Legal Backgrounder

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DUE PROCESS LIMITS ON STATUTORY CIVIL DAMAGES?

UNPRECEDENTED RULING IN COPYRIGHT CASE A DOUBLE-EDGED SWORD FOR BUSINESSES

by
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When the Supreme Court, in *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996), vacated a punitive damages award of $2 million over a botched car paint job that caused a mere $4,000 in actual damages, the business community rejoiced. Finally, corporate defense attorneys said, the Court has put a brake on "runaway juries" that impose astronomical awards of punitive damages that bear no relationship to the actual injury suffered by the plaintiff.

The business community may welcome such limits when a business is the defendant, and the alternative is a system where the sky is the limit for the jury when selecting an appropriate award. But what if the plaintiff is itself a major corporation, and the range of damages has already been set by an act of Congress? Under such circumstances, does the Constitution's Due Process Clause impose limits on a jury's award of punitive, or quasi-punitive, damages?

That was the question faced by Boston-based federal District Judge Nancy Gertner in *Sony BMG Music Entertainment v. Tenenbaum*, 2010 U.S. Dist. LEXIS 68642 (D. Mass. July 7, 2010). *Tenenbaum* is one of the thousands of cases the major record labels have brought against individuals alleged to have illegally downloaded and distributed (or, if you prefer the euphemism of copyright critics, "shared") over peer-to-peer networks. And, in a July 7 opinion, Judge Gertner took the unprecedented step of invalidating the jury's award of $675,000 in statutory damages against defendant Joel Tenenbaum for infringing the sound recording copyright in 30 songs based on the limits on punitive damages set forth in *Gore*. And while Judge Gertner's opinion came in the copyright context, its reasoning could have far-reaching implications in all areas where Congress has legislated the acceptable range of damages in private lawsuits.

Statutory damages have long been a feature of U.S. copyright law. Indeed, the First Congress included in the Copyright Act of 1790 a statutory damages provision making an infringer liable for "the sum of fifty cents for every [infringing] sheet which shall be found in his or their possession." Act of May 31, 1790, § 2, 1 Stat. 124, 125. Statutory damages, which are available at the election of a copyright plaintiff at any time before final judgment, *see* 17 USC § 504(c), serve two basic purposes. First, because actual

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damages from infringement are often difficult or impossible to measure, statutory damages "give the owner of a copyright some recompense for injury done him, in a case where the rules of law render difficult or impossible proof of damages or discovery of profits." *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 231 (1952) (citation omitted). And second, statutory damages may include a punitive element that serves to deter both the actual infringer and others from committing similar bad acts in the future; as then-District Judge Sonia Sotomayor once ruled, "statutory damages must be sufficient enough to deter future infringements and should not be calibrated to favor a defendant by merely awarding minimum estimated losses to a plaintiff."[1] Congress has increased the size of the statutory range over the years; under current law, last adjusted in 1999, a jury may award $750 to $30,000 per work infringed, or up to $150,000 per work if they determine that the infringement was "willful." 17 U.S.C. § 504(c).

In *Tenenbaum*, after a July 2009 trial in which the defendant admitted to a decade of downloading and "sharing" thousands of songs without paying for them, the jury awarded the plaintiffs $22,500 for each of the 30 songs at issue in the case. (The plaintiffs had specific evidence of Tenenbaum "sharing" over 800 songs, but chose to seek damages on only 30.) The plaintiffs' attorney never asked for a specific number within that range, instead telling the jury that the determination of the proper amount was left "in your good hands." The record labels put on little evidence to support their claim for actual damages. In fact, their economist testified that it was difficult to calculate the amount of actual damage caused by Tenenbaum, since, due to technical limitations, it was impossible to determine with whom and how many others he had "shared" the songs.

