statutory damages for willful infringement." *Id.* While the MPAA certainly has legitimate objectives in protecting works of authorship, the MPAA may not be recognizing that their reliance upon *St. Louis, Iron Mountain & S. Ry. Co. v. Williams* may be misplaced. *Williams* and subsequent cases' rationales may not be congruent with the purposes of compensation and deterrence, since we still have excessive awards and infringements continue to occur in the digital age. See *St. Louis, Iron Mountain & S. Ry. Co. v. Williams*, 251 U.S. 63, 64 (1919) (involving a railroad that overcharged passengers by 66¢, but was charged \$75 under a statutory damages theory). The MPAA may be highlighting only aspects of *Williams* and its progeny that give rise to a faulty foundation of statutory damage analysis, by showing how *Williams* and subsequent cases awarded statutory damages that were excessive or unreasonable, but upheld. *Williams* stands for the proposition that when a court evaluates statutory damage awards, they are unconstitutional only if the award is "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." Brief of the Motion Picture Association of America, Inc., *supra* at 24 (quoting *Williams*, 251 U.S. at 67). Isn't that exactly what Judge Davis in the *Thomas-Rasset* decided? Interestingly enough, the MPAA doesn't spend much time addressing *BMW of North America, Inc. v. Gore*, where a \$4 million dollar punitive award was reduced by the Supreme Court as "grossly excessive." See *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 575 (1996). Granted, *BMW of North America* did not deal with statutory copyright damages, but it did lay out three guideposts: "the degree of reprehensibility of the nondisclosure; the disparity between the harm or potential harm suffered by [plaintiff] and [his/her] punitive damages award; and the difference between this remedy and the civil penalties authorized or imposed in comparable cases." *Id.*; see also Samuelson & Wheatland, *supra* note 90, at 480-85.

144. *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899 (8th Cir. 2012), *petition for cert. filed*, No. 12-715 (U.S. Dec. 12, 2012).

145. See *Williams*, 251 U.S. at 66-67 (stating that constitutional limitations are triggered "where the penalty prescribed is so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable").

the district court finds the \$1.5 million verdict in violation of the Constitution and reduces it to \$54,000.<sup>146</sup> The court discusses how Thomas-Rasset is a non-commercial user not acting for a profit as opposed to commercial infringers who are more susceptible to large statutory damage awards because they have “enormous” potential for a gain in revenues from the infringement.<sup>147</sup> The thought is that Congress set a high maximum for statutory damages so that any award for infringement could be large enough to outweigh an infringer’s potential gain.<sup>148</sup> Here, the court explains that Thomas-Rasset’s potential gain is not large enough as a private individual as compared to the verdict.<sup>149</sup> The court continues that statutory damages must bear some relationship to actual damages, carefully commenting that there’s no requirement that plaintiff must prove actual damages.<sup>150</sup> The 1976 Act is clear that statutory damages are to be “instead” of actual damages.<sup>151</sup>

Thomas-Rasset is “one of more than 2 million users sharing more than 800 million files on [that] day.”<sup>152</sup> The court states that although she is the one who got caught she should not have to pay for the damages caused by millions of others who have not yet been caught. It just so happened she got “caught, sued, and subjected to a jury trial.”<sup>153</sup>

Here, from the issues revealed at the trials, we see two realizations emerge: (1) calculation of statutory damages is confusing since there is no guidance on how to do so, which, invokes constitutional issues of due process violations since awards are so large and disproportionate; and (2) there seems to be an innate notion that a distinction between commercial and non-commercial infringements is tied to how statutory damages are interpreted. Without directly mentioning it on these two points, the district court implies that invoking § 504(c) as is does not serve the damage purposes of compensation and deterrence.

In *Sony BMG Music Entertainment v. Tenenbaum*, the defendant, Joel Tenenbaum, had been downloading and distributing copyrighted

146. See *Thomas-Rasset*, 799 F. Supp. 2d at 1001.

147. *Id.* at 1010.

148. See *id.*

149. *Id.* at 1011.

150. *Id.*

151. 17 U.S.C. § 504(c) (2011); H.R. REP. NO. 94-1476, at 161 (1976).

152. *Thomas-Rasset*, 799 F. Supp. 2d at 1011.

