A NEW BONANZA FOR PLAINTIFF'S LAWYERS ?
MULTI-MILLION DOLLAR COPYRIGHT LIABILITY IN THE U.S.A.

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§ Introduction

Most American business executives, if asked, would disapprove of copyright infringement; some might add that they have a policy warning employees not to infringe. But a policy may not be enough according to a recent decision affirming almost twenty million dollars in damages against a company whose employees did what a lot of employees in the U.S. do everyday; they faxed, downloaded and forwarded on-line issues of a copyrighted newsletter to which their employer subscribed.

§ The Problem

Contrary to the common assumption that - *if it's on the Internet, it's public domain*, in fact much material on the worldwide web is copyrighted.[1] While some copyright owners freely grant permission to download or forward materials, many licenses severely restrict any such use. Permission to download may not include permission to photocopy; authorization to use within a corporation's headquarters may not include permission to forward to branch offices, much less to customers.

Another common assumption—that a company can rely on the *fair use* doctrine when copying and distributing periodicals for which it has a subscription also is questionable. References in the U.S. Copyright Act[2] to possible *fair use* for teaching, scholarship, comment and research will not reliably provide a safe harbor for commercial users even if the use is characterized as for education or research.

§ The Potential Legal Exposure

A. Liability

Copyright protection under U.S. law vests, automatically in the author of an *original* work (the *originality* standard is quite low) fixed in a tangible medium of expression (e.g., print, software, video, etc.). Infringement can be proved simply by demonstrating *ownership* (a *prima facie* case is made by offering in evidence a Certificate of Registration of the claim of copyright) and *copying* (an unauthorized electronic transmission of a protected work from one computer's memory to another's generally creates an infringing *copy*). Moreover, as discussed below, defenses such as *estoppel,* implied license and *fair use* may not shield an employer, even an employer that instructs its employees never to infringe copyrights. In other words, liability for copyright infringement is often easy to prove.

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[1] As a condition of U.S. membership in the Berne Convention, since March 1, 1989, it has been unnecessary to include a copyright notice on a work; and even items that once were in the public domain may be protected if they are part of an original compilation or have been revised.

[2] 17 U.S.C. 107.

B. Damages

The U.S. Copyright Act provides for recovery of three kinds of damages at the election of the plaintiff—actual damages (e.g., lost licensing revenue); profits attributable to the infringement; or statutory damages (from $750 to $150,000 for each infringed work). Because each infringed work constitutes a separate offense for the purpose of statutory damages liability can skyrocket, e.g., where daily or weekly newsletters are infringed. That is just what happened in *Lowry's Reports, Inc. v. Legg Mason, Inc.*, (hereinafter referred to as *Legg Mason* 1[3] and *Legg Mason* 2[4]). In *Legg Mason* 1, the Court granted summary judgment as to liability for copyright infringement where a financial services firm, which subscribed to the plaintiff's stock market newsletter, faxed and emailed copies to branch offices and the brokerage's research department. The following holdings by the Court deserve attention.

1. Vicarious liability of the employer: The Court rejected the defense that because the copying contravened several memoranda from the defendant's legal and compliance department warning employees not to infringe copyright, the employer could not be liable for vicarious infringement. Noting that *"liability takes no cognizance of a defendant's knowledge or intent"*[5]*,* the Court added, *"The fact that [defendant's] employees infringed [plaintiff's] copyrights in contravention of policy or order bears not on [defendant's] liability, but rather on the amount of statutory and punitive damages and the award of attorney's fees"*[6].

2. Equitable estoppel: To establish an estoppel defense, defendant Legg Mason had to show, among other things, that plaintiff Lowry's, through misrepresentation or concealment, induced Legg Mason to reasonably believe that Lowry's did not intend to enforce its rights. The Court rejected this defense because the plaintiff included a copyright notice on its works, finding that *"the mere affixation of the copyright notice on copies of the work if seen by the Defendant speaks loudly and clearly enough to counter an estoppel…."*[7]

3. Fair use: The defendant did not even argue that its posting and downloading of copies within its office intranet constituted *fair use,* and as the Court observed, *"Nor would such an argument prevail"*. Rather, the defendant contended that limited copying by paper and email within its research department was defensible as *fair use*. The Court, however, summarily rejected the defense, holding that the first, third and fourth factors under 17 USC 107 weighed heavily against the defendant, *"To the extent that the [defendant's] six or more [unauthorized] copies represented additional potential subscriptions, the copying within the research department diminished [plaintiff's] market"*[8].

4. Implied license: The Court easily rejected the implied license defense because *"No rational fact finder could conclude"*[9] that the plaintiff and defendant mutually assented to the defendant's copying.

5. Disgorgement of profits: As mentioned above, a plaintiff can elect to recover, rather than actual or statutory damages, a defendant's profits attributable to an infringement. Significantly, a

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[3] 271 F.Supp.2d 737 (USDC MD 2003).
[4] 302 F.Supp.2d.455 (USDC MD 2004).
[5] 271 F.Supp.2d 737, 746.
[6] 271 F.Supp.2d 737, 746.
[7] 271 F.Supp.2d 737, 747.
[8] 271 F.Supp.2d 737, 749.
[9] 271 F.Supp.2d 737, 750.

plaintiff need only show a defendant's gross revenue; it then falls to the defendant to prove the permissibility of each and every deduction and the elements of profit attributable to factors other than the copyrighted work. Although the Court declined to award a share of Legg Mason's revenue of more than $4 billion, it appears that the Court might have reached a different conclusion had the plaintiff's expert, on deposition, not admitted that *"he could not say whether a causal link connected the infringement to [defendant's] profits"*[10]. On the other hand, the Court concluded, *"although it seems that some of [defendant's] profits 'should' relate to its infringing use … the appearance defies reason. The complex, variable, independent thought processes of hundreds of individual brokers intervene between the copying and any subsequent gain"*[11].