No doubt, the size of the award was eye-popping, especially considering that the songs could be obtained legally via iTunes and similar services for 99 cents apiece. But was it unconstitutional? Tenenbaum, assisted by his counsel, Harvard Law School Professor Charles Nesson, argued that it was impermissibly excessive, both under the common-law doctrine of remittitur and the constitutional precepts set forth in *Gore* and its progeny. The record labels, backed by the Obama Administration's Justice Department, responded that the Supreme Court's limits on *punitive* damages simply don't apply in the context of *statutory* damages, because Congress has specifically authorized a range of damages from which the jury may choose. Rather, they argued, the award should be evaluated under the more deferential standard set forth in *St. Louis, Iron Mountain & Southern Railway v. Williams*, 251 U.S. 63 (1919), where the Supreme Court considered a constitutional challenge to an award under an Arkansas statute that regulated railroad passenger fares. That statute permitted a jury to assess a penalty of $50 to $300 for each overcharge; the jury in the case awarded $75, an award 114 times greater than the 66 cents in damages each plaintiff incurred. The Court declined to find the award unconstitutionally excessive, while adopting a standard where such a verdict should stand unless it is "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." *Id*. at 67.

In a 62-page opinion issued July 7, Judge Gertner slashed the jury's award of $22,500 per song by 90 percent, down to $2,250 per song. She began her opinion by explaining why she believed she could not resolve the case on common-law remittitur grounds.[2] She then proceeded to lay out her case that the

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[1] *Top Rank, Inc. v. Allerton Lounge, Inc.*, No. 96-7864, 1998 WL 35152791, at *1 (S.D.N.Y. Mar. 25, 1998); *see also Los Angeles News Serv. v. Reuters*, 149 F.3d 987, 996 (9th Cir. 1998) ("awards of statutory damages serve both compensatory and punitive purposes"); *Fitzgerald Pub. Co., Inc. v. Baylor Pub. Co.*, Inc., 807 F.2d 1110 (2d Cir. 1986) ("Awards of statutory damages serve two purposes-compensatory and punitive.").

[2] In a similar case in the District of Minnesota, Judge Michael Davis did rely on remittitur in reducing a copyright statutory damages award of $80,000 per work down to $2,250 per song, a 97 percent cut. *See Capitol Records, Inc. v. Thomas-*

application of *Gore*'s "guideposts" for evaluation of punitive damages awards apply in the case of copyright statutory damages. Those now-famous guideposts instruct a court reviewing an award of punitive damages to evaluate three factors: 1) the "degree of reprehensibility" of the defendant's conduct, *Gore*, 517 U.S.. at 575; 2) the ratio between the punitive and actual damages, *id.* at 580; and 3) "the civil or criminal penalties that could be imposed for comparable misconduct." *Id.* at 583.

But applying these punitive damages guideposts in the context of statutory damages is an attempt to pound the proverbial square peg into a round hole. First, in the statutory damages context, the chief motivating factors for the *Gore* line of cases – cabining juries' unbridled discretion and providing notice to potential tortfeasors of the penalties they face for their misconduct[3] – is wholly absent. While the statutory range of $750 to $150,000 is broad, it is set forth in plain language at 17 U.S.C. § 504, and infringers have at least constructive notice of the penalties they may face.

Turning to the specific guideposts, at least two of them simply don't work in the context of statutory damages. A court may be able to judge how "reprehensible" infringers like Tenenbaum are. But saying, for example, he is in the mid-range of reprehensibility doesn't determine where in the statutory range the award should fall. Further, *Gore* guideposts two and three just don't fit with copyright statutory damages. In many copyright cases (*Tenenbaum* included), it is impossible to compare actual to statutory damages because, as noted above, it is difficult or impossible to *measure* actual damages. Indeed, one of the primary justifications for statutory damages is to relieve copyright owners of the burden of proving actual damages where, as a practical matter, they cannot. *See F.W. Woolworth Co.*, 344 U.S. at 231. And it makes no sense to speak of comparing the actual damages with "the civil or criminal penalties that could be imposed for comparable misconduct," *Gore*, 517 U.S. at 583; statutory damages *are* the "civil... penalties" that Congress has chosen to impose on copyright infringers. Indeed, prior to Judge Gertner's decision, numerous other courts had rejected calls to apply the *Gore* guideposts in copyright and other contexts where Congress has set the range of damages.