153. *Id.*

sound recordings by using file-sharing software without the permission of the copyright owners (similar to Jammie Thomas-Rasset).<sup>154</sup> Initially, the *Tenenbaum* plaintiffs were awarded \$675,000 in statutory damages.<sup>155</sup> The district court judge claimed the amount was excessive and unconstitutional, and the judge lowered the amount by 90% to \$67,500.<sup>156</sup> On appeal, the court reversed the lower court and reinstated the \$675,000 amount.<sup>157</sup> The appellate court stated that the lower court judge should not have addressed the constitutionality of the damages issue.<sup>158</sup> The trial court first should have used the procedural mechanism of remittitur, which is a common law doctrine permitting a court to reduce an award believed to be grossly excessive so as to shock the conscience of the court.<sup>159</sup> The case was remanded to the lower court to be evaluated under the doctrine of remittitur, under which plaintiffs have the option of accepting a reduced award or go back to trial on the issue of damages.<sup>160</sup>

While the procedural history in the *Tenenbaum* case may differ from the *Thomas-Rasset* case, they fundamentally deal with the same issue of arbitrary or excessive statutory damage awards. Both defendants knew that they were infringing on copyrighted works, so they should face consequences. The question becomes how much of a consequence in terms of monetary damage awards. The courts have no clear guidance to ascertain award amounts that will both compensate the plaintiffs and also deter future infringements. Rather, the courts give deference to Congress to change the law and focus upon no constitutional violations of due process.

As pointed out earlier in this article, the *Thomas-Rasset* case illustrates the lack of guidance for statutory damage assessment and draws distinction between commercial and non-commercial infringement. The appellate court in *Tenenbaum* made a comment that where Congress intended to make this bifurcation between commercial and non-commercial use, it expressly did so in the Sound Recording Act of 1971 and the Audio Home Recording Act of 1992 (AHRA).<sup>161</sup> So, there are inferences being made by different courts

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154. *Sony BMG Music Entm't v. Tenenbaum*, 721 F. Supp. 2d 85, 87 (D. Mass. 2010), *aff'd in part, vacated in part, rev'd in part*, 660 F.3d 487 (1st Cir. 2011).

155. *Id.*

156. *Id.* at 89.

157. *Sony BMG Music Entm't v. Tenenbaum*, 660 F.3d 487, 490 (1st Cir. 2011).

158. *Id.* at 489-90, 509.

159. *Id.* at 508-09.

160. *Id.* at 508, 515.

161. *Id.* at 499; *see also infra* Part IV.A (discussing these two acts, their carved out

that there is a need for Congress to act and there may be validity to exploring the existence of the different categories of commercial and non-commercial use.

In *Maverick Recording Company v. Whitney Harper*, the defendant, a high school student, downloaded thirty-seven songs from a file sharing program whereby she infringed on music labels copyrighted sound recordings (again similar to *Thomas-Rasset* and *Tenenbaum*).<sup>162</sup> At the district court level, the judge ruled Ms. Harper infringed as a matter of law; however, she was entitled to have the jury determine if she was an innocent infringer.<sup>163</sup> Plaintiffs' motion for summary judgment (adjudication) as to liability for infringement was granted; however, the judge stated that question of whether Ms. Harper was an innocent infringer was a question for the jury.<sup>164</sup> The judgment was for \$200 per infringement.<sup>165</sup> Plaintiffs appealed the judge's ruling that the innocent infringement defense was a matter of fact, and Ms. Harper appealed as well.<sup>166</sup> On appeal, the court held that innocent infringer defense was immaterial in this case since it was precluded by 17 U.S.C. § 402(d).<sup>167</sup> This section prevents use of the innocent infringement defense when the defendant had access to the work that had proper copyright notice affixed to it.<sup>168</sup> The court claimed that since plaintiffs had proper copyright notice on their phonorecords, Ms. Harper was barred from using innocent infringement as a defense to lower statutory damages.<sup>169</sup> Therefore, according to the court, plaintiffs must be granted \$750 for each infringement.<sup>170</sup>

Ms. Harper's attorneys filed a petition for writ of certiorari with the United States Supreme Court; however, it was denied.<sup>171</sup> In their petition, Ms. Harper argued § 402(d) meant that only actual works with the copyrighted notice shall apply, and not works in other mediums that do not have such notice.<sup>172</sup> Here, plaintiffs had proper

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exceptions, and applicability to statutory damages).

162. *Maverick Recording Co. v. Harper*, 598 F.3d 193, 194 (5th Cir. 2010).

