

# The Threat Posed By Inflated Statutory Damages

*Comments on the January 25, 2008 Meeting Hosted by the Copyright Office*

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## EXECUTIVE SUMMARY

The PRO IP Act (H.R. 4279) proposes to weaken the long-established “one work” rule, which today imposes a measure of certainty on how copyright statutory damages are calculated. Under current law, a copyright plaintiff may seek up to \$150,000 *per work infringed*. In the case of compilations, the one work rule recognizes that the compilation is being marketed as one work, although it may in fact consist of multiple components.

Section 104 of the PRO IP Act seeks to undo a central underpinning of statutory damages: ensuring that the damages award for infringement of a compilation does not result in catastrophic multiple awards through a separate award for each component of that compilation. For example, current law authorizes a statutory damages award of up to \$150,000 for a single infringement of a magazine containing 100 photos, or a software application containing 100 modules. The proposed changes in Section 104 would allow a plaintiff to claim up to \$15 million for the same act of infringement.

Courts may award such damages without *any evidence of actual harm* to the rightsholder. The one work rule preserves a balanced tradeoff – plaintiffs are relieved of the burden of demonstrating “any shred of proof whatever that there has been any actual damage,” yet there is a high ceiling of one award of \$150,000 for the infringement of a compilation. Significantly, the copyright owner always has the option of obtaining actual damages and the infringer’s profits attributable to the infringement.

Legislative history and litigation practice presented at the January 25, 2008 meeting demonstrate that the one work rule was a carefully designed compromise crafted by the Copyright Office to balance competing approaches to statutory damages. This compromise has withstood the test of time. By copyright law standards, the judicial interpretations of the one work rule have been consistently uniform.

In practice, there is no evidence to support weakening the one work rule. Proponents of weakening the one work rule are not able to produce any examples where that rule has created unfair outcomes for rightsholders. In fact, at the January 25 meeting Associate Register Carson asked the proponents of Section 104 if they could cite a single example where the one work rule produced an unjust result. The proponents were unable to do so.

As applied, existing law already tilts drastically toward copyright plaintiffs, notwithstanding the one work rule. Section 504 provides a court with broad discretion on the amount of statutory damages to award -- from \$200 to \$150,000 per work infringed. In *UMG v. MP3.com*, even after application of the one work rule, the plaintiff still could have received approximately \$118 million in statutory damages (4,700 CDs at \$25,000 per CD). And in *Arista*

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*Records v. Launch Media* (01-CV-4450 [RO] S.D.N.Y.), under the one work rule, plaintiff could have collected statutory damages of in excess of \$100 million had the court found infringement liability.

Not only is there a complete lack of evidence for the need to modify existing law, the proposed change would cause significant collateral damage across the economy, including, for instance, technology and Internet companies, software developers, telecommunications companies, graphics and printed materials industries, libraries, and consumers. Allowing plaintiffs to disaggregate components of existing works would—

- Incentivize “copyright trolls” by providing plaintiffs with the leverage to assert significantly larger damage claims and obtain unjustified “nuisance settlements” from innovators not able to tolerate the risk of a ruinous judgment.<sup>1</sup>
- Stifle innovation by discouraging technologists from using or deploying any new technology or service that could be used to engage in infringing activities by third parties.
- Create unprecedented risk for licensees of technologies powered by software. Because licensees may be unable or unwilling to obtain meaningful indemnifications from every upstream contributor to a particular product, the proposed change will decrease companies’ willingness to outsource software solutions or use open source software.
- Chill lawful uses, suppress the development of fair use case law, and exacerbate the orphan works problem.

Before considering the changes proposed by Section 104, it is important to observe how the existing one work rule affects firms offering innovative products and services. Current law threatens innocent and willful infringers alike, at a time when the maximum statutory damages have mushroomed by a factor of 15 from the Register of Copyright’s initial recommendation in 1961. This rule offers a measure of protection to companies that deploy technologies employed by end-users from the risk of grossly disproportionate liability. The threat of secondary liability faced by technology companies – and the potential for astronomical statutory damages – is not merely theoretical. Content companies have filed suit against almost every new generation of personal storage technology brought to market, including the VCR, the MP3 player, the home digital video recorder (DVR), and the network DVR. Content companies have a long track record of suing innovative products and services that carry enormous consumer benefits but threaten traditional business models and modes of distribution.

If Congress weakens the one work rule as proposed in Section 104 of the PRO IP Act, the currently gargantuan claimed damages in copyright litigation will reach even higher levels, further incentivizing copyright trolls, stifling innovation, and creating unprecedented risk for innovators and licensees, all to address hypothetical scenarios.

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<sup>1</sup> At the Jan. 25 meeting, one proponent of the change argued that he is not aware of any case where a judgment for infringement of a work exceeded \$40,000. *But see Greenberg v. Nat’l Geographic Soc’y* and *Superior Form v. Chase Taxidermy*, discussed *infra* n.15. In any event, the copyright litigation practitioners clearly stated at the meeting that the ability of plaintiffs to *claim* astronomical damages creates hardship on defendants who may have a well-reasoned good faith belief that they will prevail on the merits but cannot fully litigate because the cost of a bad judgment will produce ruinous results.

## PART A. THE ONE WORK RULE SHOULD BE PRESERVED

### 1. Legislative History of the One Work Rule

The legislative history of the last sentence of section 504(c)(1) demonstrates that it was carefully crafted by the Copyright Office to balance competing approaches to statutory damages. Against the dysfunctional statutory damages framework of the 1909 Copyright Act, which awarded damages on a per copy or per performance basis, the Copyright Office in 1961 proposed a single award of statutory damages for all infringements in an action. After opposition from some copyright owners, the Office amended its proposal in 1963 to allow one award of statutory damages per single infringed work, but defined single work as “including all of the material appearing in any one edition or volume or version of a work used by the infringer.” This limitation insured that the new single award for single work rule would not lead to the excessive awards that the 1909 Act produced. This language was further refined in 1964 to the wording that now appears in the Act after extensive consultation with interested parties.