Judge Gertner, however, declined to follow such cases, concluding that, while *Gore* and other punitive damages cases were motivated in part by procedural "notice" concerns, they also had a "significant substantive component." In other words, she held, those cases also stand for the proposition that – substance aside – courts should strike down damages awards if "grossly excessive." And she did, finding that the $22,500 awarded by the jury for each song infringed simply bore no reasonable relationship to what she determined was approximately $1 in damage caused by Tenenbaum (a figure that completely ignores that he distributed the songs to an untold number of others).

So how did Judge Gertner reach the reduced amount of $2,250 per work, which she determined was the maximum allowable under the Due Process Clause? This is where her opinion took perhaps its strangest turn. Judge Gertner purported to rely on the venerable doctrine of treble damages, under which a court may award three times the amount of actual damages in antitrust and other types of cases. But Judge Gertner did

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Rasset, 680 F. Supp. 2d 1045 (D. Minn. 2010).

[3]*See*, *e.g.*, *See Exxon Shipping Co. v. Baker*, 128 S. Ct. 2605, 2640 (2008) (Breyer, J., concurring) ("Like the Court, I believe there is a need, grounded in the rule of law itself, to assure that punitive damages are awarded according to meaningful standards that will provide notice of how harshly certain acts will be punished...."); *Philip Morris USA v. Williams*, 127 S. Ct. 1057, 1062 (2007) ("Unless a State insists upon proper standards that will cabin the jury's discretionary authority, its punitive damages system may deprive a defendant of 'fair notice... of the severity of the penalty that a State may impose....'" (citing *Gore,* 517 U.S. at 574).

not treble the amount of actual damages she found ($1 per song), but instead trebled the *minimum amount permitted under the Copyright Act*, or $750. *See* 17 USC § 504(c)(1). In other words, she did not *treble* the amount of actual damages; she actually multiplied it by 2,250, an act that seems particularly arbitrary, and that finds little support in logic or the case law. Nor did she actually follow the Supreme Court's suggestion in *Gore* follow-on *State Farm Mutual Automobile Insurance Co. v. Campbell*, 538 U.S. 408 (2003), that punitive damages should generally be limited to ten times the amount of actual damages; had she, the *Tenenbaum* award would presumably have been reduced to $30 total.

The record labels have already announced their intention to appeal this unprecedented decision, one which significantly erodes Congress' power to set the acceptable range of damages in copyright and indeed all civil cases. While the copyright industries may not like this judicial intrusion on Congressional policy-making, other business interests may welcome it. For, as the Second Circuit observed in *Parker v. Time Warner Entertainment Co., LP*, 331 F. 3d 13 (2d Cir. 2003), "the effects of combining a statutory scheme that imposes minimum statutory damages awards on a per-consumer basis – usually in order to encourage the filing of individual lawsuits as a means of private enforcement of consumer protection laws – with the class action mechanism that aggregates many claims" may lead to "devastatingly large damages award, out of all reasonable proportion to the actual harm suffered by members of the plaintiff class." *Id*. at 22 (class action suit over improper disclosure of subscriber information under the Cable Communications Policy Act of 1984, 47 U.S.C. § 521 *et seq.*).

How would the Supreme Court justices ultimately rule should this issue reach the high court? Surely, there would be some sympathy for a defendant like Tenenbaum, who engaged in rather commonplace activity yet suffered a massive, bankrupting award. But, as Justice Ginsberg – a dissenter in *Gore* – observed in a different context, "[T]his Court has been...deferential to the judgment of Congress in the realm of copyright." *Eldred v. Ashcroft*, 537 U.S. 186, 198 (2003). It is likely that the Court would defer to Congress' judgment as to the proper range of statutory damages for a jury to impose as well.

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