163. *Id.*

164. *See id.* at 195.

165. *Id.* at 194.

166. *Id.* at 195.

167. *Id.* at 198-99.

168. *Id.* at 198.

169. *Id.* at 198-99.

170. *Id.* at 199.

171. *Harper v. Maverick Recording Co.*, 131 S. Ct. 590 (2010).

172. Petition for Writ of Certiorari at 5-6, *Harper*, 131 S. Ct. 590 (2010) (No. 10-94), 2010

copyright notice on their physical compact discs or other physical embodiments of their music.<sup>173</sup> They did not have any such notice on the recordings being downloaded, which gave a prospective infringer no notice. Ms. Harper thought her downloaded music was the equivalent of listening to an internet radio station.<sup>174</sup>

Aside from the factual similarities of being a young person downloading music, *Harper* does not reveal any particular novelties regarding legal issues; it is just another illustration of the arbitrariness of statutory awards in the increasingly complex digital world. Unfortunately, Ms. Harper's counsel did not raise any constitutional arguments with any degree of sufficiency at the trial level.<sup>175</sup> Therefore, we do not get any insight into this appellate court's reasoning on the statutory damage issue, nor any commentary on constitutional due process violations. We also don't get much information in terms of innocent infringement, since Ms. Harper had been foreclosed of the defense. The denial of the defense was due to the court's interpretation that 17 U.S.C § 402(d)'s copyright notice requirements on plaintiffs' tangible goods were sufficient to apply to electronic versions.<sup>176</sup> What we do get is a view into the courts' thinking as they applied § 504(c), with their resulting damage awards showing no connectivity to the harm caused. The courts make conclusory statements that such awards deter infringement with no offer of proof as to how.

As music and other technologies advance, we are likely to see a proliferation of cases similar to these. This is particularly so when the technologies are first introduced, yet music isn't the only area in which the concerns over statutory damages awards may grow.

## 2. Case Law—News and Related Types of Information

We live in a society that thirsts for information that can be obtained almost immediately. As blogs, websites and other vehicles for dissemination of information increase, the likelihood of infringements escalates too. The following is an example of copyright infringements alleged against various individuals and/or entities; however, the legitimacy of the allegations is challenged by the court.

A Las Vegas-based company, Righthaven, LLC, claims to have

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WL 2797543.

173. *Harper*, 598 F.3d at 198-99.

174. *See Harper*, 598 F.3d at 195, 198.

175. *Id.* at 197.

176. *Id.* at 198-99.

been assigned the copyrights from the Las Vegas Review-Journal and the Denver Post for substantially all of their various copyrights pertaining to protectable news information.<sup>177</sup> The company has filed approximately 275 federal lawsuits against owners of websites, blogs and message boards, claiming they are infringing on these copyrights by posting partial or full stories from their publications, including editorials, columns, graphics, and photos.<sup>178</sup>

Unlike the music genre of cases, this newspaper category has just recently surfaced as a focus of media attention.<sup>179</sup> These newspaper cases have already been receiving far different outcomes than the *Tenenbaum*, *Thomas-Rasset*, and other similar music cases. Granted, Righthaven, LLC has settled almost half of the lawsuits it originally filed in the range of a few thousand dollars each; however, recently Chief U.S. District Court Judge Roger Hunt of Nevada threw out the case of *Righthaven, LLC v. Democratic Underground*<sup>180</sup> (suing a blog) holding Righthaven did not have legal standing to sue, because it does not own any of the copyrights at issue. A company that is a partner in Righthaven, Stephens Media, owns the rights and only granted the rights to Righthaven to receive 50% of all proceeds in any lawsuits.<sup>181</sup> As Judge Hunt noted, “a copyright owner cannot assign a bare right to sue.”<sup>182</sup> The judge also gave a two week time frame upon which Righthaven must show the court in writing why it should not be sanctioned.<sup>183</sup>

Companies like *Righthaven* have become known as “copyright trolls.”<sup>184</sup> It is believed that those who even may have legitimate

177. *Welcome to Righthaven Lawsuits*, RIGHTHAVEN LAWSUITS, <http://righthavenlawsuits.com/> (last visited Jan. 25, 2013).

178. *Comprehensive List of Copyright Infringement Lawsuits Filed by Righthaven, LLC*, RIGHTHAVEN LAWSUITS, <http://www.righthavenlawsuits.com/lawsuits.html> (last visited Jan. 11, 2013).