The statutory damages provision of the 1976 Act was intended to simplify the award of statutory damages under the 1909 Act. Section 101(b) of the 1909 Act was one of the many failures of that Act. In addition to confusion over whether statutory damages were awardable under section 101(b) only when actual damages or defendant’s profits were unascertainable, section 101(b) presented a baffling smorgasbord of provisions that provided minima and maxima as well as set awards on a per copy basis. The amount of statutory damages available also turned to some degree on the amount of actual damages. Additionally, there were a number of special statutory damages provisions applicable to motion pictures and newspapers. Numbers set forth in the statute were not set in stone, though; they were subject to the court’s discretion, thus resulting in tremendous uncertainty in determining one’s possible recovery (or exposure in the case of defendants).

In his 1961 recommendations to Congress for a new Act, the Register of Copyrights concluded that the schedule of statutory damage awards in section 101(b) “has not proved to be a very useful guide, because the amounts are arbitrary and the number of copies or performances is only one of many factors to be considered in assessing damages. In most cases the courts have not applied the mathematical formula of the schedule, and in a few cases where this has been done the results are questionable.” The Register also expressed concern about the operation of section 101(b) on innocent infringers, over multiple infringements, and over awards against defendants who infringed after receiving notice from the copyright owner. The Register not surprisingly called for a thorough overhaul of statutory damages with these two recommendations:

- (1) Where an award of actual damages or profits would be less than \$250, the court shall award instead, as statutory damages *for all infringements* for which the defendant is liable, a sum of not less than \$250 nor more than \$10,000, as it deems just.<sup>2</sup> However, if the defendant

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<sup>2</sup> Since the 1976 Act, the upper limit has been increased to \$150,000. 17 U.S.C. § 504(c)(2). Section 504(c) dwarfs other federal statutory damage provisions. *See, e.g.*, 15 U.S.C. § 1681n(a)(1)(A) (penalty for violation of Fair Credit Reporting Act is actual damages or between \$100 and \$1,000).

proves that he did not know and had no reason to suspect that he was infringing, the court may, in its discretion, withhold statutory damages or award less than \$250.

- (2) Where an award of actual damages or profits would exceed \$250 but would be less than the court deems just, the court in its discretion may award instead, as statutory damages **for all infringements** for which the defendant is liable, any higher sum not exceeding \$10,000.<sup>3</sup>

Significantly, the Register recommended abandoning the 1909 Act's approach of basing statutory damages on the number of infringing copies, and proposed instead one award for all infringements for which the defendant was liable. The Register explained the basis for this change: "***The motion picture and broadcasting industries have expressed some concern that statutory damages might be pyramided to an exorbitant total if a court could multiply the statutory minimum by the number of infringements.***"<sup>4</sup> This limitation meant that if defendant made 1000 infringing copies, there was only one award; if defendant infringed 200 works, there was only one award; and if defendant infringed three works by different acts for each work (reproduction, distribution, and performance), there was still just one award.

This proposal was criticized by some elements of the copyright bar. As a result of comments on the report, the statutory damages provision in a draft omnibus bill circulated by the Register in 1963 took a different approach. Under new section 38, the copyright owner who had registered his work prior to infringement would receive the larger of actual damages or statutory damages of not less than \$250 or more than \$10,000 "for all infringements of a single work for which the infringer is liable." Thus, the copyright owner could receive a separate award for each work infringed. However, a single work was defined as "***including all of the material appearing in any one edition or volume or version of a work used by the infringer.***"<sup>5</sup>

The 1963 preliminary draft bill thus softened (but did not eliminate) the 1961 report's recommendation on how to deal with the specter of multiple awards against the same defendant. In the view of some, the 1961 report had gone too far in favoring the defendant. Under that report's recommendation, a defendant had every incentive to infringe as many works as possible since there would be only one award for "all infringements for which the defendant is liable." The 1963 preliminary draft bill, by contrast, permitted separate awards for each "single work" infringed, but defined a "single work" so that a defendant who infringed an anthology of 500 poems would be liable for only one award. Different copyright owners whose works were infringed in a "single work" would have to share the single award.

In discussions on the draft at the Copyright Office with members of the copyright bar and industries, the issue of the single-work limitation was raised. In a revealing explanation of how the limitation would work in practice, Copyright Office General Counsel Abe Goldman addressed the concern expressed by an in-house counsel at ABC that if a plaintiff alleged a motion picture infringed five different versions of a work, five awards would be required, even

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<sup>3</sup> Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 107 (House Comm. Print 1961) (emphases supplied).

<sup>4</sup> *Id.* at 104 (emphasis supplied).

<sup>5</sup> Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft 29 (emphasis supplied).

though all the material was copied from a single work. The position of the Copyright Office was as follows:

GOLDMAN. Won't you find all of this material in one version? Did the infringer pick some from this version and some from that version?

OLSSON. I write the poem, and then I revise it somewhat, and I do this five times. This is done with motion pictures occasionally, where you find the same stock footage, let's say, in five different pictures. Each one is copyrighted. What was infringed by the infringer is the stock footage. The plaintiff comes in and says, "Ah, you owe me \$1,250 [ $\$250 \times 5$ ] as a minimum under th[e] statute."

GOLDMAN. But under this definition you could point to one film and say that everything you copied is in this one film.

OLSSON. But wouldn't the plaintiff dispute that, Abe? He might say, "No, in my belief you copied them all. You took something from each copyright." A "single work" is work A, and another "single work" is Work B...

GOLDMAN. I think this definition says, Harry, that if the infringer can show that everything he copied was all in one film, that constitutes an infringement of a single work.

OLSSON. I see. The other works would not be infringed in your view, Abe?

GOLDMAN. That is my understanding of what this definition would mean in that case.<sup>6</sup>

Moments later, Barbara Ringer, who became Register of Copyrights in 1973, explained the basis for the one work rule:

I think we are all conscious that we not only have multiple new versions of, for example, textbooks and trade catalog, but we also have works, such as loose-leaf material, that contain a notice on every page. In that case someone might argue that the material consists of a thousand separate copyrighted works which are subject to separate registrations. I think that most of us are also aware that the courts have struggled mightily with this rather common problem, and have not really come up with a satisfactory result. I think that the concept that we are striving for – a single work – means something more than a single unit that can be registered separately....<sup>7</sup>

Thus, Barbara Ringer clearly had compilations, and not just derivative works, in mind when contemplating the one work rule. Moreover, she had very large compilations in mind, as indicated by the example of a loose-leaf binder containing 1,000 works.

