Chapter 6

CRIMINAL COPYRIGHT INFRINGEMENT

D.1 The No Electronic Theft Act

Page 349. Insert the following at the end of Note 2.

Section 2319 now provides that the penalties for repeat offenders apply only when the second offense is a felony. See 18 U.S.C. §§ 2319(b)(2), 2319(c)(2), 2319(d)(3), and 2319(d)(4), Prioritizing Resources and Organization for Intellectual Property Act of 2008 (PRO-IP Act), Pub. L. 110-403, 122 Stat 4256.

D.2 The File-Sharing Phenomenon

Page 360, Note 1. Add the following at the end of Note 1.

There is substantial debate whether making files available to file-sharers constitutes “distribution” for purposes of copyright infringement. See infra, Capital Records, Inc. v. Thomas, 692 F.3d 899 (8th Cir. 2012) (providing citations and declining to rule on the matter). Key cite this to update, need keycite #

Page 363. Add the following material after Problem 6.D.

File-Sharing in the Civil Context

As you review two civil cases brought by the music industry, identify the decisions and reasoning that are relevant to criminal infringement proceedings.

a. Industry Reaction to File-Sharing

The First Circuit summarized the music industry’s reaction to file-sharing and peer-to-peer networks in Sony BMG Music Entertainment v. Tenenbaum, 660 F.3d 487 (1st Cir. 2011):

 Plaintiffs are several of the largest recording companies in the United States, and engage in discovering, developing, and marketing music recording artists and distributing the musical works those artists record. They hold exclusive rights to copy and distribute various music recordings under United States copyright law, including the thirty recordings at issue in this case, and their primary source of revenue is the sale of those recordings.
Plaintiffs only sell copies of their copyrighted recordings for profit. They never sell licenses to their copyrighted works that include rights to upload recordings to the internet for public consumption. The value of such a blanket license would be enormous, as the grant of such a license would deprive the companies of their source of income and profits and essentially drive them out of business.³

In the late 1990s, copyrighted music recordings, including those held by the plaintiffs, began to appear on file-sharing software called "peer-to-peer networks" without the authorization of the copyright holders.

Peer-to-peer networks enable individuals both to make digital files stored on their own computers available to other network users and to download such files from the computers of others. Files shared between users of these networks do not pass through a central computer, but are instead exchanged directly from one user's computer to another. Through the use of these peer-to-peer networks, the unauthorized and illegal downloading and distribution of copyrighted materials—especially music recordings—became commonplace. Because music recordings are loaded onto peer-to-peer networks in digital form, recordings downloaded from peer-to-peer networks are virtually indistinguishable from recordings purchased through lawful means, making enforcement difficult.

The proliferation of these networks from 1999 onward and the piracy they enable has had a significant negative impact on the recording industry. Between 1999 and 2008, the recording industry as a whole suffered a fifty percent drop in both sales and revenues, a figure plaintiffs attribute to the rise of illegal downloading. This reduction in revenues has, in turn, diminished recording companies' capacities to pursue, develop and market new recording artists. It also affected the companies' employees. The loss in revenues has resulted in a significant loss of industry jobs. Sony BMG Music Entertainment and Warner Music Group, for example, each have suffered a fifty percent reduction in workforce since 2000.

Shortly after peer-to-peer networks first appeared, plaintiffs acknowledged the threat they posed to their industry and initiated a broad campaign to address the illegal infringement of copyrighted materials. They started educating the public that downloading and distributing copyrighted songs over peer-to-peer networks constituted illegal copyright infringement. Plaintiffs also brought legal actions as part of their campaign, and initially targeted the proprietors of peer-to-peer networks, not the individuals who actually used those networks to illegally procure and distribute copyrighted materials. Although these litigation efforts succeeded at shutting down

³ A representative of Universal Music Group testified, “If the suggestion is that we could somehow give these [recordings] to people and tell them, do with them what you will, we lose complete control over our assets, we cannot make money off those assets, and that defeats the whole purpose of our existence.”
particular networks, individual infringers continued to engage in illegal conduct by finding new peer-to-peer networks through which to download copyrighted songs.

Consequently, record companies began to identify and pursue legal actions against individual infringers. The industry identified Internet Protocol (IP) addresses of users known to be engaged in a high volume of downloading and distributing copyrighted materials, and initiated lawsuits against those users. These suits began in 2002 and were widely-publicized.

_Tenenbaum, 660 F.3d at__.

**The Civil Statutory Damages Framework**

The Copyright Act provides that “an infringer of copyright is liable for either . . . the copyright owner’s actual damages and any additional profits of the infringer . . . or . . . statutory damages.” 17 U.S.C. § 504(a).

The statute further provides:

(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 . . . 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.

17 U.S.C. § 504(c).

**Civil Suits**

The Recording Industry Association of America, a trade organization for the music industry, has sued about 40,000 people since 2003. Many of the defendants settled the cases for between $3,000 and $5,000, and default judgments were levied against those who ignored the RIAA’s notices. _See_ Sarah McBride, _Ruling Approaches in File-Sharing Case_, WALL ST. J., Aug. 15, 2009, at B1.

In 2006 the recording industry used the civil damages provision when it sued Jammie
Thomas-Rasset for sharing (downloading and uploading) twenty-four songs. The case proceeded through three jury trials and an Eighth Circuit decision. In the first trial, the jury decided for the recording industry and set the damage award at $222,000 or $9,250 per song. The district court, however, became concerned that it had given an incorrect instruction on the meaning of "distribute" in the Copyright Act and vacated the jury decision and remanded for a new trial.¹ As the Eighth Circuit noted, "The issue whether making copyrighted works available to the public is a right protected by § 106(3) has divided the district courts." See Capitol Records Inc, v. Thomas Rasset, 692 F.3d 899, ___ (8th Cir. 2012).

In the second trial, the jury found again for the recording industry and awarded $1,920,000 or $80,000 per song. The district court employed the procedural device of remittitur² to reduce the award to $54,000 or $2250 per song (three times the minimum of $750 per infringed work).

As was their right, the record companies refused the remittitur and the case went to a jury again, this time on only the issue of damages. This jury awarded statutory damages of $1,500,000 or $62,500 per song. See Capital Records v. Thomas-Rasset, 799 F. Supp. 2d 999 (D. Minn. 2011); infra n. ___. Thomas-Rasset had argued that the award violated her constitutional due process rights, and the court agreed:

¹ The issue in the first Thomas-Rasset decision concerned the definition of "distribute" the court had given the jury. Raising the issue sua sponte, the court held that "distribute" requires actual dissemination, and does not include "making available" copyrighted material. Because the court had instructed the jury to the contrary, Judge Davis vacated the jury decision and remanded for a new trial. See Capitol Records, Inc v. Thomas, 579 F. Supp. 2d 1210 (D. Minn. 2008). The issue is unsettled.

² Remittitur is "an order awarding a new trial, or a damages amount lower than that awarded by the jury, and requiring the plaintiff to choose between those alternatives; the process by which a court requires either that the case be retried or that the damages awarded by the jury be reduced. BLACK'S LAW Dict. (9th ed. 2009).
"The Court accords deference to the jury's verdict. Yet an award of $1.5 million for stealing and distributing 24 songs for personal use is appalling. Such an award against an individual consumer, of limited means, acting with no attempt to profit, is so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable."

_Id._ at __. The court then reinstated its adjusted award of $222,000.

Defendants appealed to the Eighth Circuit and won reversal of the due process holding of the district court. The opinion is also included in this section.

In December, 2008, the RIAA dropped its policy of suing file-sharers. Instead, it would work with Internet service providers to warn customers appearing to share files and, ultimately, deny egregious violators access to the Internet. _See_ Sarah McBride & Ethan Smith, _Music Industry to Abandon Mass Suits_, WALL ST. J., Dec. 19, 2008, at B1.

**CAPITOL RECORDS INC. v. THOMAS-RASSET**
680 F. Supp. 2d 1045 (D. Minn. 2010)

MICHAEL J. DAVIS, Chief District Judge.