179. *See Comprehensive List of Articles Regarding Righthaven, LLC's Copyright Infringement Lawsuits*, RIGHTHAVEN LAWSUITS, <http://www.righthavenlawsuits.com/articles.html> (last visited Jan. 11, 2013); Steve Green, *Hard-Fought Copyright Case Closed Against Righthaven*, VEGAS INC (Mar. 24, 2012, 3:37 PM), <http://www.vegasinc.com/news/2012/mar/24/hard-fought-copyright-case-closed-against-righthav/>; Brendan McKenna, *Righthaven's House of Cards*, CORPORATE COUNSEL (ONLINE) (Sept. 16, 2011).

180. *Righthaven LLC v. Democratic Underground, LLC*, 791 F. Supp. 2d 968, 979 (D. Nev. 2011).

181. *Id.* at 972, 979.

182. *Id.* at 973.

183. *Id.* at 979.

184. *Copyright Trolls*, ELEC. FRONTIER FOUND., <https://www EFF.org/issues/copyright-trolls> (last visited Jan. 11, 2013); Ashby Jones, *Vegas, Baby! Ruling a Possible Boon to*

standing to sue based upon true ownership or appropriate assignment, are strictly filing the suits to extract (or possibly extort) settlements. Increasingly, judges have not been receptive to this type of tactic.

Granted, cases filed by alleged copyright trolls seem to have ulterior motives by concocting shell arrangements in order to create a scheme to extort money; but we can still glean parallels to the music cases. As people develop, download, and share online content daily, the potential for the unassuming individual or even business entity to infringe upon a work of authorship can substantially grow. Just like the music cases, areas of content that are easily downloadable, such as news, general narrative content, images, photos, programs, and videos, are ripe for litigation. If we want to avoid clogging the court system with the damage issues litigated in the music cases, coupled with effectively compensating plaintiffs and deterring future infringements, a revised statutory damage structure needs to be created that ensures damage awards are built upon a foundation that can carry society as we mature in the digital age.

As this article has explored, copyright acts and their amendments have tried to address the damage inconsistencies; yet we arguably have more infringements now than any other time in history.<sup>185</sup> Although this may be a result of more works of authorship existing; nonetheless, we know deterring infringements is on the mind of Congress since there has been ample debate over legislation to curb online piracy.<sup>186</sup> The foregoing court decisions evidencing disconnects between statutory damages amounts and infringements giving rise to such damages, as well as current legislative discussions regarding reining in online piracy, demonstrate that it's timely to truly

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*"Copyright-Troll" Suits*, WALL ST. J. L. BLOG (Sept. 3, 2010, 3:11 PM), <http://blogs.wsj.com/law/2010/09/03/vegas-baby-ruling-a-possible-boon-to-copyright-troll-suits/>; Debra Cassens Weiss, *"Attack Dog" Group Buys Newspaper Copyrights, Sues 86 Websites*, A.B.A. J. (Aug. 4, 2010, 5:34 AM), [http://www.abajournal.com/news/article/attack\\_dog\\_group\\_buys\\_newspaper\\_copyrights\\_sues\\_86\\_websites/](http://www.abajournal.com/news/article/attack_dog_group_buys_newspaper_copyrights_sues_86_websites/).

185. See PROTECT IP Act of 2011, S. 968, 112th Cong. (2011); see also Stop Online Piracy Act of 2011, H.R. 3261, 112th Cong. (2011). This argument is based off of recent debate over enacting legislation to curb online piracy, particularly from rogue foreign infringers. There is an argument to be made that the purposes of deterring infringement are now more than ever not being fulfilled since we have a global economy with infringements occurring not only with the United States, but outside our jurisdiction. The heated debates from internet companies over how to legislate this problem lends itself to the fact we still have infringements on the rise. If we still have infringements and they are more rapidly occurring in the digital world, how effective has existing legislation been in deterring infringing conduct?

186. See, e.g., S. 968; H.R. 3261; see also Joe Donnini, *Online Piracy Problem Calls for Global Attack, Not US Business-Based Approach*, L.A. DAILY J., Feb. 1, 2012, at 1.



reform statutory damage remedies. If we do so by building a better platform upon which to base damage amounts, we can also balance the compensation/deterrence analysis. An additional effect of this allows society to be enriched by the use of works without severe or grossly disproportionate outcomes.