In the same meeting, Copyright Office General Counsel Goldman responded to claims that the statutory damage limit of \$10,000 placed a ceiling on a plaintiff's recovery.

[I]t is not true that \$10,000 represents the maximum amount recoverable. Ten thousand dollars is the maximum amount that the court will award as statutory damages in given situations where there is no proof of actual damages in a higher amount and no proof of infringer's profits in a higher amount.

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<sup>6</sup> Copyright Law Revision Part 4: Further Discussions and Comments on the Preliminary Draft for Revised U.S. Copyright Law 139-40 (House Comm. Print 1964).

<sup>7</sup> *Id.* at 158.

Statutory damages are awarded by the court in lieu of, and in the absence of proof of, actual damages in a greater amount or profits in a greater amount. If actual damages were shown to amount to \$100,000 the court could, and under the law should, award \$100,000; if the infringer's profits attributable to the infringement are \$100,000, the court could and should award \$100,000. *Statutory damages are what a court can award in the absence of any shred of proof whatever that there has been any actual damage or that there have been any profits.*<sup>8</sup>

Mr. Goldman added that the Office proposed doubling the maximum of statutory damages from \$5,000 to \$10,000 to give courts more leeway in cases of multiple infringements: "We are now saying that this maximum will apply to multiple infringements *in toto*, and for this reason also the amount is raised to take care of multiple infringements." Mr. Goldman then stated, "I want to stress that again: that statutory damages are awarded in the absence of proof of damages of an equivalent amount and in the absence of proof of the infringer's profits of an equivalent amount."<sup>9</sup>

The first revision bills were introduced in Congress in 1964. While the 1964 version continued the 1963 limitation of a single award to "all the infringements of one work for which the infringer is liable," the 1963 version's definition of "single work" as "all of the material appearing in any one edition or volume or version of a work used by the infringer" was changed to read "all the parts of a compilation or derivative work constitute one work." This new wording eliminated the ambiguities in the earlier definition identified at the Copyright Office meeting, and made sure that multiple damages would not be available in the compilation hypothetical posed by Barbara Ringer.

In meetings with the Copyright Office on the bill, the issue of awards for multiple infringements was raised. Copyright Office General Counsel Abe Goldman stated:

The thought here was to avoid the award by a court of a tremendous amount of multiplying \$250 times some supposed number of infringements by one person. .... If you have more than one work involved, I think the answer is also spelled out here. It says, "infringements of any one work" and you will find at the end of that section a sentence which relates to the "one work" reference: "For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work." This means, for example, that if somebody infringes by taking ten different cuts out of an advertising catalog, he's committed one infringement and not ten. This question has come up, as I think you know, in a number of cases.<sup>10</sup>

With the expiration of the 88th Congress and no action on a revision bill, new bills were introduced in the first session of the 89th Congress. Accompanying those bills was the promised supplementary report by the Register of Copyrights explaining the 1965 bills. The 1965 bills retained the single award per infringed work formulation, as well as the one work rule: "For the

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<sup>8</sup> *Id.* at 157 (emphasis supplied).

<sup>9</sup> *Id.* at 158.

<sup>10</sup> Copyright Law Revision Part 5: 1964 Revision Bill with Discussions and Comments 203 (House Comm. Print 1965). Once again, the Copyright Office was focused on compilations as well as derivative works.

purposes of this subsection, all the parts of a compilation or derivative work constitute one work.”

In explaining the operation of the proposed statutory damages provision with respect to multiple infringements, the Register of Copyrights stated:

In an action under the bill involving more than one infringement—whether the infringements are separate, isolated, or occur in a related series—a single award of statutory damages in the \$250–\$10,000 range could be made under the following circumstances:

(1) Where the infringements are all of “any one work.” This marks a change from the 1961 Report’s recommendations, which would have provided a single recovery of statutory damages for all infringements for which the infringer is liable. Under the bill, where separate works are involved, separate awards of statutory damages could be made. However, the bill makes clear that, although they may constitute separate works for other purposes, “[f]or the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.” Note that the criterion here is the number of distinct “works” infringed, and not the number of copyrights, exclusive rights, owners, or registrations involved.<sup>11</sup>

The relevant language did not change after this. In a description of the future section 504(c) in a 1966 committee report on H.R. 4347, a predecessor bill to the 1976 Act, the House Judiciary Committee noted that

Where the suit involves infringement of more than one separate and independent work, minimum statutory damages for each work must be awarded. For example, if one defendant has infringed three copyrighted works, the copyright owner is entitled to statutory damages of at least \$750 and may be awarded up to \$30,000. Subsection (c)(1) makes clear, however, that, although they are regarded as independent works for other purposes, “all the parts of a compilation or derivative work constitute one work” for this purpose. Moreover, although the minimum and maximum amounts are to be multiplied where multiple “works” are involved in the suit, the same is not true with respect to multiple copyrights, multiple owners, multiple exclusive rights, or multiple registrations. This point is especially important since, under a scheme of divisible copyright, it is possible to have the rights of a number of owners of separate “copyrights” in a single “work” infringed by one act of a defendant.<sup>12</sup>

The committee report accompanying the 1976 Act, 10 years later, reproduces this paragraph exactly. Congress, the Copyright Office, the parties worked out a compromise, well aware of all the ramifications, and embodied that compromise in statutory and report language in

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<sup>11</sup> Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill 136 (House Comm. Print 1965).

<sup>12</sup> Compare H.R. Rep. No. 2237, 89<sup>th</sup> Cong., 2d Sess., at 158 (1966) with H.R. Rep. No. 1476, 94<sup>th</sup> Cong., 2d Sess., at 162 (1976). In addition to illustrating the consensus, this indicates that early on, Congress appreciated the implications of compilations and the possibility for the divisibility of rights in the context of statutory damages.