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After long and careful deliberation, the Court grants in part and denies in part Thomas-Rasset's motion and remits the damages award to $2,250 per song – three times the statutory minimum. The need for deterrence cannot justify a $2 million verdict for stealing and illegally distributing 24 songs for the sole purpose of obtaining free music. Moreover, although Plaintiffs were not required to prove their actual damages, statutory damages must still bear _some_ relation to actual damages.

The Court has labored to fashion a reasonable limit on statutory damages awards against noncommercial individuals who illegally download and upload music such that the award of statutory damages does not veer into the realm of gross injustice. Finding a precise dollar amount that delineates the border between the jury's wide discretion to calculate its own number to address Thomas-Rasset's willful violations, Plaintiffs' far-reaching, but nebulous damages, and the need to deter online piracy in general and the outrageousness of a $2 million verdict is a considerable task. The Court concludes that setting the limit at three times the minimum statutory damages amount in this case is the most reasoned solution.

This award constitutes the maximum amount a jury could reasonably award to both compensate Plaintiffs and address the deterrence aspect of the Copyright Act. _This reduced award is significant and harsh_ [emphasis in original]. It is a higher award than the Court might have chosen to impose in its sole discretion, but the decision was not entrusted to this Court. It was the jury's province to determine the award of statutory damages and this Court has merely
reduced that award to the maximum amount that is no longer monstrous and shocking. Plaintiffs have seven days from the date of this Order to decide whether to accept the remittitur or request a new trial on the issue of damages.

III. BACKGROUND

The second trial of this matter began on June 15, 2009. On June 18, 2009, the jury returned a verdict finding that Thomas-Rasset had willfully infringed all 24 sound recordings and awarding statutory damages in the amount of $80,000 for each song, for a total verdict of $1,920,000. On June 19, 2009, the Court entered judgment on the jury's verdict.

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A. Remittitur

1. Standard for Remittitur

"[A] district court should order remittitur only when the verdict is so grossly excessive as to shock the conscience of the court. A verdict is not considered excessive unless there is plain injustice or a monstrous or shocking result." When deciding a motion for a new trial or remittitur, the Court can rely on its own reading of all of the trial evidence presented.

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Congress last amended the statutory damages section of the Copyright Act in 1999, significantly increasing the minimum and maximum statutory awards to their current levels. Congress intended the statutory damages to be "substantially" higher than actual damages:

Courts and juries must be able to render awards that deter others from infringing intellectual property rights. It is important that the cost of infringement substantially exceed the costs of compliance, so that persons who use or distribute intellectual property have a strong incentive to abide by the copyright laws. H.R. Rep. No. 106-216, at 6 (1999).

The statutory damages provision of the Copyright Act has both deterrent and compensatory components. If a plaintiff requests that a jury decide the amount of statutory damages, then "a jury must determine the actual amount of statutory damages under § 504(c)."

A plaintiff can recover statutory damages even though it did not submit evidence regarding actual damages, such as lost profits.

b. Relationship Between Statutory Damages and Actual Damages

Thomas-Rasset argues that the ratio of the statutory damages award to actual damages in
this case, when measured in songs, is 1:62,015. She bases this calculations on a cost of $1.29 per song online. She further argues that, based on a cost of $15 per album, the ratio is still 1:5,333. (Alasdair McMullan, the executive vice president of legal affairs for EMI Music North America, testified that Richard Marx's "Now and Forever" probably retailed for $1.29 on iTunes and the album probably cost less than $20.00 in a retail store.) Thomas-Rasset concludes that these ratios are monstrous and shocking.

Plaintiffs accurately point out that, because they chose to seek statutory damages rather than actual damages, they were not required to present proof of the actual damages caused by Thomas-Rasset's infringement. However, because statutory damages have, in part, a compensatory purpose, "assessed statutory damages should bear some relation to the actual damages suffered." Bly v. Banbury Books, Inc., 638 F. Supp. 983, 987 (E.D. Pa. 1986).

c. Factual Support for Actual Damages Inflicted

Thomas-Rasset asserts that, at most, she was a single mother who merely downloaded and shared music when she had already lawfully bought CDs of much of that music and had no commercial motive to infringe. Defendant notes that, if her conduct caused any harm, it was only economic harm. She caused no danger to the safety of others. Additionally, Thomas-Rasset argues that the victims of her conduct were not vulnerable – they are the largest recording companies in the United States.

Plaintiffs contend that their actual damages were far greater than the $1.29 cost of Richard Marx's "Now and Forever" on iTunes or the less than $20 cost of an album containing that song. They note that the evidence showed that Thomas-Rasset willfully infringed 24 of their copyrighted sound recordings. The songs, along with almost 1,700 others, were in Thomas-Rasset's directory, which she shared with the millions of users of the Kazaa network. Therefore, the songs at issue were accessible for free downloading by millions of Kazaa users who could subsequently share them with others. Plaintiffs argue that the valuation of actual damages cannot be limited to the harm only caused by reproducing 24 songs.

Plaintiffs further note that Gary Wade Leak, the deputy general counsel for Sony Music Entertainment, testified that, in the case of an illegal download, the damage to the recording company is the loss of the sale of that particular song, but in the case of an illegal online distribution, the recording company has lost exponential sales for that song. He testified that, generally, online piracy has caused the recording industry to lose billions of dollars in the last several years and has caused the layoffs of thousands of employees.

... As Defendant notes, Leak could not quantify the harm caused to Sony by Thomas-Rasset, because he could not determine how many times the recordings were downloaded from her share file by other Kazaa users. Thomas-Rasset argues that it would be unconstitutional to punish her for the harms caused by illegal music downloading in general.
d. Evidence of Willfulness and the Need for Deterrence

As the Court instructed the jury, factors other than the damages caused and gains obtained by the defendant's infringement are relevant to the decision of the proper amount of statutory damages. Facts that go to the deterrence aspect of statutory damages, such as a defendant's willfulness or innocence, and incorrigibility, are also relevant. Here, the jury found that Thomas-Rasset acted willfully. Thomas-Rasset testified that she had studied Napster in college and that, while still in college, she later learned that copying and distributing copyrighted music recordings over the Internet was against the law. Therefore, she was aware that downloading songs off of and distributing songs via Kazaa was illegal.

Moreover, Thomas-Rasset refused to accept responsibility for downloading and distributing the infringing sound recordings. Thomas-Rasset previously provided sworn interrogatory answers that there had never been any type of online media distribution on her computer in the three years before the Complaint was filed and that she did not contend that anyone else was responsible for the infringement. Despite never implicating others during her depositions or testimony in the previous trial, in this second trial, she suddenly leveled new accusations against her children and ex-boyfriend, asserting that they might have committed the infringement. Thomas-Rasset's refusal to accept responsibility for her actions and her decision to concoct a new theory of the infringement casting possible blame on her children and ex-boyfriend for her actions demonstrate a refusal to accept responsibility and raise the need for strong deterrence.

e. Need for Remittitur

Although Plaintiffs highlight valid reasons that Thomas-Rasset must pay a statutory damages award, these facts simply cannot justify a $2 million verdict in this case. Thomas-Rasset was not a business acting for profit. Instead, she was an individual consumer illegally seeking free access to music for her own use. Congress set a high maximum for statutory damages in order to ensure that damages awards could be large enough to outweigh the potential gain from infringing. As the Court noted in its September 2008 Order, in the case of commercial actors, the potential gain in revenues is enormous and enticing to potential infringers. In the case of individuals who infringe by using peer-to-peer networks, the potential gain from infringement is access to free music, not the possibility of hundreds of thousands-or even millions-of dollars in profits. The need for deterrence cannot justify a $2 million verdict for stealing and illegally distributing 24 songs for the sole purpose of obtaining free music.

Similarly, the damage to Plaintiffs cannot support this verdict. While Plaintiffs were not required to prove their actual damage, the possible actual damage weighs in the Court's analysis. One purpose of statutory damages under the Copyright Act is to act as a substitute for actual damages when they are difficult to calculate. However, as the Court has already explained, statutory damages must still bear some relation to actual damages.
It may be impossible to calculate how many other computer users committed infringement with the illegal copies of works accessed from Thomas-Rasset or the amount of damage that their access caused. Additionally, trial testimony made clear that detecting online piracy and identifying infringers on peer-to-peer networks is difficult and costly. The recovery to Plaintiffs must be sufficient to justify their expenditure in pursuing infringers.

