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Computers and copyrights: A continuing source of avoidable liability

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» Not all copyright cases settle.

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» Courts are not shy about using the power of imposing statutory damages.

» Relatively simple best practices can greatly diminish your exposure.

Kindergarten teaches us to share, and computers make sharing quick and easy. But when employees share copyrighted materials, employers can take a huge hit—sometimes millions of dollars for something as simple as passing around an electronic newsletter to a few colleagues. Let me give a few examples from my recent experience representing electronic newsletter publishers. The names are confidential (at least in part because of the embarrassment that can be caused by companies' violations of the law and of the rights of others), but here are the basic facts:

Kirby

- Specialized lawyers in a national firm got impatient passing along a single paper copy of a newsletter and began forwarding the electronic version simultaneously to the group. The firm settled quickly for well over a million dollars.
- The founder of a modest family business started grooming his two adult children to take over. As part of their education, he began emailing them copies of his industry newsletter. The firm settled for almost half a million dollars.
- A communications executive began forwarding an electronic newsletter to other senior executives. The firm settled for a million dollars.
- Employees in a large real estate firm found several newsletters useful and began forwarding them to colleagues. The firm settled for almost two million dollars.
- The manager of a small consumer sales division forwarded a specialty newsletter to the presidents of the division and the parent company to help them understand how the field was developing. After paying an estimated million dollars in defense costs to its lawyers, the company also paid a $500,000 settlement.

Of course not all copyright cases settle. Legg Mason[1] elected to litigate in defense of the activities of research employees who had posted a subscription to Lowry's Financial Reports on the firm Intranet and otherwise passed it around. Legg Mason claimed my client's actual losses were tiny, but the jury awarded nearly $20 million in statutory damages.

> "It is important to remember that each issue of a publication is a separate work entitled to a separate award of statutory damages."

My practice mainly involves representing electronic newsletters, but a wide variety of works can give rise to serious copyright liability. For example, in one recent case an insurance broker was found to have secretly copied a rival's business materials to make a series of successful business proposals. Instead of statutory damages, the plaintiff demanded the profits earned by this infringement, plus interest covering the decades before the infringement was discovered. Tens of millions of dollars were awarded.

Another case involved copies of instructions and advertising for storm windows. The infringers were former authorized distributors. Their failure to make a defense resulted in a default that was held to establish willful infringement. The court held that two registered works had been infringed and awarded $31,000 per work in statutory damages.

These numbers are high because of a special remedy in the law to implement the strong public policy in support of copyright compliance. Under the "statutory damages" provision of the Copyright Act, a court is not limited by actual damages, but may award up to $150,000 in statutory damages for each work the defendant has willfully infringed. For non-willful infringement, the law identifies a range of statutory damages, depending on the circumstances, of up to $30,000 per work (with a floor of $750 per work in most circumstances).

In addition, a winning plaintiff may also be awarded its legal fees in bringing the case. The public policy underlying statutory damages reflects the reality that it is extremely difficult for a plaintiff to see copyright infringements in most cases, because they happen behind closed doors; thus, when an infringement is discovered (sometimes by accident, sometimes through whistleblowers, and sometimes in other ways), through this serious remedy the law wants to ensure that copyright holders do not lose the incentive provided by copyright to create and distribute new works merely because of infringers' secrecy.

Courts are not shy about using the power of imposing statutory damages. I recently did a simple computer search for 2008–2011 cases reporting copyright statutory damages awarded by juries. I found about a dozen such cases, involving all sorts of copyrighted works. In two cases the juries had awarded the maximum of $150,000 per work, and in a third the jury had awarded $140,000. The average across the dozen cases was about $75,000 per work. Willfulness was found in almost all cases. The lowest award was $15,000 per work, and that was in unusual circumstances where the employer could not have known that an independent contractor had been infringing.

The news recently has focused on recording industry lawsuits against two individuals who were alleged to have posted thousands of songs for others to copy through peer-to-peer software; for purposes of keeping the trials manageable, each case focused on only 20–30 songs. One infringer was a single mom; the other was a college student. The songs they posted for free download were on sale over the Internet for under $1 each. One case was tried three times, the other once. In each trial, the juries awarded tens of thousands of dollars in statutory damages per song. The trial judges have held that, for individuals acting for personal pleasure completely outside any business context, the awards should be reduced to $2,250 per song. For employers, the

important message is the size of the awards juries are willing to make, even against defendants of limited means.

In one of the file sharing cases (*Sony Entertainment et al v. Tenenbaum)*,[2] the U.S. Court of Appeals just issued its opinion. The court reinstated the large jury award, holding that the trial judge should not have rushed to make a constitutional ruling (that the damages awards were unconstitutionally large) without first using its common law power to issue a "remittitur," an order allowing a plaintiff to choose between a reduced award and a new trial on damages. The opinion is lengthy, but key points for business and other institutional infringers include:

- The right of copyright owners to demand that a jury set statutory damages is reaffirmed.
- Because statutory damages are intended to deter and punish as well as to compensate, it is error for a judge to tell the jury that the total amount of a statutory damages award needs in any way to be related to the amount of actual damage (such as lost profits) suffered by the copyright holder.
- Presumably because of the different public policies underlying copyright law, Supreme Court precedents limiting punitive damages seem not to apply to statutory damages. (The court avoided a direct ruling, but made its views pretty clear).

Individual infringers may take some consolation from the possibility of a remittitur. But that remedy offers little solace for businesses and other institutions, because no modern U.S. court has ever granted a remittitur to such an infringer. Indeed, in the Legg Mason case mentioned above, the trial court declined to reduce a $20 million award for copying a financial newsletter.

It is important to remember that each issue of a publication is a separate work entitled to a separate award of statutory damages. Thus, a business whose employees have been forwarding or otherwise infringing a daily newsletter for a year faces a worst-case liability of almost $40 million. For infringement of a weekly, the exposure is nearly $8 million. So multi-million dollar settlements often make sense.

Your business doesn't have to accept such risks. Relatively simple best practices can greatly diminish your exposure. I discussed those best practices in an article I wrote in 2007,[3] and the advice I give there still holds. Meaningful employee education, periodic polling of employees about copying, realistic evaluation of subscription needs, and taking out an appropriate license from Copyright Clearance Center, all taken together, will work. But effective protection requires someone to take charge, whether it is corporate counsel, an information professional, or an alert executive. So long as employers' heads remain planted in the sand, unpleasant surprises will arrive from behind.

I represent publishers in addressing infringements. But, those publishers much prefer to make their livings from selling subscriptions to the publications they create, and they actively warn against infringement and encourage me to do likewise. However, as technology has made copying easier, they have been increasingly victimized, and they are not going to take it anymore. Employers who provide computer systems to their employees and reap the benefits of those wonderful devices must effectively prevent employee infringement and obtain proper licenses, or accept the consequences. ✳

1. *Lowry Reports Inc. v. Legg Mason et al*. 271 F.Supp.2d 737 (2003) United States District Court, D. Maryland, Northern Division. July 10, 2003.
2. See *Sony BMG Music Entertainment v. Tenenbaum*, 721 F. Supp. 2d 85 (D. Mass. 2010).
3. Thomas W. Kirby: "Managing Copyright Liability in the Computer Age." Copyright Clearance Center, *Inside Counsel*, November 16, 2007. Available at *www.copyright.com/media/pdfs/article-inside-counsel-thomas-kirby.pdf*

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