1966. If the compromise had been thought unfair, parties might have been expected to seek a revision in the 10 intervening years, but the 1976 report copies the 1966 report here verbatim.

In short, the limitation on statutory damages for elements of compilations and derivative works reflected dissatisfaction with the 1909 Act, and a compromise of competing views of how damages should work under the 1976 Act. Section 504(c)(1) as enacted balanced the Copyright Office's initial proposal of one award for all infringements with some owners' preference for one award for each work infringed. By allowing one award for each work, but then defining compilations and derivative works as a single work, the provision discouraged infringements of multiple works while ensuring that statutory damages would not be "pyramided to an exorbitant total." It was "intelligently designed" to provide courts with broad discretion of a range of damages from \$100 to \$50,000; defendants with a degree of certainty concerning the limit of their exposure; and copyright owners with the option of pursuing actual damages if statutory damages did not adequately compensate them for their injury.

## 2. Judicial Interpretation of the One Work Rule

By copyright law standards, the judicial interpretations of the one work rule have been relatively uniform. When the work infringed is clearly a compilation distributed by the plaintiff, courts have limited recovery to one award of statutory damages. Thus, courts routinely have granted record labels only one award for a CD where the label owns the copyright in the compilation as well as the individual tracks. *See, e.g., UMG Recordings, Inc. v. MP3.com, Inc.*, 109 F. Supp. 2d 223 (S.D.N.Y. 2000); *Country Roads Music, Inc. v. MP3.com*, 279 F. Supp. 2d 325 (S.D.N.Y. 2003); *Arista Records, Inc. v. Flea Records, Inc.*, 2006 U.S. Dist. LEXIS 14988 (D.N.J. March 31, 2006); *Arista Records, Inc. v. Launch Media, Inc.*, 01-cv-4450 (S.D.N.Y. April 25, 2007). Courts have also reached this conclusion in cases involving compilations of clip-art images, *Xoom, Inc. v. Imageline, Inc.*, 323 F. 3d 279 (4th Cir. 2003); photographs of commercial real estate hosted on a website, *CoStar Group, Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688 (D. Md. 2001), *aff'd*, 373 F.3d 544 (4th Cir. 2004); a book of photographs of plant seedlings, *Stokes Seeds Ltd. v. Geo. W. Park Seed Co.*, 783 F. Supp. 104 (W.D.N.Y. 1991); and the music, libretto, and vocal score of a rock opera, *Robert Stigwood Group Ltd. v. O'Reilly*, 530 F.2d 1096 (2d Cir. 1976), *cert. denied*, 429 U.S. 848 (1976).

Conversely, where the defendant assembled a compilation of works separately distributed by the plaintiff, courts have not permitted the defendant to take advantage of the one work rule. In *Twin Peaks Productions, Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366 (2d Cir. 1993), the defendant compiled separately episodes of the television show 'Twin Peaks' onto a videotape. Because the compilation was assembled by the defendant, not the plaintiff, the court concluded that the one award rule did not apply. The court also rejected the defendant's argument that the separate episodes still constituted one work because plot lines carried over from one episode to the next. The Second Circuit likewise refused to apply the one work rule in *WB Music Corp. v. RTV Communication Group, Inc.*, 445 F.3d 538 (2d Cir. 2006), where the defendant created a CD based on tracks separately distributed by the plaintiff.<sup>13</sup>

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<sup>13</sup> At the January 25 meeting, the applicability of the one work rule to a compilation assembled by the defendant seemed to be the proponents' most serious concern with the rule as currently drafted. These two circuit court decisions should completely dispel this concern.



To be sure, in some cases courts have had to wrestle with the determination of whether the plaintiff's product constituted a compilation. In *Gamma Audio & Video v. Ean-Chea*, 11 F.3d 1106 (1st Cir. 1993), for example, the plaintiff distributed to video stores only complete sets of a 24 episode television series. The court nonetheless did not apply the one work rule because viewers could rent each episode separately from the video store. In other words, within the set of 24 episodes, each episode was separately packaged. Similarly, courts have considered whether to treat bundled training materials as compilations. See, e.g., *Kepner-Tregoe, Inc. v. Carabio*, 1979 WL 10721, 1979 U.S. Dist. LEXIS 12910 (E.D. Mich. 1979); *Cormack v. Sunshine Food Stores, Inc.*, 675 F. Supp. 374 (E.D. Mich. 1987).<sup>14</sup>

There have been a handful of cases outside of this mainstream. In *Playboy Enterprises, Inc. v. Sanfilippo*, 1998 WL 207856, 1998 U.S. Dist. LEXIS 5125 (S.D. Cal. 1998), Playboy conceded that each infringed photograph was copied from a compilation – a Playboy magazine. Nonetheless, the court awarded separate statutory damages for each photograph on the basis that each photograph could be separately licensed and “each image represents a singular and copyrightable effort concerning a particular model, photographer, and location.” In contrast, the court in *Greenberg v. National Geographic Society* ruled that a photographer could collect only four awards of statutory damages for 64 photographs that appeared in four different issues. The court found that each issue of the magazine was a compilation, and that only one award of statutory damages could be granted per issue, even though each issue contained several different photographs created by the photographer.<sup>15</sup>

The court in *TeeVee Toons, Inc. v. MP3.com, Inc.*, 134 F. Supp. 2d 546 (S.D.N.Y. 2001), suggested that while a copyright owner could receive only one award for all of his works in a compilation, if the compilation included works from several copyright owners, each copyright owner could recover his own award of statutory damages. Under this analysis, if ten different poets contributed ten different poems to an anthology, each of the ten poets could recover statutory damages.

While the *Nimmer* treatise supports this interpretation, it acknowledges that it “is in literal conflict with the statutory text.” See *Nimmer on Copyright* 14.04[E][1], 14-91.1-14.91.2. This interpretation also directly conflicts with the legislative history. In the discussion of the 1963 draft bill, where the first variation of the one work rule appeared, one of the interested parties argued against it on the basis that the one award might have be shared by different authors:

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<sup>14</sup> It appears that some courts, in determining whether a work is a compilation, have placed undue weight on how the copyright owner registered the work, rather the consider whether the work meets the statutory definition of “compilation” under section 101. 17 U.S.C. § 101. This error could be eliminated by the Copyright Office, in its report to Congress on Section 104, stressing that courts should look beyond the description of the work in the registration in determining whether the work is a compilation.