#### IV. DIGITAL DOMAIN AND NEW DAMAGE PARAMETERS: REVAMPING REMEDIES AND AMENDING § 504

##### A. *Setting the Stage for Reform: Sound Recording Act of 1971 and Audio Home Recording of 1992 (AHRA)*

Of course piracy is nothing new. This problem has been a part of the copyright landscape since inception. Back in 1971, Congress enacted the Sound Recording Act of 1971<sup>187</sup> to address the proliferation of copying of records and tapes. Prior to February 1972 (the effective date of the Sound Recording Act of 1971), sound recordings<sup>188</sup> were not protected by federal copyright law. After much debate, Congress enacted this statute with the hopes of combatting piracy. In order to do so, Congress had to include sound recordings in the definition of works of authorship in the 1976 Act.<sup>189</sup> Once sound recordings were elevated to federal protection, enforcement of any infringements became a reality. Congress intentionally did not afford owners of sound recordings the exclusive right to public performance.<sup>190</sup> Yet Congress did specifically exempt home

187. Sound Recording Act of 1971, Pub. L. 92-140, 85 Stat. 391 (1971).

188. 17 U.S.C. § 101 (2011).

“Sound recordings” are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.

*Id.*

189. § 102(a).

Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include . . .

. . .

(7) sound recordings . . . .

*Id.*

190. See Sound Recording Act of 1971, 85 Stat. 391; H.R. REP. NO. 104-274, at 11 (1995). There was much discussion between broadcasters and those representing performers’ interests, that performers benefit from the free playing of their songs on the radio in terms of greater exposure and most likely an increase in sales. As a result, broadcasters were able to lobby to

recordings that were for private use with no intention of making any commercial gain from any copyright protection.<sup>191</sup> The report from the Committee on the Judiciary even goes as far as stating that private home use of recordings is “common and unrestrained today,”<sup>192</sup> implying acquiescence to acceptable norms of societal behavior.

Furthermore, as technologies advanced throughout the 1980s, more devices came into existence that made reproducing copyrighted works much easier. Primarily fueled by the music industry, fear developed that new technologies would result in a mass number of unauthorized home recordings of copyrighted works, which in turn would be lost revenues that were estimated at \$1 billion dollars.<sup>193</sup> The Copyright Office also conducted a study that concluded there may be a loss of revenues but the economic impact of such loss would be difficult to calculate.<sup>194</sup>

As a result of much compromise, content publishers and device manufacturers reached an agreement, culminating in the Audio Home Recording Act of 1992 (AHRA).<sup>195</sup> This statute provided for a tax or royalties on the sale of devices that manufacturers or importers must pay. This royalty equated to a 2%-3% transfer price on the sale of such devices, and the Copyright Office and Copyright Royalty Tribunal would be the administering bodies overseeing such royalty.<sup>196</sup> Additionally, much concern brewed over further copying of works beyond just the original. Therefore, AHRA provided for the Serial Copy Management System (SCMS), which limited copying of

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exclude this performance right when sound recordings became part of the Sound Recording Act of 1971. It wasn't until 1995, that a limited performance right was granted. To accommodate new technologies, Congress enacted the Digital Performance Right in Sound Recordings Act of 1995 in order to permit a limited public performance right in sound recordings by means of digital audio transmission. The purpose was to give some control to copyright holders of sound recordings the right to control distribution of their sound recordings via digital audio transmission. *See* S. REP. NO. 104-128, at 15 (1995), *reprinted in* 1995 U.S.C.C.A.N. 356, 362.

191. *See* Sound Recording Act of 1971, 85 Stat. 391; *see also* Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988); H.R. REP. NO. 92-487, at 7 (1971), *reprinted in* 1971 U.S.C.C.A.N. 1566, 1572.

192. H.R. REP. NO. 92-487, at 7.

193. *See* S. REP. NO. 102-294, at 34 (1992) (citing *The Audio Home Recording Act of 1991: Hearing Before the Subcomm. on the Patents, Copyrights and Trademarks of the S. Comm. on the Judiciary*, 102d Cong. 114-15 (1991) (statement of Jason S. Berman, President, Recording Industry Association of America)).

194. *Id.* at 35 (citing REGISTER OF COPYRIGHT, REPORT ON COPYRIGHT IMPLICATIONS OF DIGITAL AUDIO TRANSMISSION SERVICES 43 (1991)).

195. Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (1992) (codified as amended at 17 U.S.C. §§ 1001-1010 (2011)).