6. Statutory damages: Noting that the Copyright Act authorizes statutory damages of up to $150,000 for each willfully infringed work (*i.e.* for each daily and weekly newsletter), the Court held that the issue of *"willfulness"* was best *"left to the jury"*[12]. In early 2004, following a jury trial on the issue of *willfulness* in *Legg Mason* 2, the Court upheld a jury verdict of $19.7 million. Legg Mason argued that only $59,000 of actual harm was shown, and that accordingly, the verdict was so disproportionate as to violate due process. The Court rejected the argument, noting that substantial deference must be accorded to Congress in exercising its constitutional authority to protect copyrights; and that in 1999, Congress amended the Copyright Act by increasing statutory damages *"in order to provide 'more stringent deterrents' to copyright violations including those involving computer users and Internet activity"*[13]. Observing that Legg Mason's maximum liability for willful infringement was $36 million, the Court concluded:

> *"The jury was not required to believe Legg Mason's assertions that the repeated infringement was due to its oversights and set its damages award accordingly. Further, the evidence indicated that Legg Mason was a sophisticated entity that repeatedly infringed Lowry's copyrights, even when asked to stop. In light of this evidence, the Court will not modify the jury's award or order a new trial because of its size."*[14]

§ So What's An Employer to Do?

The answer will depend upon an employer's research needs and market strategies—upon how and how much it uses newsletters, magazines and other copyrighted works. Therefore, preparing a copyright compliance policy, corporate counsel, with the assistance of personnel from information technology and the corporate library, should identify what kinds of uses are being made of what kinds of copyrighted works. The policy that evolves can then be tailored to a company's needs. For example, a company that relies primarily on a relative handful of scientific journals may want to pursue licenses with the authors covering the uses needed. Of course, the terms of the licenses will need to be explained to employees, coupled with a reminder that the company does not countenance use in violation of the licenses nor other infringement, and that violators will be disciplined. Companies that rely on newsletters and other limited circulation works may be particularly vulnerable to infringement claims, and, therefore, particularly in need of an effective compliance policy. As noted in the U.S. House of Representatives Report accompanying the revision to the 1976 U.S. Copyright Act:

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[10] 271 F.Supp.2d 737, 752.
[11] 271 F.Supp.2d 737, 752.
[12] 271 F.Supp.2d 737, 753.
[13] 302 F.Supp.2d.455, 458.
[14] 302 F.Supp.2d.455, 459.

"It is argued that newsletters are particularly vulnerable to mass photocopying, and that most newsletters have fairly modest circulations. Whether the copying of portions of a newsletter is an act of infringement or a fair use will necessarily turn on the facts of the individual case. However, as a general principle, it seems clear that the scope of the fair use doctrine should be considerably narrower in the case of newsletters than in that of either mass circulation periodicals or scientific journals. The commercial nature of the user is a significant factor in such cases: copying by a profit making user of even a small portion of a newsletter may have a significant impact on the commercial market for the work."[15]

What was true in 1976 for newsletter photocopying could prove to be all the more true today, given the widespread opportunity for infringing use of works on the Internet. Indeed, some of this language from the 1976 House Report was cited by the Court in *Legg Mason* 1 in the course of denying the *fair use* defense for online infringement of a newsletter.

Many companies rely upon a wide variety of copyrighted materials; in those cases, individual licenses for newsletters will not solve the problem of online copying. Nor is a license from the Copyright Clearance Center (CCC) necessarily a complete solution. The CCC can only license rights which it has acquired, and a number of copyrighted works are not available for license through the CCC. *Legg Mason* teaches that a corporate policy requiring copyright compliance may reduce the amount of damages; therefore, adoption of a clear, written corporate policy is recommended. However *Legg Mason* also teaches that such a policy will not insulate a company from millions of dollars in liability if the policy is not followed by employees.

It will not be enough, therefore, to prepare and disseminate a written policy. In order for copyright compliance to take root within an organization, it is recommended that counsel ensure that the policy is thoroughly and repeatedly explained in employee meetings. Participation by senior management and frequent reminders can build a corporate culture of respecting copyright.

Finally, copyright protection is a two-way street. Virtually every business creates copyrightable and often, quite valuable intellectual property in the normal course of its daily operations. Protection of that intellectual property, in particular, protection of the all important remedies of statutory damages and attorney's fees is relatively simple and inexpensive. Indeed, given the ease and low cost of securing effective copyright protection (especially in comparison with the cost of patents and trademarks), companies would be remiss in not inventorying their own copyrightable property in the course of establishing a compliance policy. An additional dividend, in the author's experience, is that companies that protect their own copyrights are much less likely to infringe the rights of others.

[15] H.R. Rep. No. 94-1476 (1976) Page 073.djvu http://en.wikisource.org/wiki/Page:H.R._Rep._No._94-1476_(1976)_Page_ 073.djvu. (Last visited on July 4, 2008).