<sup>15</sup> Unpublished order, No. 97-3924, (S.D. Fla. Feb. 18, 2003). *Greenberg* is also significant because it contradicts content industry representations made at the January 25 meeting. Content industry representatives claimed that references to the maximum statutory amount (\$150,000) were misleading since a plaintiff has never been awarded such sums. Yet in *Greenberg*, the jury awarded the maximum amount (then, \$100,000) on each issue infringed. *Greenberg v. Nat'l Geographic Soc'y*, 488 F.3d 1331, 1334 & n.3 (11th Cir. 2007) (noting award). See also *Superior Form Builders v. Dan Chase Taxidermy Supply Co.*, 74 F.3d 488 (4th Cir. 1996) (affirming multiple awards by jury of maximum amount).

Let us take an anthology which consists of twelve short stories as an example. Suppose the infringer copies all twelve, or nine, or eight of the stories. The anthology obviously is a “single work” as defined by the language appearing in the footnote. All of the infringements in that edition would consist of the copying of the nine, or the twelve, or whatever number of individual works, *most likely by different creators*, that have been incorporated in the one anthology. Therefore the \$10,000 amount hardly appears impressive.<sup>16</sup>

Thus, at the time the one work rule was drafted, it was understood to apply to different works by different authors. Nonetheless, what appears to be the only court to have considered the issue came to a different conclusion.

### 3. The One Work Rule in Practice

(a) *Proponents of weakening the one work rule rely on hypothetical scenarios.* At the January 25 meeting, in response to questions from Associate Register Carson, the proponents of Section 104 were unable to produce one example where the one work rule produced an unjust result, or where a “crafty defendant” made the decision to infringe based upon the highly limited protections of Section 504(c)(1). Further, again in response to a question from Mr. Carson, the proponents were unable to provide one instance of where the one work rule caused a copyright owner to withhold a compilation from the market. Indeed, representatives of the film industry and recording artists stressed that the number of compilations distributed to the public have increased in recent years in response to consumer demand. For example, many television series are made available on DVDs, and DVDs of motion pictures are bundled with many other works, e.g., trailers, interviews with the director, short films on the making of the movie, and so forth. The fact that the number and variety of compilations has increased dramatically in the 30 years since the one work rule took effect is convincing evidence that it does not deter the creation of compilations, and thus does not require amendment.<sup>17</sup>

(b) *There is no evidence to support weakening the one work rule.* The one work rule also has not had a detrimental impact on the broader copyright industry. A representative of Corbis stated that the one work rule never came into play in over 2000 infringement matters Corbis pursued last year, including one case that involved over 600 different images. The Magazine Publishers of America have not felt disadvantaged by the one work rule. And many copyright

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<sup>16</sup> Copyright Law Revision Part 4, *supra* note 6, at 138 (emphasis supplied).

<sup>17</sup> At the January 25 meeting, a recording industry representative repeatedly complained of the alleged asymmetry that statutory damages may (hypothetically) vary depending on whether a track is released as a single or on a CD. The answer to this objection, however, is that the law treats the award as the plaintiff has treated the work. Courts presently have ample discretion in the current range to account for infringement of compilations. Judges and juries can and do consider whether there is one work or three at issue even when the award is limited to a single award due to publication in a compilation. For example, Judge Rakoff awarded the equivalent of around \$2500 per track (assuming an average of 10 tracks per CD), whereas Jammie Thomas, the Minnesota file-sharing defendant, was ordered to pay \$9,250 per track, totaling nearly a quarter million dollars, when such songs sell for 99 cents on iTunes. Both MP3.com and Jammie Thomas could have been assessed greater penalties. Judge Rakoff, for example, could have awarded the equivalent of \$15,000 per track (6 times more than he did), but chose not to. Similarly, in *Greenberg v. National Geographic*, discussed *infra*, the court’s award of the full \$100,000 per compilation naturally reflected the fact that each issue contained multiple photographs.

industry groups, including the Business Software Alliance, the Software and Information Industry Association, and the Association of American Publishers, chose not to participate in the meeting. The broader copyright industry appears largely supportive of the status quo.

Even under the one work rule, copyright owners have recovered, or were eligible to recover, substantial awards. In *UMG v. MP3.com*, even after application of the one work rule, the plaintiff still could have received approximately \$118 million in statutory damages (4,700 CDs at \$25,000 per CD). Ultimately, the defendant settled the case for \$53.4 million in damages, even though the plaintiff never introduced any evidence of actual harm, and defendant offered evidence that the MP3.com service actually increased the plaintiff's revenues. See *UMG Recordings, Inc. v. MP3.com, Inc.*, 2000 U.S. Dist. LEXIS 13293 (S.D.N.Y. Sept. 6, 2000) and 2000 U.S. Dist. LEXIS 17907 (Nov. 14, 2000).

In *Arista Records v. Launch Media* (01-CV-4450 [RO] S.D.N.Y.), under the one work rule, the plaintiff could have collected statutory damages of in excess of \$100 million had the court found infringement liability. Had the court not employed the one work rule, Launch Media's possible statutory damages, based on the number of works allegedly infringed, would have exceeded \$1.5 billion. However, the introduced evidence showed actual damages in the range of \$105,474 on the high end to as little as \$7,303 on the low end.

(c) *Despite the one work rule, existing law tilts drastically toward copyright plaintiffs.* Even though the one work rule prevents the "pyramiding" of awards, the existing statutory damages framework tilts sharply in favor of the plaintiff. First, the plaintiff can make the election between actual and statutory damages "at any time before final judgment is rendered." This means that the plaintiff can submit to the judge or jury a request for a damages award under both theories, and then select whichever proves larger. This means that the plaintiff can never receive less than the actual damages he can prove. It also means that even in a case with minimal actual damages, he can continue to demand statutory damages of \$150,000 per worked infringed until the time the judge or jury returns with a verdict. This gives the plaintiff enormous leverage in settlement discussion, particularly in cases involving large numbers of works, as cases involving digital technology typically do.