All of the potential ills caused by unauthorized peer-to-peer networking and illegal downloading are relevant to the damages award. The Court does not discount that, in aggregate, illegal downloading has caused serious, widespread harm to the recording industry. These facts justify a statutory damages award that is many multiples higher than the simple cost of buying a CD or legally purchasing the songs online.

The Court has considered the strong need for deterrence in this particular case, the difficulty in quantifying the damages caused by the chain effect of Thomas-Rasset’s distribution of copyrighted sound recordings over the Internet, the large scale damages caused by online piracy in aggregate, and the substantial impediments to identifying and pursuing infringers. However, despite the combination of these justifications and the Court’s deference to the jury’s verdict, $2 million for stealing 24 songs for personal use is simply shocking. No matter how unremorseful Thomas-Rasset may be, assessing a $2 million award against an individual consumer for use of Kazaa is unjust. Even Plaintiffs admit that Thomas-Rasset is unlikely to ever be able to pay such an award. Having determined that the current verdict is so shocking that it must be remitted, the Court next faces the task of assessing the proper amount of remittitur.

4. Proper Amount of Remittitur

Thomas-Rasset requests that the Court remit the statutory damages award to $18,000, which consists of the statutory minimum, $750, per song. Plaintiffs assert that there is no basis for remittitur. However, they represent that they will consider a remittitur, so long as it takes into account Defendant’s willful conduct, the substantial damage cause by her actions, and the significant number of copyright sound recordings upon which she infringed.

a. Standard for Determining Proper Amount of Remittitur

... The Court will not substitute its judgment for the judgment of the jury. Rather, it will remit the award to the maximum amount sustainable by the record, so that the statutory damages award is no longer shocking or monstrous.

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c. Request for Reduction to the Statutory Minimum

Defendant advocates that the Court remit the damages award to the statutory minimum. Even statutory damages of $750 per sound recording initially appears surprisingly high when the
retail cost of such downloads is considered. However, the Court declines Thomas-Rasset's request to remit the award to the statutory minimum.

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However, Congress has set the floor of $750 per sound recording infringed, even without a finding of willfulness. Some increase in the damages awarded is reasonable in a case of willful infringement. The jury explicitly found that Thomas-Rasset willfully infringed on Defendants' copyrights. The statute demonstrates Congress's intent that willful infringers can be – but do not have to be – treated more harshly than non-willful infringers.

Additionally, Thomas-Rasset lied on the witness stand by denying responsibility for her infringing acts and, instead, blamed others, including her children, for her actions. A reasonable jury could have used the facts in this case to conclude that additional deterrence was required.

The Court further notes that simply comparing the amount of the award with the cost of a song on iTunes or a CD is inadequate – the damages caused to Plaintiffs are far ranging and difficult to calculate. A reasonable jury could also have used Leak's testimony to conclude that Thomas-Rasset's infringement posed great harm to the recording industry because, by distributing the songs online for free, she exponentially increased their damages. . . .

. . . Therefore, the Court concludes that remittitur to the statutory minimum is unsupportable.

d. Remittitur to Three Times the Statutory Minimum

The Court concludes that remittitur to $2,250 – [three] times the statutory minimum-per sound recording infringed is appropriate. There is a broad legal practice of establishing a treble award as the upper limit permitted to address willful or particularly damaging behavior. Federal statutes allow for an increase in statutory damages, up to triple statutory damages, when the statutory violation is willful or demonstrates a particular need for deterrence. In these other contexts, treble statutory damages have been set as the permissible outer limit of statutory damages awards, even in the face of willful behavior.

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Of course, the Copyright Act contains no treble damages provision. The Court's remittitur is not an attempt to create such a provision. Rather, the Court has labored to fashion a reasonable limit on statutory damages awards against noncommercial individuals who illegally download and upload music such that the award of statutory damages does not veer into the realm of gross injustice. Finding a precise dollar amount that delineates the border between the jury's wide discretion to calculate its own number to address Thomas-Rasset's willful violations, Plaintiffs' far-reaching, but nebulous damages, and the need to deter online piracy in general and
the outrageousness of a $2 million verdict is a considerable task. The Court concludes that setting the limit at three times the minimum statutory damages amount in this case is the most reasoned solution.

This award constitutes the maximum amount a jury could reasonably award to both compensate Plaintiffs and address the deterrence aspect of the Copyright Act. This reduced award is significant and harsh. It is a higher award than the Court might have chosen to impose in its sole discretion, but the decision was not entrusted to this Court. It was the jury's province to determine the award of statutory damages and this Court has merely reduced that award to the maximum amount that is no longer monstrous and shocking.

Notes and Questions

1. The judge in this case used strong language in characterizing the jury award, such as “shocking” and “monstrous.” Is the amount of the award “appalling”?

2. Ruling on pre-trial motions, the court had ruled that Ms. Thomas had waived the defenses of fair use and innocent infringement because she asserted them only two weeks before the second trial, giving plaintiffs only limited opportunity to take discovery on the issues. See Capitol Records Inc. v. Thomas, 79 Fed. R. Evid. Serv. 1203, 2009 WL 1664468 (D. Minn. 2009).

3. The plaintiffs exercised their right to reject the remittitur, and the case proceeded to trial for a third time. This time the jury awarded statutory damages of $62,500 for each song, for a total verdict of $1,500,000. See Capital Records, Inc., v. Thomas-Rasset, 799 F. Supp. 2d 999 (D. Minn. 2011). In response, the defendant argued that the award was unconstitutional because it offended due process. The court concluded that the $1.5 million award violated the Due Process Clause:

   The Court acknowledges that, in aggregate, illegal downloading has caused substantial, wide-spread harm to the recording industry. Thomas-Rasset's individual acts of distribution likely led to distribution by an exponential chain of other users. She is part of that chain, and her illegal actions contributed to the end result of wide-spread damage to Plaintiffs. These fact justify a statutory damages award that is many multiples higher than the simple cost of buying a CD or legally purchasing the song online. Yet, although Thomas-Rasset played a role in the web of online piracy, she played a miniscule role – she was one of more than 2 million users sharing more than 800 million files on the day that Media-Sentry obtained files from her. It cannot be said that she must pay the damages caused by millions of individuals because she was one of two users caught, sued, and subjected to a jury trial.

   The Court has weighed the near impossibility of quantifying the damages caused by the chain effect of Thomas-Rasset's distribution of copyrighted sound recordings over
the Internet, the substantial damages caused by online piracy in aggregate, the compelling need for deterrence in this particular case, and the formidable obstacles to identifying and pursuing infringers. The Court accords deference to the jury's verdict. Yet an award of $1.5 million for stealing and distributing 24 songs for personal use is appalling. Such an award against an individual consumer, of limited means, acting with no attempt to profit, is so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable.

Capital Records v. Thomas-Rasset, 799 F. Supp. 2d 999 (D. Minn. 2011). The court again reduced the award to its former determination of damages of $220,000, or $2250 per song, and the plaintiff appealed to the Eighth Circuit.

CAPITOL RECORDS, INC. v THOMAS-RASSET
692 F.3d 899 (8th Cir. 2012), cert. denied, 133 S. Ct. 1584 (2013)

COLLOTON, Circuit Judge.

* * *

For reasons set forth below, we conclude that the recording companies are entitled to the remedies they seek: damages of $222,000 and a broadened injunction that forbids Thomas-Rasset to make available sound recordings for distribution. But because the verdicts returned by the second and third juries are sufficient to justify these remedies, it is unnecessary for this court to consider the merits of the district court's order granting a new trial after the first verdict. Important though the "making available" legal issue may be to the recording companies, they are not entitled to an opinion on an issue of law that is unnecessary for the remedies sought or to a freestanding decision on whether Thomas-Rasset violated the law by making recordings available.

I.

Capitol Records, Inc., Sony BMG Music Entertainment, Arista Records LLC, Interscope Records, Warner Bros. Records, and UMG Recordings, Inc., are recording companies that own the copyrights to large catalogs of music recordings. In 2005, they undertook to investigate suspected infringement of these copyrights. MediaSentry, an online investigative firm hired by the recording companies, discovered that an individual with the username "tereastarr" was participating in unauthorized file sharing on the peer-to-peer network KaZaA.