196. *See* S. REP. NO. 102-294, at 39.

works by having coding in the devices that allows unlimited copying from an original copy, but didn't allow further copies to take place thereafter.<sup>197</sup>

Section 1008 of AHRA is of most interest. It provides:

No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.<sup>198</sup>

The last part of § 1008 is compelling. It deals with noncommercial use by a consumer who makes copies of digital or analog musical recordings. The definitions of "device" and "medium" play a key role in application of this section.<sup>199</sup> Modern cases dealing with computers that download copyrighted works fall outside the scope of AHRA's definition of device and medium; computers do not qualify as a device or medium under the statutory language because their "primary purpose" is not to make copies of recordings for private

197. *Id.* at 37, 64. Copying beyond the original source is also referred to as "first generation" copying; copying a copy is referred to as "second generation" copying. *Id.* Note that SCMS controlled copies from digital but not analog devices. *Id.* at 37.

198. 17 U.S.C. § 1008 (2011).

199. *See* § 1001(3)-(4).

(3) A "digital audio recording device" is any machine or device of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, the digital recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a digital audio copied recording for private use, except for—

(A) professional model products, and

(B) dictation machines, answering machines, and other audio recording equipment that is designed and marketed primarily for the creation of sound recordings resulting from the fixation of nonmusical sounds.

(4)(A) A "digital audio recording medium" is any material object in a form commonly distributed for use by individuals, that is primarily marketed or most commonly used by consumers for the purpose of making digital audio copied recordings by use of a digital audio recording device.

(B) Such term does not include any material object—

(i) that embodies a sound recording at the time it is first distributed by the importer or manufacturer; or

(ii) that is primarily marketed and most commonly used by consumers either for the purpose of making copies of motion pictures or other audiovisual works or for the purpose of making copies of nonmusical literary works, including computer programs or data bases.

use.<sup>200</sup>

Regardless, AHRA's § 1008 sets the stage for exemptions, or at least reductions in damages, for noncommercial use. While there is no statutory definition of commercial, or inversely noncommercial, common implications are that noncommercial implies no gain for profit or exposure in a commercial setting. To add to this notion, this article has already shared the comments of the courts in the *Thomas-Rasset* and *Tenenbaum* cases relating to noncommercial versus commercial categorizations. As mentioned above, the *Tenenbaum* court indicated Congress may act with respect to specifically formalizing these categorizations through legislation, since it did so with the Sound Recording Act of 1971 and the Audio Home Recording Act of 1992.<sup>201</sup>

It appears that the ingredients for a new structure have existed in fragmented pieces: Sound Recording Act of 1971's exemption for private home recordings, AHRA's exemption for noncommercial use of digital or analog copying of recordings, and recent court decisions writing about noncommercial versus commercial use. While the two pieces of legislation are not directly on point to the issues discussed regarding downloading and distributing in the digital domain, their rationales and premises have relevant application to solving our current problem.

So, if we have the ingredients, what structure could they be incorporated into in order to aid in serving the original purposes of compensation and deterrence in statutory damages? It is prudent that the courts, Congress, or both develop a structure that allows for the general copyright goal of not only incentivizing and protecting works of authorship, but promoting a culture of sharing such works so as to benefit and enrich society. The next section proposes some suggestions.

#### *B. Building a New Set: Amending § 504(c) to Be More Effective*

Clarity is an obvious need in drafting any law in order to reduce the likelihood of litigation. To clarify application of § 504(c), this article suggests building into the statute a configuration reflecting further defining the terms "willfully" and "innocent infringer," a

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200. See *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1076 (9th Cir. 1999) (noting that computer hard drives of defendant's devices were specifically excluded from the plain language of the act since the primary purpose of the device's hard drive is not to make copies).

201. See *Sony BMG Music Entm't v. Tenenbaum*, 660 F.3d 487, 499 (1st Cir. 2011).

three-tiered categorization of damages, and a carve out for non-commercial downloading only.

1. Statutory Damages for Commercial or Non-Commercial Infringement for Downloading and Distributing

The proposed primary structure for damages should change whether one is doing so for profit or dilution or loss of revenues through unauthorized distribution or not. While the statutory range of damages may be an acceptable measure, in order to permit predictability in business transactions and more tailored awards to private individuals; it may be necessary to give a more detailed definition to the terms “willfully” and “innocent infringer.”