Second, in many cases, the underlying question of copyright liability (or secondary liability) is extremely complex. For example, the case *Arista Records v. Launch Media*, *supra*, concerns whether the Launch service is non-interactive and therefore eligible for a statutory license under 17 U.S.C. § 114. In *Greenberg v. National Geographic Society*, *supra*, the court considered whether National Geographic's digitization of its magazines constitutes a privileged "revision of a collective work" under 17 U.S.C. § 201(c). The scope of the 201(c) privilege was the subject of a recent U.S. Supreme Court decision, *New York Times v. Tasini*, 533 U.S. 483 (2001), and lower courts still wrestle with how the Court's holding applies to various fact patterns, including National Geographic's. In *UMG v. MP3.com*, *supra*, the defendant raised a fair use defense, perhaps one of the most unpredictable legal doctrines. The complexity of the legal question means that the outcome is highly uncertain. This uncertainty increases the plaintiff's leverage in settlement negotiations.

Third, the uncertainty with respect to direct liability is magnified by the uncertainty with respect to secondary liability. The Copyright Act does not set forth standards for secondary liability; they are entirely judge-made. And although the Supreme Court considered contributory

infringement recently in *MGM v. Grokster*, 545 U.S. 913 (2005), lower courts are having difficulty applying its teachings in a consistent manner. The Ninth Circuit interpreted *Grokster* one way in *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007) and in a different way in *Perfect 10, Inc. v. VISA*, 494 F.3d 788 (9th Cir. 2007). As a result, providers of services in the digital environment have difficulty predicting their liability for the infringing conduct of potentially large numbers of users with respect to large numbers of works. This, too, leads to settlement on terms favorable to the plaintiff.

Fourth, even though district court decisions concerning direct and secondary copyright infringement are frequently reversed on appeal, a case with a large statutory damage award might never make it to the circuit court. The Federal Rules of Civil and Appellate Procedure require a losing defendant to post a bond before he can appeal the decision. *See* Fed. R. Civ. P. 62(d); Fed. R. App. P. 8(b). The larger award, the larger the bond, and thus the more difficult it is for the defendant to secure one. In *UMG v. MP3.com*, for example, the defendant could not secure a bond, and thus could not appeal the district court's rejection of its fair use defense to the Second Circuit.<sup>18</sup> This truncates the development of case law elucidating the statute, thereby perpetuating the risk to innovators.

#### **4. The One Work Rule and the Internet**

Section 504 provides courts with broad discretion on the amount of statutory damages to award – from \$200 to \$150,000 per work infringed. Against that background of broad discretion, the legislative history of the one award rule demonstrates that Congress sought to limit the discretion and prevent draconian remedies when multiple works are bundled together by treating the bundle as a single work and capping damages at \$150,000. Stated differently, existing law already gives courts the ability to award more statutory damages when one work includes other works.

It has been suggested that in the Internet world there might be compilations so large that even \$150,000 is insufficient to compensate for infringement of all the individual works, *e.g.*, a website containing many copyrighted works. Notwithstanding the availability of actual damages, Congress addressed this concern with the Digital Millennium Copyright Act (DMCA). Congress expected copyright owners to employ technological measures to protect economically valuable content on the Internet, and prohibited the circumvention of those measures. Significantly, under 17 U.S.C. § 1203(c)(3)(A), each act the circumvention is subject to up to \$2,500 in statutory damages. With existing inexpensive digital rights management technologies, a copyright owner can protect each work individually. Thus, infringement of 1000 photographs on a website may result in 1000 discrete acts of circumvention, each subject to \$2,500 of statutory damages.

Moreover, if the copyright owner places a watermark on each photograph, the removal of the watermark may subject the infringer to another \$25,000 per photograph. Section

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<sup>18</sup> The effect of huge district court judgments also can cripple a company's stock price and access to commercial paper and venture capital, such that business necessity may dictate immediate settlements of frivolous claims, notwithstanding meritorious defenses. The district court order in *MP3.com* caused that company's stock to plummet by a third overnight. Michelle Delio & Brad King, *MP3.com Must Pay the Piper*, *Wired News*, Sept. 6, 2000, at <<http://www.wired.com/techbiz/media/news/2000/09/38613>>.

1203(c)(3)(B) of the DMCA allows the copyright owner to recover statutory damages of \$25,000 for each act of removal or alteration of “copyright management information”, which would include a section 1202(c)-conforming watermark.

Thus, the DMCA provides up to \$27,500 in statutory damages for each individual work, without the limitation of the one work rule. Of course, this \$27,500 is in addition to the actual or statutory damages that the copyright owner could recover under section 504.

It has also been suggested that online content delivery systems such as iTunes would be subject to the one award rule. iTunes and similar systems are not “compilations” within the meaning of 17 U.S.C. § 101 and thus would not be subject to the one work rule.

Under section 101, a compilation “is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship.” While a list of tracks available on iTunes likely is a compilation, the tracks themselves stored on Apple’s servers are not “assembled” into a “work.” They are individual files stored on servers around the world. These tracks are no more a compilation than all books in a bookstore or the CDs in a record store.

This analysis applies to many other websites. Simply because many works are downloadable through a particular website does not mean that all those individual works are assembled into a work.