During the relevant time period, KaZaA was a file-sharing computer program that allowed its users to search for and download specific files from other users. KaZaA users shared files using a share folder. A share folder is a location on the user's computer in which the user places files - such as audio or video recordings - that she wants to make available for other users to download. KaZaA allowed its users to access other users' share folders, view the files in the folder, and download copies of files from the folder.
Mediasentry accessed tereastarr's share folder. The investigative firm determined that the user had downloaded copyrighted songs and was making those songs available for download by other KaZaA users. Mediasentry took screen shots of tereastarr's share folder, which included over 1,700 music files, and downloaded samples of the files. But Mediasentry was unable to collect direct evidence that other users had downloaded the files from tereastarr. Mediasentry then used KaZaA to send two instant messages to tereastarr, notifying the user of potential copyright infringement. Tereastarr did not respond to the messages. Mediasentry also determined tereastarr's IP address, and traced the address to an Internet service account in Duluth, Minnesota, provided by Charter Communications. Mediasentry compiled this data in a report that it prepared for the recording companies.

Using the information provided by Mediasentry, the recording companies, through the Recording Industry Association of America (RIAA), issued a subpoena to Charter Communications requesting the name of the person associated with tereastarr's IP address. Charter informed the RIAA that the IP address belonged to Jammie Thomas-Rasset. The RIAA then sent a letter to Thomas-Rasset informing her that she had been identified as engaging in unauthorized trading of music and inviting her to contact them to discuss the situation and settle the matter. Thomas-Rasset contacted the RIAA as directed in the letter and engaged in settlement conversations with the organization. The parties were unable to resolve the matter.

In 2006, the recording companies sued Thomas-Rasset, seeking statutory damages and injunctive relief for willful copyright infringement under the Copyright Act. They alleged that Thomas-Rasset violated their exclusive right to reproduction and distribution under 17 U.S.C. § 106 by impermissibly downloading, distributing, and making available for distribution twenty-four copyrighted sound recordings.

A jury trial was held in October 2007. At trial, Thomas-Rasset conceded that "tereastarr" is a username that she uses regularly for Internet and computer accounts. She admitted familiarity with and interest in some of the artists of works found in the tereastarr KaZaA account. She also acknowledged that she wrote a case study during college on the legality of Napster — another peer-to-peer file sharing program — and knew that Napster was shut down because it was illegal. Nonetheless, Thomas-Rasset testified that she had never heard of KaZaA before this case, did not have KaZaA on her computer, and did not use KaZaA to download files. The jury also heard evidence from a forensic investigator that Thomas-Rasset removed and replaced the hard drive on her computer with a new hard drive after investigators notified her of her potential infringement. The new hard drive did not contain the files at issue.

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II.

In their brief on appeal, the record companies urge this court to review the district court's order granting a new trial after the first verdict. The companies argue that the court erred by

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holding that an individual does not infringe a copyright holder's exclusive rights by making a copyrighted work available to the public without authorization. They argue that accepting their position on that issue would "lead to reversing the District Court's erroneous refusal to enjoin Thomas-Rasset from making Plaintiffs' copyrighted works available, but also would reinstate the first jury's $9,250-per-work verdict," for total damages of $222,000. Although the third jury's verdict awarded $62,500 per work, for a total of $1,500,000, the companies seek only the smaller amount awarded by the first jury, because they want a ruling on the legal issue whether making works available is part of the distribution right protected by the Copyright Act.

In reply, Thomas-Rasset says that she has no objection to reinstatement of the first verdict, subject to her arguments on the constitutionality of the damages. She maintains that she still disagrees with the recording companies about the meaning of "distribute" in the Copyright Act, 17 U.S.C. § 106(3), but she does not object to the relief that the companies request on appeal. She now suggests that this court should reinstate the first jury's verdict on liability (albeit without making precedent on the meaning of "distribute") and then determine whether the first damages award of $222,000 is constitutional. Thomas-Rasset is liable for willful infringement under any of the verdicts, and it suits her fine to cap the maximum possible damages at $222,000 rather than $1,500,000. Thomas-Rasset also offers to acquiesce in the entry of an injunction that forbids her to make copyrighted works available for distribution. In light of these concessions, she suggests that the issue whether making works available is part of the distribution right protected by the Copyright Act is moot.

Our response to these tactical maneuvers is to observe that this court reviews judgments, not decisions on issues. The record companies appeal the district court's final judgment and seek additional remedies that the district court refused to order. The entitlement of the companies to these remedies — damages of $222,000 and an injunction against making copyrighted works available to the public — are the matters in controversy. That the companies seek these remedies with the objective of securing a ruling on a particular legal issue does not make that legal issue itself the matter in controversy. Once the requested remedies are ordered, the desire of the companies for an opinion on the meaning of the Copyright Act, or for a statement that Thomas-Rasset violated the law by making works available, is not sufficient to maintain an Article III case or controversy.

For the reasons set forth below, we conclude that when the district court entered judgment after the verdict in the third trial, the court should have enjoined Thomas-Rasset from making copyrighted works available to the public, whether or not that conduct by itself violates rights under the Copyright Act. We also conclude that statutory damages of at least $222,000 were constitutional, and that the district court erred in holding that the Due Process Clause allowed statutory damages of only $54,000. We therefore will vacate the district court's judgment and remand with directions to enter a judgment that includes those remedies. The question whether the district court correctly granted a new trial after the first verdict is moot.

A.
For these reasons, we conclude that the district court erred after the third trial by concluding that the broader injunction requested by the companies was impermissible as a matter of law. An injunction against making recordings available was lawful and appropriate under the circumstances, even accepting the district court's interpretation of the Copyright Act. Thomas–Rasset does not resist expanding the injunction to include this relief. We therefore will direct the district court to modify the judgment to include the requested injunction.

B.

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

The Supreme Court long ago declared that damages awarded pursuant to a statute violate due process only if they are “so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable.” *St. Louis, I. M. & S. Ry. Co. v. Williams*, 251 U.S. 63, 67, (1919). Under this standard, Congress possesses a “wide latitude of discretion” in setting statutory damages. *Williams* is still good law, and the district court was correct to apply it.

Thomas–Rasset urges us to consider instead the “guidposts” announced by the Supreme Court for the review of punitive damages awards under the Due Process Clause. When a party challenges an award of punitive damages, a reviewing court is directed to consider three factors in determining whether the award is excessive and unconstitutional: “(1) the degree of reprehensibility of the defendant's misconduct; (2) the disparity between the actual or potential harm suffered by the plaintiff and the punitive damages award; and (3) the difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases.” *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 418 (2003); *see also BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 574–75 (1996).

The Supreme Court never has held that the punitive damages guidelines are applicable in the context of statutory damages. Due process prohibits excessive punitive damages because “[e]lementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment, but also of the severity of the penalty that a State may impose.” *Campbell*, 538 U.S. at 417 (quoting *Gore*, 517 U.S. at 574). This concern about fair notice does not apply to statutory damages, because those damages are identified and constrained by the authorizing statute. The guidelines themselves, moreover, would be nonsensical if applied to statutory damages. It makes no sense to consider the disparity between “actual harm” and an award of statutory damages when statutory
damages are designed precisely for instances where actual harm is difficult or impossible to calculate. Nor could a reviewing court consider the difference between an award of statutory damages and the "civil penalties authorized," because statutory damages are the civil penalties authorized.

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

Congress's protection of copyrights is not a "special private benefit," but is meant to achieve an important public interest: "to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984). With the rapid advancement of technology, copyright infringement through online file-sharing has become a serious problem in the recording industry. Evidence at trial showed that revenues across the industry decreased by fifty percent between 1999 and 2006, a decline that the record companies attributed to piracy. This decline in revenue caused a corresponding drop in industry jobs and a reduction in the number of artists represented and albums released.