*a. Definitions of “Willfully” and “Innocent Infringer”*

Since cases like *Fitzgerald* had been interpreting their own definitions, it may behoove Congress to add clarity to these terms so as to minimize the risk of arbitrary or excess damages. One suggestion may be to invoke a higher standard for willfulness such as plaintiff having to prove actual intent in order to get higher statutory damages (as opposed to reckless behavior or just having mere knowledge). As for innocent infringer, while the language of § 504(c) may be acceptable, it should be clear that no burden shifting is necessary. In other words, once a defendant successfully proves to a trier of fact that defendant was unaware or had no reason to believe that he or she was infringing, damages should go to the statutory minimum of \$200 per infringement. There should be no further need to allow plaintiff to refute clear evidence offered by the defendant or to allow the trier of fact to award “a sum not less than \$200.”<sup>202</sup> Once innocence has been proven, the award should be calculated at \$200 per infringement since this will effectuate more stability in business transactions by having more definite dollars amounts. Defendants still have the burden to adequately prove any such innocence. Since damage awards can be high, the evidence should be clear and convincing that the conduct correlates to either extreme (willful or innocent).

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202. 17 U.S.C. § 504(c)(2) (2011).

*b. Three-Tiered Range on Continuum of Statutory Damages*

Aside from definitions, if a commercial or non-commercial infringer downloads and distributes, they should face consequences; however, those consequences should be based upon a continuum of damage amounts. This means that if willfulness or innocence is not proven, then for each infringement that is, on that range of \$750 to \$30,000, there should be tiers within to calculate the subsets of a first, second, and/or third tier. Where to draw the three tiers is debatable; nonetheless, wherever the lines are drawn, they should serve to compensate plaintiffs, yet send messages to infringers that their continued infringements have more serious monetary significance. It is presumed that balancing damages with this tiered approach would accommodate the compensation and deterrence purposes, without rushing to penalize defendants. Defendants would have to pay for their infringements but would be on notice not to continue with such conduct, since the results would get increasingly harsh.

2. Statutory Damages for Non-Commercial Infringements  
Based upon Downloading Only

A carve out for non-commercial only downloading in the digital domain is extremely timely, as we have seen with the existence and proliferation of these cases in the court system. Based upon all the “ingredients” espoused throughout this article, this is the area that needs the most change.

As the Sound Recording Act of 1971 and AHRA have illustrated, good reasons exist to exclude from liability any home recordings used solely for personal use. This tends to comport with the notions of enriching and balancing society’s interests that are ingrained in copyright law. Of course, this is not to say that copyright holders should not be protected because, as we have seen, they are. The proposed carve out is just to effectuate a more balanced approach that keeps in alignment with statutory damage purposes.

For example, as technologies have increased online, we have seen the advent of streaming videos. Networks may place television shows and other content on their websites for viewing to help disseminate their content in multiple media formats for exposure and audience building. Now, if ABC Television Network puts one of its television shows on its website and a non-commercial user is able and wants to download it so as to have it available when he or she has no Internet access, should they be able to do so as a fair use similar to the

*Betamax* case?<sup>203</sup> The same analogies can hold true for music and related content too. Naturally, if any distribution occurs by this non-commercial “infringer,” the infringement escalates into the commercial category since plaintiff would experience a dilution or loss of revenues.

## CONCLUSION

Statutory damages in copyright law have been a core component of the law since inception. Since the days of borrowing from the Statute of Anne to further developments in American statutes and case law, copyright damage law has grown, but has done so in a way that deviated from the original purpose of compensation and deterrence resulting in arbitrary and excessive awards. Through each revision of the copyright acts and the subsequent cases that interpret them, we have only seen the problem expand. As we have entered the digital age, Congress needs to take the opportunity to rebuild the statutory damage structure by injecting stability and comporting with the fundamental premise of protection for a copyright holders and promoting societal value by sharing works. It does not have to look too far back into history to take previous statutes it enacted to serve as a basis upon which to build a more effective statutory damage continuum. If it does so, statutory damages in the digital domain will be positioned to serve intended purposes and add guidance to the courts in their application. Reaching into these realities better serves copyright jurisprudence and establishes a new damage paradigm rather than repeating the old one.

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203. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 418 (1984) (holding that “time shifting” on Betamax video tape recorders (VTRs) constituted fair use and that although VTRs were capable of infringing activity, the defendants did not infringe).