## **5. Adverse Impact of Section 104**

At the January 25, 2008 meeting, supporters of the amendment provided no evidence that weakening the one work rule would deter infringement by end users or commercial “pirates.” At the same time, opponents specifically described the harm Section 104 would cause:

*(a) Incentivizing Copyright Trolls.* The existing statutory damages framework in the Copyright Act already provides extraordinary remedies for rightsholders by permitting them to claim damages without requiring any evidence of financial harm. This framework has created a litigious environment where plaintiffs already seek damages that can exceed \$1 billion. Weakening one of the few protections for defendants in this plaintiffs’ paradise will result in claimed damages that are orders of magnitude greater than current figures. The ability to assert significantly larger damage claims will incentivize frivolous lawsuits by “copyright trolls” hoping that the threat of a potentially ruinous judgment—no matter how unlikely—will result in easy settlements.<sup>19</sup>

*(b) Stifling Innovation.* In an increasingly decentralized and mobile digital media environment, the already uncertain nature of copyright law requires careful consideration by technology companies of the potential for lawsuits when introducing any new product that can be

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<sup>19</sup> One photographer argues that the existing statutory damages framework provides lucrative business opportunities for photographers. See Dan Heller, *Making Money From Your Stolen Images*, <http://danheller.blogspot.com/2007/06/making-money-from-your-stolen-images.html> (characterizing the possibility of statutory damages as a “statutory windfall”, and a “Vegas-style slot machine” and stating that “a little copyright infringement can actually do your business good”).

used by some for unlawful copying and distribution. The proposed change, if enacted, would result in entities that already face the possibility of litigation from copyright trolls having to rethink the use or deployment of any new technology or service that could be used to engage in infringing activities by third parties.

*(c) Creating Unprecedented Risk for Licensees of Technologies Powered by Software.*

Computer programs routinely contain hundreds of modules. Under the proposed amendment, an aggressive litigant could argue that each module merits a separate statutory damage award. This concern is compounded in an increasingly open source software environment, where there may be many different collaborators over time to a program. Because licensees may be unable or unwilling to obtain meaningful indemnifications from every upstream contributor to a particular product, the proposed change will decrease companies' willingness to outsource software solutions or use open source software.

*(d) Chilling Lawful Uses.* When an artist, scholar, or documentary film producer performs a fair use analysis to determine whether a proposed use is permitted under section 107 of the Copyright Act, the user must at the same time assess the potential damages if his analysis is incorrect. Since the precise boundaries of fair use are uncertain, and statutory damages can reach large sums if a new work includes pieces of many preexisting works, the existing statutory damages framework already dampens fair uses. Authors often decide that the risk of statutory damages is simply too great, and either pay exorbitant license fees or forego the use altogether.

The proposed amendment will make this bad situation even worse. A director creating a documentary about California's Sixties "surf music" scene might already be anxious about including three short excerpts from a Beach Boys album to illustrate characteristics of the genre. The changes proposed in Section 104 would increase her potential exposure from \$150,000 to \$450,000. Likewise, a reviewer of a book of poetry might want to include a few lines from five different poems to demonstrate his assessment. The proposed amendment would increase his exposure from \$150,000 to \$750,000. Even though a court is unlikely to award damages of this scale, the possibility of such large damages will deter some authors from making fair uses. And it will lead other authors who make such uses settle on terms more favorable to the plaintiff in the event litigation ensues.

*(e) Exacerbating the Orphan Works Situation.* In the 109<sup>th</sup> Congress, the House IP subcommittee recognized that the availability of statutory damages inhibited a wide range of socially beneficial uses of orphan works – works whose copyright owners could not be identified or located. Accordingly, the subcommittee favorably reported the Orphan Works Act of 2006, H.R. 5439, which would eliminate the remedy of statutory damages if the user performed a reasonably diligent search for the owner prior to the use. Unfortunately, Congress did not enact H.R. 5439. Section 104 would worsen the orphan works situation with respect to compilations and derivative works. By greatly increasing the amount of statutory damages plaintiffs could recover for infringements of compilations and derivative works, Section 104 will make libraries and their patrons even more reluctant to use orphan works of this sort. For example, under Section 104, a library that places on its website a 1945 compilation of 100 letters from a World War II G.I. to his loved ones could face statutory damages of \$15,000,000.

At the January 25 meeting, proponents of Section 104 argued that judges should have the discretion to determine whether each work in a compilation has independent economic value,

and therefore should receive its own award of statutory damages. This contention overlooks that courts already have discretion to award between \$200 and \$150,000 per compilation. Thus, courts presently have the ability to adjust the award if the components have economic value. Additionally, the plaintiff can always seek actual damages. If the plaintiff cannot show actual damages that exceed \$150,000, there is no justification for him to recover more than a \$150,000 for the infringement of a single compilation.

The “discretion” contention also ignores the real world context in which infringement litigation takes place. As discussed above, the existing framework already tilts sharply in favor of the plaintiff, and encourages defendants to settle on unfavorable terms rather than vindicate their rights. Section 104 will significantly exacerbate this situation.

To be sure, the one work rule in certain hypothetical cases can lead to apparently arbitrary results. But the Copyright Office forty years ago made a carefully considered judgment that the danger of stacking statutory awards was greater than the danger of under-compensation, particularly given that the plaintiff could always elect to recover actual damages. This judgment has stood the test of time; the proponents of Section 104 failed to provide a single instance where the one work rule denied an adequate recovery, discouraged the lawful distribution of a compilation, or induced infringement. At the same time, opponents of Section 104 have demonstrated numerous, *non-hypothetical* cases where *current* law leads to arbitrary and unjust results. These cases caution strongly against further inflating statutory damages.

In sum, Congress should not amend the one work rule. A narrow, “clarifying” amendment will disrupt a stable body of case law as courts struggle to interpret the meaning of the new language. A more sweeping amendment will not only tilt the already slanted copyright litigation field further in favor plaintiffs; it will lead to a trial nightmare as plaintiffs attempt to prove that each component of a compilation and each change to an existing work has “independent economic value.”

## **PART B. THE ONE WORK RULE CANNOT BE CONSIDERED IN ISOLATION**

### **1. Willful and Innocent Infringement**

The development of the one work rule did not occur in a vacuum. The Copyright Office simultaneously considered the treatment of willful and innocent infringers. The 1909 Act allowed for enhanced statutory damages for infringement that occurred after the infringer received notice from the copyright owner concerning the infringement. It did not, however, provide any relief for innocent infringers.