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

Thomas–Rasset contends that the range of statutory damages established by § 504(c) reflects only a congressional judgment "at a very general level," but that courts have authority to declare it "severe and oppressive" and "wholly disproportioned" in particular cases. The district court similarly emphasized that Thomas–Rasset was "not a business acting for profit, but rather an individual consumer illegally seeking free access to music for her own use." By its terms, however, the statute plainly encompasses infringers who act without a profit motive, and the statute already provides for a broad range of damages that allows courts and juries to calibrate the award based on the nature of the violation. For those who favor resort to legislative history, the record also suggests that Congress was well aware of the threat of noncommercial copyright infringement when it established the lower end of the range. Congressional amendments to the criminal provisions of the Copyright Act in 1997 also reflect an awareness that the statute would apply to noncommercial infringement. See No Electronic Theft (NET) Act.
In holding that any award over $2,250 per work would violate the Constitution, the district court effectively imposed a treble damages limit on the $750 minimum statutory damages award. The district court based this holding on a “broad legal practice of establishing a treble award as the upper limit permitted to address willful or particularly damaging behavior.” Any “broad legal practice” of treble damages for statutory violations, however, does not control whether an award of statutory damages is within the limits prescribed by the Constitution. The limits of treble damages to which the district court referred, such as in the antitrust laws or other intellectual property laws, represent congressional judgments about the appropriate maximum in a given context. They do not establish a constitutional rule that can be substituted for a different congressional judgment in the area of copyright infringement. Although the United States seems to think that the district court’s ruling did not question the constitutionality of the statutory damages statute, the district court’s approach in our view would make the statute unconstitutional as applied to a significant category of copyright infringers. The evidence against Thomas–Rasset demonstrated an aggravated case of willful infringement by an individual consumer who acted to download and distribute copyrighted recordings without profit motive. If an award near the bottom of the statutory range is unconstitutional as applied to her infringement of twenty-four works, then it would be the rare case of noncommercial infringement to which the statute could be applied.

Thomas–Rasset’s cross-appeal goes so far as to argue that any award of statutory damages would be unconstitutional, because even the minimum damages award of $750 per violation would be “wholly disproportioned to the offense” and thus unconstitutional. This is so, Thomas–Rasset argues, because the damages award is not based on any evidence of harm caused by her specific infringement, but rather reflects the harm caused by file-sharing in general. The district court similarly concluded that “statutory damages must still bear some relation to actual damages.” The Supreme Court in Williams, however, disagreed that the constitutional inquiry calls for a comparison of an award of statutory damages to actual damages caused by the violation. Because the damages award “is imposed as a punishment for the violation of a public law, the Legislature may adjust its amount to the public wrong rather than the private injury, just as if it were going to the state.” The protection of copyrights is a vindication of the public interest, Sony Corp. of Am., and statutory damages are “by definition a substitute for unproven or unprovable actual damages.” Cass Cnty. Music Co., 88 F.3d at 643. For copyright infringement, moreover, statutory damages are “designed to discourage wrongful conduct,” in addition to providing “restitution of profit and reparation for injury.”

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For the foregoing reasons, we conclude that the recording companies are entitled to the remedies that they seek on appeal. The judgment of the district court is vacated, and the case is remanded with directions to enter a judgment for damages in the amount of $222,000, and to include an injunction that precludes Thomas–Rasset from making any of the plaintiffs' recordings available for distribution to the public through an online media distribution system.
Notes and Questions

1. Three juries awarded widely differing damages. How might that be explained? Have attitudes that tolerated files-sharing changed? Did the plaintiff take the opportunities to sharpen their case? Would not the defense have done that, too?

2. With civil damages such as these available, is there a need for criminal enforcement? Why might a federal prosecutor decline to file charges in this case? Is the fact that Ms. Thomas-Rassert cannot pay the damages it a sufficient reason to pursue criminal penalties?

3. Should Congress amend the civil damage provision to distinguish between commercial and noncommercial infringement? Judge Davis, in his first opinion in the case, argued that some adjustment should be made for noncommercial copying.

The Court would be remiss if it did not take this opportunity to implore Congress to amend the Copyright Act to address liability and damages in peer-to-peer network cases such as the one currently before this Court. The Court begins its analysis by recognizing the unique nature of this case. The defendant is an individual, a consumer. She is not a business. She sought no profit from her acts. The myriad of copyright cases cited by Plaintiffs and the Government, in which courts upheld large statutory damages awards far above the minimum, have limited relevance in this case. All of the cited cases involve corporate or business defendants and seek to deter future illegal commercial conduct. The parties point to no case in which large statutory damages were applied to a party who did not infringe in search of commercial gain.

The statutory damages awarded against Thomas are not a deterrent against those who pirate music in order to profit. Thomas's conduct was motivated by her desire to obtain the copyrighted music for her own use. The Court does not condone Thomas's actions, but it would be a farce to say that a single mother's acts of using Kazaa are the equivalent, for example, to the acts of global financial firms illegally infringing on copyrights in order to profit in the securities market.

* * *

Unfortunately, by using Kazaa, Thomas acted like countless other Internet users. Her alleged acts were illegal, but common. Her status as a consumer who was not seeking to harm her competitors or make a profit does not excuse her behavior. But it does make the award of hundreds of thousands of dollars in damages unprecedented and oppressive.

* Thomas, 579 F. Supp.2d at ___.

4. Criminal charges are often brought when defendants are judgement-proof, that is,
unable to pay restitution or damages. Is this case a suitable candidate for criminal treatment?

5. The purpose of punitive damages is to deter the wrongdoer and others, a purpose shared by criminal punishment. Is the retribution justification for punishment at play here?

6. As *Thomas* was being decided in Minnesota, a similar case was underway in New York. As in *Thomas*, the district court in *Tenenbaum* reduced the jury award of damages on the ground that it offended Due Process. The appellate decision follows.
SONY BMG MUSIC ENTERTAINMENT v. TENENBAUM

LYNCH, Chief Judge.

Plaintiffs, the recording companies Sony BMG Music Entertainment, Warner Brothers Records Inc., Arista Records LLC, Atlantic Recording Corporation, and UMG Recordings, Inc. (together, “Sony”), brought this action for statutory damages and injunctive relief under the Copyright Act, 17 U.S.C. § 101 et seq. Sony argued that the defendant, Joel Tenenbaum, willfully infringed the copyrights of thirty music recordings by using file-sharing software to download and distribute those recordings without authorization from the copyright owners.

The district court entered judgment against Tenenbaum as to liability. The jury found that Tenenbaum’s infringement of the copyrights at issue was willful and awarded Sony statutory damages of $22,500 for each infringed recording, an award within the statutory range of $750 to $150,000 per infringement that Congress established for willful conduct.

Upon Tenenbaum’s motion for a new trial or remittitur, the district court skipped over the question of remittitur and reached a constitutional issue. It reduced the damage award by a factor of ten, reasoning that the award was excessive in violation of Tenenbaum’s due process rights.

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II. Tenenbaum’s Challenges to the Constitutionality and Applicability of the Copyright Act

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B. The Copyright Act and “Consumer–Copier” and Publisher–Copier Copyright Infringement

Tenenbaum argues to us that Congress never intended for the Copyright Act to impose liability or statutory damages against what he calls “consumer copiers.” That argument was not presented to the district court and is waived.

Even were the argument not waived, it must fail. We start with the inaccuracy of the labels that Tenenbaum’s argument uses. Tenenbaum is not a “consumer-copier,” a term he never clearly defines. He is not a consumer whose infringement was merely that he failed to pay for copies of music recordings which he downloaded for his own personal use. Rather, he widely and repeatedly copied works belonging to Sony and then illegally distributed those works to others, who also did not pay Sony. Further, he received, in turn, other copyrighted works for which he did not pay. Nor can Tenenbaum assert that his was merely a “non-commercial” use and distribution of copyrighted works as those terms are used elsewhere in the Act. His use and distribution was for private gain and involved repeated and exploitative copying.
Our analysis begins with the language of the Act, which we “construe . . . in its context and in light of the terms surrounding it.” “It is well established that, when the statutory language is plain, we must enforce it according to its terms.”

In addition to the factual inaccuracy of his labels, Tenenbaum’s argument that the Copyright Act immunizes his conduct from liability is contradicted by the plain language of the statute. The Copyright Act does not make the distinctions he urges between “consumer” and “non-consumer” infringement of copyrighted materials by copying and distribution. Instead, the Act renders those, like Tenenbaum, who use or distribute a copyrighted work without authorization liable in copyright. Indeed, the Act does not use the term “consumer” at all, much less as a term excluded from the category of infringers. Rather, the statute refers to “anyone” as potential infringers.