The Register’s 1961 Report proposed statutory damages ranging from \$250 to \$10,000, without an enhancement for willful infringement. Additionally, the Register recommending granting courts the discretion to reduce or eliminate statutory damages altogether in cases of innocent infringement. The 1976 Act ultimately moved significantly in favor of copyright owners. While the basic range of \$250 to \$10,000 remained the same, the 1976 Act allowed up to \$50,000 in cases of willful infringement. Moreover, the court could reduce statutory damages for innocent infringers only to \$100. The court had the ability to withhold the award of statutory

damages only with respect to innocent infringements by libraries, educational institutions, and public broadcasters in limited situations.

Congress has repeatedly increased the minimum and maximum levels of statutory damages. In the 1988 Berne Convention Implementation Act, Congress increased the minimum award from \$250 to \$500; the maximum from \$10,000 to \$20,000; the enhancement for willful infringement from \$50,000 to \$100,000; and the floor for innocent infringement from \$100 to \$200. Then, in the 1999 Digital Theft Deterrence and Copyright Damages Improvement Act, Congress increased the minimum award from \$500 to \$750; the maximum from \$20,000 to \$30,000; and the enhancement for willful infringement from \$100,000 to \$150,000. The floor for innocent infringement remained at \$200.

In the 103<sup>rd</sup> Congress, the House passed H.R. 897, which would have lowered the floor for statutory damages in cases of innocent infringement from \$200 to zero. This legislation died in the Senate. As Congress reviews the one work rule, it should also consider reducing the minimum for innocent infringement to zero, as was proposed in H.R. 897. In his 1961 Report, the Register explained that “certain users of copyright materials – broadcasters, periodical publishers, motion picture exhibitors, etc.” had argued that a “minimum of \$250 can bear too heavily on innocent infringers.” He observed that “[t]he only purpose of awarding damages for an innocent infringement is to compensate the copyright owner. The other purpose of statutory damages – to deter infringement – is not present as to infringements committed innocently.” If the copyright owners cannot show actual damages, there is no logical reason for assessing statutory damages against an innocent infringer.<sup>20</sup>

## 2. Secondary Infringement

When constructing the statutory damages framework of the 1976 Act, the Copyright Office considered the one work rule, willful infringement, and innocent infringement extensively, as discussed above. In contrast, it does not appear that the Office considered statutory damages in the event of secondary infringement. This is not surprising given that the 1976 Act does not address secondary infringement. In contrast to the 1952 Patent Act, which codified judge-made principles of secondary patent infringement, the 1976 Copyright Act left the entire issue of secondary copyright liability to the courts.

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<sup>20</sup> Without question, the innocent infringer provision for libraries, educational institutions, and public broadcasters needs to be updated to reflect the digital era. The current provision allowing the remission of all statutory damages applies only under very limited situations when one of these entities had a reasonable belief that its use was permitted under section 107. This narrow safe harbor unduly constrains these entities from fully serving the public in the digital environment. The remission provision should apply whenever the entity had a reasonable belief that *any* type of use of *any* type of work was non-infringing. Currently, the provision applies to libraries and educational institutions just with respect to their infringement of the reproduction right. The provision applies even more narrowly to public broadcasters; they are shielded only with respect to performances of published nondramatic literary works or reproductions of a transmission program embodying a performance of such a work. However, use of digital technology implicates all of the exclusive rights under 17 U.S.C. § 106 with respect to all kinds of works. For these entities to perform their critical public service missions in the 21st Century, the safe harbor must be amended to apply to innocent infringement by these entities of all exclusive rights with respect to all kinds of works..



Thus far, courts have rarely, if ever, ruled on the applicability of statutory damages to secondary infringement. But plaintiffs frequently raise the specter of statutory damages in secondary infringement cases in an often successful effort to force the alleged infringer in settle. For example, if a company sold 100,000 devices, each of which could hold 1,000 CDs, copyright owners could seek statutory damages of \$150,000,000,000,000 (100,000 devices × 1000 CDs × \$150,000 for willful infringement). The potential damages available in one recent case involving a hand-held device were estimated to exceed \$37 billion.<sup>21</sup> Indeed, because statutory damages can be so large and disproportionate, individual entrepreneurs and consumer electronics and information technology companies are declining to bring new technology to market out of fear that they could be bankrupted by an adverse finding of secondary liability – even in cases in which they believed on the basis of advice of counsel that their new innovative hardware or software products would be found legal if they survived costly litigation with its highly intrusive discovery.

The threat of litigation against technology companies – and the potential for massive statutory damages – is not merely theoretical. Content companies have filed suit against almost every new generation of personal storage technology brought to market, including the VCR, the MP3 player, the home DVR, and the network DVR.

Section 104 makes this bad situation worse. In the example above, it would allow the copyright owners to increase the statutory damages sought by a factor of 10 (assuming 10 tracks per CD) or even a factor of 30 (assuming that each track includes a copyright in the musical composition, a copyright in the lyrics, and a copyright in the sound recording).

Accordingly, any amendment to section 504(c) must include a limitation on damages in secondary infringement cases. Section 2(a) of H.R. 1201 includes such a limitation. Section (2)(a) would limit the availability of statutory damages against individuals and firms who may be found to have engaged in contributory infringement, inducement of infringement, vicarious liability, or other indirect infringement. Under the bill, statutory damages would remain available for conduct that no reasonable person could have believed to be lawful. With this condition in the law, entrepreneurs, consumer electronics and information technology companies would feel more confident in going to court, if necessary, for a fair hearing on the merits, and aggrieved parties could get relief from scofflaws. Of course, actual damages would continue to remain available to a person harmed by secondary infringement.

By limiting the award of statutory damages only to egregious cases of bad-faith conduct, this provision would restore balance and sanity to the damages award process. Content owners would continue to be able to collect actual damages, but could no longer threaten entrepreneurial, law-abiding persons with damages, and hence risk and intimidation, on a scale never intended or even imagined by Congress. Moreover, by establishing an objective test to determine whether statutory damages are appropriate, Congress would make it more difficult for content owners to use the litigation process to engage in judicially sanctioned fishing expeditions and to continue threatening innovation in the United States.

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<sup>21</sup> Fred von Lohmann, *Record Labels Sue XM Radio*, DeepLinks Blog, May 16, 2006, available at <<http://www.eff.org/deeplinks/2006/05/record-labels-sue-xm-radio>>.