The Act explicitly grants owners of “works of authorship” exclusive rights to, inter alia, “reproduce the copyrighted work in copies or phonorecords” and “distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.” By the plain language of § 106, copyright owners, like Sony, have the exclusive right to reproduce copyrighted works in copies or phonorecords and to distribute those copies or phonorecords.

The Copyright Act contains no provision that could be interpreted as precluding a copyright owner from bringing an action against an infringer solely because the infringer was a consumer of the infringed products or acted with a so-called noncommercial purpose in his distribution of the works to others. Apart from the reality that the facts of record support neither characterization, 17 U.S.C. § 501(a) provides that “anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . is an infringer of the copyright.” (Emphasis added). Further, under 17 U.S.C. § 501(b), “the legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it.” (Emphasis added). Had Congress intended to limit copyright actions against so-called “consumer infringers” as Tenenbaum hypothesizes, it easily could have done so. Instead, subject to exceptions not relevant here, it extended liability to “anyone” who violates a copyright owner’s exclusive rights and allowed those owners to pursue actions against “any infringement.”

Moving from liability to damages, Tenenbaum’s argument that statutory damages are not

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10 Sound recordings constitute “works of authorship” that receive copyright protection. See 17 U.S.C. § 102(a)(7). Tenenbaum implies that digital media should be treated differently than conventional music recordings. However, 17 U.S.C. § 102(a) makes no such distinction, and in fact explicitly provides that copyright protection exists “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.” (Emphasis added).
available here is also refuted by the plain statutory language. Section 504 provides that "an infringer of copyright is liable for either ... the copyright owner's actual damages and any additional profits of the infringer ... or statutory damages." (Emphasis added). The statute does not condition the availability of either set of damage calculations on whether the offending use was by a consumer or for commercial purposes or not.

Congress drew distinctions in the Copyright Act where it meant to do so. For example, it distinguished between willful and non-willful infringements, subjecting willful infringers to a higher cap on statutory damage awards.

Where Congress wanted the Act to draw distinctions based on the nature of the use it also did so explicitly, such as with the fair use defense. See 17 U.S.C. § 107.\textsuperscript{12}

Further, where Congress intended to create other exceptions for solely personal or non-commercial use, it did so expressly. In two amendments which do not apply here, it drew such distinctions: (1) the Sound Recording Act of 1971, which fully extended federal copyright protections to sound recordings but exempted certain reproductions of sound recordings made for personal use, and (2) the Audio Home Recording Act of 1992 (AHRA), codified at 17 U.S.C. § 1001 \textit{et seq.}, which provided some exemptions in other situations from copyright liability for infringements "based on the noncommercial use by a consumer." 17 U.S.C. § 1008.\textsuperscript{14} These statutes refute Tenenbaum's argument.

Because Congress has enumerated a set of express exceptions, rules of statutory interpretation instruct that Congress intended to make no other exceptions than those specified.

The clarity of the statutory text compels the rejection of Tenenbaum's arguments. When a statute speaks with clarity to an issue, "judicial inquiry into the statute's meaning, in all but the most extraordinary circumstance, is finished." It is not within the province of the courts to rewrite Congressional statutes: that task is "for Congress to accomplish by further legislation." Asking us to ignore the text and the plain meaning of the statute, Tenenbaum argues Congress was unaware that suits like this could be brought and so could not have intended the statute to apply here. The argument is wrong both on the law and on the facts.

Congress did contemplate that suits like this were within the Act. Congress last amended

\textsuperscript{12} Tenenbaum does not claim on appeal that his conduct falls under the fair use doctrine.

\textsuperscript{14} To take the point further, although the AHRA created immunity for some unauthorized, noncommercial uses of copyrighted materials, Congress explicitly declined to extend immunity to individuals who use home computers to copy copyrighted materials. See 17 U.S.C. § 1001(3); \textit{see also} Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc., 180 F.3d 1072, 1078 (9th Cir.1999).
the Copyright Act in 1999 to increase the minimum and maximum awards available under § 504(c). See Digital Theft Deterrence and Copyright Damages Improvement Act of 1999. At the time, Congress specifically acknowledged that consumer-based, noncommercial use of copyrighted materials constituted actionable copyright infringement. Congress found that "copyright piracy of intellectual property flourishes, assisted in large part by today's world of advanced technologies," and cautioned that "the potential for this problem to worsen is great." Indeed, the legislative history directly addresses this concern:

By the turn of the century the Internet is projected to have more than 200 million users, and the development of new technology will create additional incentive for copyright thieves to steal protected works. The advent of digital video discs, for example, will enable individuals to store far more material than on conventional discs and, at the same time, produce perfect secondhand copies. . . . Many computer users are either ignorant that copyright laws apply to Internet activity, or they simply believe that they will not be caught or prosecuted for their conduct. Also, many infringers do not consider the current copyright infringement penalties a real threat and continue infringing, even after a copyright owner puts them on notice that their actions constitute infringement and that they should stop the activity or face legal action. In light of this disturbing trend, it is manifest that Congress respond appropriately with updated penalties to dissuade such conduct. H.R. 1761 increases copyright penalties to have a significant deterrent effect on copyright infringement. Id. 15

Even earlier, in 1997, Congress had explicitly amended the criminal component of the Copyright Act to make clear that criminal liability for copyright infringement can be imposed even if an infringer's use of a copyrighted material is noncommercial. See No Electronic Theft Act (NET Act). . . .

Congress made clear that it enacted the NET Act to "criminalize[ ] computer theft of copyrighted works, whether or not the defendant derives a direct financial benefit from the act(s) of misappropriation, thereby preventing such willful conduct from destroying businesses, especially small businesses, that depend on licensing agreements and royalties for survival." Tenenbaum's argument that we may ignore the plain language of the statute and Congressional intent because relatively few lawsuits were brought against those in his position also goes

15 Tenenbaum argues that the 1999 Amendment pre-dated the widespread use of peer-to-peer networking sites, and observes that the 1999 Digital Theft Deterrence Act was first introduced in May 1999, a full month before the launch of Napster's file sharing network. Again, the factual premise is wrong. The Act was not signed into law until December 1999, at which point Napster was itself operational.

Moreover, Congress had in 1997 already acknowledged the advent of "audio-compression" technologies that "permit[ ] infringers to transmit large volumes of CD-quality music over the internet" in enacting the No Electronic Theft Act.
nowhere. Again, both the factual and legal contentions are wrong.

Even if we assume that copyright owners have historically chosen first to litigate against the providers of new technologies of reproduction and dissemination rather than the users of those new technologies, that may best be explained by the owners using a cost-benefit analysis, and says nothing about Congressional intent. Historically, the costs of prosecuting infringement actions against individual users could be thought by owners to have exceeded the benefits. That the copyright owners have turned to litigation against individual infringers only underscores that the balance of the copyright holder's cost-benefit analysis has been altered as peer-to-peer networks and digital media become more prevalent.

In any event, the argument is legally irrelevant. The Supreme Court has expressly instructed that courts apply the Copyright Act to new technologies. In *Sony Corp. of America v. Universal City Studios, Inc.*, the Court instructed that courts must “[a]pply[ ] the copyright statute, as it now reads, to the facts as they have been developed” even though Congress might ultimately “take a fresh look at this new technology, just as it so often has examined other innovations in the past.”

The Supreme Court has made clear that it is particularly important for courts to take this tack when faced with novel Copyright Act issues. “[F]rom its beginning, the law of copyright has developed in response to significant changes in technology,” and as “new developments have occurred in this country, it has been the Congress that has fashioned the new rules that new technology made necessary.” *Id.* We reject Tenenbaum's invitation to usurp Congress's legislative authority and to disregard binding Supreme Court precedent.

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IV. The District Court's Bypassing of Common Law Remittitur and Reducing the Award on Disputed Constitutional Grounds

* * *

This was a difficult and contentious case and the parties received a fair trial from an admirably patient and able district judge.

We affirm the finding of liability against Tenenbaum and in favor of plaintiffs. We affirm the injunctive relief. We have, inter alia, rejected Tenenbaum's arguments that the Copyright Act is unconstitutional. . . ., that the Act exempts so-called “consumer copying” infringement from liability and damages, that statutory damages under the Act are unavailable without a showing of actual harm, that the jury's instructions were in error, and his various trial error claims.

We vacate the district court's due process damages ruling and reverse the reduction of the
jury's statutory damages award. We reinstate the jury's award of damages and remand for consideration of plaintiff's motion for common law remittitur based on excessiveness.

If, on remand, the court allows any reduction through remittitur, then plaintiffs must be given the choice of a new trial or acceptance of remittitur.

Notes and Questions

1. The district courts in *Thomas-Rasset* and *Tenenbaum* held that the awards of statutory damages in each case offended the Due Process Clause. They differed, however, in the standard used to reach the conclusion that the statutory awards offended the Constitution. The *Williams* standard, which predates the Supreme Court's punitive damage holdings, applies specifically to statutory damages. In contrast, the *BMW* standard applies to punitive damages in tort.

2. In a part of the case not reproduced here, the First Circuit approved the jury instruction that defined knowing infringement, necessary for a finding of willfulness and statutory damages, as including a "reckless disregard of the copyright holder's rights." The majority of circuits, however, require a finding that the defendant knew the conduct at issue constituted infringement. Compare these standards to the definition of "willful" used in the criminal provision.


2. Consider Tenenbaum's conduct. Is there sufficient evidence that he had committed the crime of infringing a copyright?

The PRO-IP Act of 2008


The Pro-IP Act also strengthened the penalties of several other criminal provisions. In
addition, it created a new criminal provision, 18 U.S.C. § 2323, that mandates forfeiture and
destruction of property involved in violations of §§ 2320 (trafficking), 2319B (camcording),
2319A (bootlegging), 2319 (criminal copyright infringement), and restitution to the victims of
these crimes. The amended statutes are provided in the Appendix as is new § 2323.

The Mandatory Victims Restitution Act of 1996

courts to order restitution in addition to other penalties for property crimes where the victim can
be identified, when the victim has suffered a pecuniary loss, and if the number of victims does
not make restitution impracticable. The following case applies that standard in a case of criminal
copyright infringement.

UNIVERSITY STATES v. DOVE
585 F. Supp. 2d 865 (W.D. Va. 2008)

JAMES P. JONES, Chief Judge.

In this criminal copyright infringement case, I find that the government has failed to
prove the amount of actual loss sustained by the victims and accordingly I am unable to require
that the defendant pay restitution.

I

The Indictment in this case charged the defendant, Daniel Dove, with being a high-level
member of an Internet piracy organization known as “Elite Torrents” during the years 2004 and
2005. The government contended at trial that the defendant had participated in the reproduction
and distribution of pirated copyrighted movies, software programs, and video games. Members
of the Elite Torrents group were able to download movies, music, and other copyrighted media
for free, so long as they allowed other users to access copyrighted material stored on their
computers. The defendant did not contest being involved in the Elite Torrents group, but denied
that he knew that his conduct was illegal.

A jury found the defendant guilty of criminal copyright infringement under 17 U.S.C.A. §
506(a)(1)(A) . . . I sentenced the defendant to eighteen months imprisonment on each count, to
be served concurrently. The defendant was also ordered to pay a special assessment of $200 and
a fine in the amount of $20,000, consisting of $10,000 on each count. Prior to the sentencing
hearing, two victims, the Recording Industry Association of America (“RIAA”) and Lionsgate
Entertainment, Inc. (“Lionsgate”), submitted requests for restitution.

II

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There is no special restitution statute for copyright infringement, so that the general restitution statutes, 18 U.S.C.A. §§ 3663, 3663A, will determine whether restitution is appropriate in this case.

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Under the Mandatory Victims Restitution Act of 1996 ("MVRA"), each victim is entitled to restitution for their actual losses. The remaining issue is whether the government has met its burden of proving the victims' actual losses.

III

The government must prove "the amount of the loss sustained by a victim as a result of the offense" by a preponderance of the evidence. The proper measurement of loss is lost net profit, not lost gross income. The amount of loss for determining the proper sentencing guideline range is distinct from the amount of loss for restitution purposes.

RIAA's Declaration of Victim Losses states that its member companies "create, manufacture and distribute approximately 90% of all legitimate sound recordings produced and sold in the United States." RIAA provides proof that 183 sound recording albums were transferred through Dove's server a combined total of 17,281 times. Multiplying 17,281 by the average wholesale price of a digital album in 2005 ($7.22), RIAA concludes that its member companies suffered economic loss in the amount of $124,768.82. RIAA offers to accept only $47,000 if Dove agrees to "participate in a public service announcement designed to educate the public that music piracy is unlawful and has the potential to result in stiff criminal penalties." The $47,000 figure represents the approximate amount of economic loss resulting from the transfers of the 20 most frequently transferred albums on Dove's server: 6,528 transfers multiplied by the average wholesale price in 2005 ($7.22) yields $47,132.16 in economic damages. There is no indication as to why RIAA reduces its monetary request to the first 20 albums as opposed to 10 or 100 albums. It is notable, though, that RIAA only proves that the first 20 albums are held by record labels that are RIAA members; there is no such proof as to the remaining 163 albums.

Lionsgate's Declaration of Victim Losses indicates that it owns the copyrights to 28 of the 700 movies Dove infringed. Lionsgate does not show any proof as to how many times those 28 titles were downloaded from Dove's server. Lionsgate states that Dove "sold over a million units" of the 700 movie titles "at $19 per unit," resulting in a "$22 million amount of loss to [the] industry." From this $22 million figure representing the total loss to the movie industry, Lionsgate concludes that since it holds 4% of the movie titles at issue (28 out of 700), it should get 4% of $22 million, which is $880,000.

RIAA and Lionsgate have the same theory of loss. They assert that for each illegal download of music or movies on the Elite Torrents network, profits were diverted from
legitimate sales the copyright holders could have otherwise made. A similar theory of loss from diverted profits was made by the victim in a recent Eighth Circuit case, United States v. Chalupnik, 514 F.3d 748 (8th Cir. 2008). In that case, the defendant gathered discarded undeliverable CDs and DVDs at the post office where he worked and sold them to used music and movie stores. He pled guilty to copyright infringement.

The district court in Chalupnik ordered the defendant to pay the copyright holder an amount equal to the defendant's documented sales proceeds, $78,818. But the court of appeals found that the government had failed to prove the amount of loss to the copyright holder and vacated the restitution award. If the defendant had not sold the disks, they would have been thrown away or destroyed, so there was no loss to the copyright holder based on the sale of those particular disks. Also, the court reasoned that since the stores the defendant sold the disks to only purchased used, not new, products, it could not be shown that the copyright holder lost sales. The court concluded that there may have been a collective "injury to the market" from the infusion of these CDs and DVDs, but the "large number of victims and the difficulty of determining each victim's actual loss make the collective injury inappropriate for MVRA restitution."

The diverted profits theory of loss was also rejected in United States v. Hudson, 483 F.3d 707 (10th Cir. 2007), mostly because the counterfeit Microsoft software in that case was identified and turned over to the government by the infringing defendant's customer before any payment to the infringer. However, the court in Hudson also noted, "As an initial matter, we are very skeptical of the implicit suggestion that [the customer's] agreement to purchase 537 copies of the [counterfeit Microsoft] software for a total price of less than $86,000 proves that [the customer] would have agreed to purchase the same number of copies from Microsoft for more than $321,000."

This case is similar to Chalupnik. Like the defendant's customers in that case (stores selling used products), the customers in this case (internet downloaders) had legal substitutes available to them. The used product stores in Chalupnik could have purchased used or new CDs and DVDs from different, legal sources. The downloaders in this case could have purchased songs over the Internet, rented movies, borrowed DVDs from the local library, or purchased CDs or DVDs at the full purchase price. But the victims have not made any attempt to assess how many Elite Torrents downloaders would have used these various alternatives or no alternative at all.

It is a basic principle of economics that as price increases, demand decreases. Customers who download music and movies for free would not necessarily spend money to acquire the same product. Like the court in Hudson, I am skeptical that customers would pay $7.22 or $19 for something they got for free. Certainly 100% of the illegal downloads through Elite Torrents did not result in the loss of a sale, but both Lionsgate and RIAA estimate their losses based on this faulty assumption.
The cases cited by the government and RIAA are distinguishable from or are otherwise inapplicable to this case. For instance, both the government and RIAA cite to United States v. Martin, 64 Fed.Appx. 129 (10th Cir. 2003) (unpublished). In Martin, the defendant pled guilty to trafficking in counterfeit goods (Microsoft Office 2000 CDs), and was ordered to pay $395,000 in restitution for Microsoft's lost profits from diverted sales. The issue before the court was whether the defendant's waiver of his appellate rights in his written plea agreement was enforceable, and the court found that the waiver was valid. Therefore, the court did not fully review the district court's restitution decision.

Also, the crime in Martin, trafficking in counterfeit Microsoft Office CDs, is distinguishable from the copyright infringement in this case. Those who download movies and music for free would not necessarily purchase those movies and music at the full purchase price, but those who purchase counterfeit Microsoft Office CDs are more likely to purchase the legitimate version if the counterfeit version is not available.

RIAA cites a similar case, United States v. Milstein, 481 F.3d 132 (2d Cir. 2007), when it argues that "[l]ost sales are an appropriate measure of restitution in criminal cases involving the misappropriation of intellectual property." In Milstein, the defendant was convicted of fraudulently distributing misbranded drugs and other related crimes. The defendant purchased foreign pharmaceuticals and re-sold them in the United States with counterfeit packaging to pass them off as their domestic counterparts. The defendant was ordered to pay $3.5 million in restitution to the two drug manufacturers whose trademarks he misappropriated. "This figure reflected the sales that these two companies would have made if [the defendant] had actually purchased the products from them for distribution in the U.S. market." The court upheld the restitution award, noting that the defendant did not make any claim that manufacturing costs or other costs should be deducted from lost sales to arrive at a more appropriate restitution amount.

The court's explanation for the restitution award in Milstein demonstrates a slightly different theory of loss. Instead of looking to lost sales based on what the defendant's customers would have purchased from the victim if the defendant had not been selling infringing items, the court explains the restitution award as compensation to the victim for what the defendant would have paid to the victim had he legally purchased the items for re-sale. The court in Milstein likely took this approach because as a practical matter, the copyright holders in that case would not have sold prescription drugs directly to consumers. This theory of loss would be difficult to apply in our case. The victims have not submitted any information as to what Dove would have had to pay the copyright owners in order to secure the right to distribute music and movies online.

RIAA cites United States v. Chay, 281 F.3d 682 (7th Cir. 2002), as support that the MVRA applies in this case. The defendant in Chay sold counterfeit versions of newly released computer games on eBay and other internet auction sites. The defendant pled guilty, and the court ordered him to pay $49,941.02 in restitution to the 52 victim companies, which was the amount of his gross receipts from the sale of pirated computer games. The Seventh Circuit
upheld the amount of the restitution award, reasoning that it was not an abuse of discretion for the district court to find the defendant's gross receipts approximated the victims' losses. The method of ascertaining loss used in Chay is inapplicable to this case because neither the government nor the victims have made any attempt to put a value on Dove's gain. Also, a defendant's gain does not always mirror the victims' loss.

RIAA points out that restitution may include the costs the victim incurred investigating the defendant's conduct. But neither RIAA's original Declaration of Victim Losses nor its subsequently submitted brief include information about how much RIAA or its members spent during their participation in the investigation and prosecution of Dove's offense.

The government admits that “[i]n each of the prior Elite Torrents prosecutions, the United States has recommended waiving restitution, pursuant to 18 U.S.C. § 3663A(c)(3)(B)” because “[t]he scope of the number of victims, and the nonuniformity of their businesses and profit models has made the process of calculating restitution for all victims unduly burdensome.” The government contends that in this case, however, RIAA has provided an adequate estimate of their diverted sales. The government admits that “there is no direct evidence that each unlawful distribution of an RIAA member company's album through the Elite Torrents network diverted a sale from that company,” but insists that “the circumstantial evidence supporting RIAA's conservative estimate of actual losses is strong.” However, although it is true that someone who copies a digital version of a sound recording has little incentive to purchase the recording through legitimate means, it does not necessarily follow that the downloader would have made a legitimate purchase if the recording had not been available for free.

The government finds RIAA's estimated losses reasonable because it calculates loss based on only 20 of the 183 albums in the Elite Torrents tracker database, but there is no suggested logical basis for making the calculation based on 20 albums as opposed to 1 or 100 albums. There is no allegation, for instance, that people who downloaded those first 20 albums would have been more likely to pay the full purchase price for those albums had they not been available on the Elite Torrents network. RIAA does not aver that 6,528 out of the 17,281 total downloads from Dove's server accurately represents the number of lost sales to RIAA's members.

It is possible that RIAA requests $47,000 because Dove's services are worth $77,768.82 to RIAA, the difference between the full amount of economic loss RIAA claims ($124,768.82) and the amount it is willing to accept if Dove agrees to participate in a public service announcement ($47,000). But RIAA does not offer this explanation. Nor does RIAA adequately prove that its members' total actual losses were $124,768.82. RIAA only proves that the first 20 of the 183 total albums on Dove's server are held by record labels that are RIAA members; there is no such proof as to the remaining 163 albums. Also, RIAA uses $7.22, the average wholesale price of a digital album in 2005, to calculate its loss, but it is unclear whether member copyright holders would receive the full $7.22 as profit or only a portion of that amount. Further, if the reason RIAA decreases its request from the alleged total economic losses of $124,768.82 to $47,000 is because Dove's services are worth $77,768.82, RIAA's request problematically
assumes that every illegal download resulted in a lost sale. On the other hand, if the value of Dove's services is not the basis for RIAA's "conservative" $47,000 request, RIAA has essentially requested an arbitrary amount.

The government concedes that Lionsgate’s estimate of lost profits from diverted sales is insufficient to award restitution. The government's main concern is that it would be unduly burdensome to ascertain the lost profits for each of the owners of the 700 different film titles that were unlawfully copied and distributed. Lionsgate only holds 28 of those 700 titles.

Lionsgate's estimation of lost profits faces several additional problems. Lionsgate makes no showing of how many times its 28 titles were transferred by Dove's server, but simply concludes that it is entitled to 4% (28 out of 700) of the total damages to the movie industry. When using a diverted sales theory, the victim should show how many infringing items were actually placed into commerce in competition with legitimate items. In addition, the $19 per unit price is not the appropriate figure for calculating loss, since it represents lost revenue rather than lost profits. Finally, like RIAA, Lionsgate bases its estimate of actual loss on the faulty assumption that every illegal download resulted in a lost sale.

The cases cited by the government and RIAA offer many alternative measurements of actual loss other than diverted sales, yet all interested parties have failed to bring sufficient evidence of loss under any theory. There has certainly been some harm to the victims, but without more accurate estimates from the victims it would be very difficult to arrive at an accurate and fair number for a restitution award. The government and the victims who have come forward have failed to meet their burden of proof as to actual loss under § 3664(e). This failed attempt has demonstrated that although there was an injury to the market, as in Chalupnik, the difficulty of determining each victim's actual loss makes the collective injury inappropriate for MVRA restitution.

IV

While there were certainly victims of the defendant's criminal conduct in this case, the amount of actual loss suffered by these victims has not been shown. Accordingly, for the reasons stated, restitution will not be ordered.

Notes and Questions

1. The court considered several possible means of proving the victim’s actual loss: diverted sales/profits, as the victims in Thomas argued; defendant’s gain (Chay); cost of purchasing a license from the copyright holder (Milstein); and investigation costs incurred by victims. The court also distinguished between a collective injury to the market and actual loss by individual copyright holders. Which method do you favor? Other methods of estimating loss such as market value, cost of creating or replacing the item, and use value were noted in Chapter Two.
2. As the *Dove* and *Slater* courts noted, the victim’s loss for purposes of punishment is based on retail value of the infringing items. What is the justification for using a different standard to estimate loss for purposes of restitution?