

2010 Marks Missed Copyright Opportunities for Supreme Court

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It has been a busy month for the Supreme Court not tackling copyright issues. On November 29, 2010, the Court denied certiorari in two copyright cases, *Harper v. Maverick Recording Co.*, No. 10-94, and *Bryant v. Media Right Productions*, No. 10-415. Then, on December 13, it announced that no decision would be issued in *Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423, because of a 4-4 split (Justice Kagan was recused). Along with the Court's decision back in March to avoid the Section 411 registration/application issue in [Reed Elsevier, Inc. v. Muchnick](#), No. 08-103, with the Supreme Court having missed some opportunities to clarify parts of the Copyright Act that have real-world ramifications for copyright owners, users, and legal practitioners.

That is not to say that the Court should have taken every opportunity. The denial of certiorari in *Harper* does indeed make sense. In *Harper*, a 16-year-old girl infringed the respondents' copyrights by digitally sharing 544 sound recordings without permission. After winning on liability, the record labels asked for the typical statutory minimum of \$750 per work infringed. *Harper*, however, successfully argued to the District Court that she should be subject to a lower minimum of \$200 per work, which comes into play for "innocent infringers" under 17 U.S.C. § 504, who did not know and "had no reason to believe" that their acts constituted infringement.

The innocent infringer defense is prohibited under the Copyright Act when a copyright notice "appears on the published . . . phonorecords to which a defendant . . . had access." But the District Court found that the bar was inapplicable in the digital setting where the notice could not be seen, and even though she had access to the physical CDs, *Harper* may not have understood that the notice on actual CDs applied to downloaded music.

The Fifth Circuit Court of Appeals reversed that ruling, because it was based on subjective factors. The Circuit Court held instead that the inquiry should have ended once it was

determined that Harper had access to the physical phonorecords bearing copyright notices—something not contested in this case.

The Supreme Court denial of Harper's certiorari petition was predictable. Even Justice Alito, who dissented from the denial because he thought it was an opportunity to clarify an important issue, admitted that there was no circuit split: the only other circuit case noted by Justice Alito to address the subject, *BMG Music v. Gonzalez*, 430 F.3d 888 (7th Cir. 2005), came to a similar conclusion. Furthermore, Justice Alito's concern appears to be that Section 504's "reason to believe" language could incorporate facts such as the defendant's age and sophistication. However, the copyright notice bar to the innocent infringer defense is just that—a bar. It asks that the published phonorecords have a copyright notice, not that the notice inform the public of what will and will not be considered infringement, or that the defendant understand what constitutes infringement.

The Court's denial of certiorari in *Bryant* is much more of a missed opportunity to clarify the law. In *Bryant*, respondents had registered two albums as compilations, but they also registered the sound recordings on those albums individually. They authorized one of the defendants to market the albums in exchange for a percentage of sales. That defendant was not authorized to make new copies of the albums or sublicense the albums, but it did anyway, to another defendant who—thinking it had authorization—made digital copies of the songs and offered them for sale. Respondents sought statutory damages, for which a separate award is made on each work infringed. However, although the defendant sold digital copies of the sound recordings individually, the District Court found that it would only issue one statutory award for each album infringed as opposed to an award on each song.

The Second Circuit affirmed, stating that albums are clearly compilations under the Copyright Act and are to be treated as one work. The Circuit Court held that the defendant's sale of the sound recordings individually and the plaintiffs' individual registrations were irrelevant.¹ It also rejected the plaintiffs' argument that the statutory awards should still be calculated based on the number of songs infringed because each song has "independent economic value," a test recognized by at least the First, Ninth, Eleventh, and District of Columbia Circuits. In declining to

follow those circuits, the Second Circuit (similar to the Fourth Circuit) stated that the independent economic value test had no support in the statutory text.

The Supreme Court's denial of certiorari leaves open a circuit split on an issue that has serious importance for litigants, especially in the digital age where cases can involve thousands of allegations of infringement. A statutory award multiplied by the number of songs infringed could be 10 to 15 times what an award would be when the amount is merely multiplied by the number of albums infringed. Such a disparity in the law can discourage settlement discussions prior to litigation and will certainly lead to forum shopping.

The two denials of certiorari left just one potential copyright decision on the high Court's docket, the recently argued *Costco v. Omega*. *Omega* had the potential to not only clarify copyright law, but also to influence Congressional policy, as it dealt with whether the "first sale" exception to United States copyright law applies to goods made and sold outside the United States, but then imported here. If it does, the unauthorized importation of such goods (which, without a defense, would be infringement) would not violate copyright law. Copyright owners argue that allowing the exception would inhibit their rights and stop them from being able to price goods differently in different nations: if a retailer could just go to another country, buy up goods cheaply, and then re-sell them in the United States, copyright owners could be discouraged from selling in those areas at all. However, retailers such as Costco argue that if the first sale doctrine does not apply as a defense to allegations of United States copyright infringement simply because the goods were manufactured abroad, U.S. companies will have an incentive to move all of their production overseas, something Congress did not likely intend.

The District Court sided with the retailer/importers, but the Ninth Circuit reversed in favor of *Omega*, and the Supreme Court granted certiorari. Amicus briefs were filed by many of the major players on both the copyright owner and retailer sides, who were all following *Omega* closely. That paperwork was for naught, however, with this week's announcement that the Court was deadlocked and the Ninth Circuit decision will stand without any further clarification. Given a separate recent decision in favor of textbook publishers on this issue in the Southern District of New York, the question appears to be temporarily resolved in favor of copyright owners, and if any further clarification is to come in the near future, it will likely be from Congress.

The only copyright decision actually issued by the Supreme Court this year was *Reed Elsevier, Inc. v. Muchnick*-although it was a decision without much real-world relevance as it did not delve as deeply into the Copyright Act's registration requirement as many thought it would. The Act states that a copyright registration is necessary before a party can bring an infringement action. However, especially with copyright registrations now taking more than a year to issue from the date of application and the Copyright Act's three-year statute of limitations, some circuits have stated that simply filing a proper application with the Copyright Office is enough to allow a lawsuit to proceed. This deep split among the circuits essentially makes forum shopping a requirement since, depending on the circuit, the suit will either proceed or be immediately dismissed.

It was hoped that the Supreme Court would address this situation when it decided to review *Reed Elsevier*. In *Reed Elsevier*, the original plaintiffs brought a class-action copyright case concerning the copying of plaintiffs' works into electronic databases. The named plaintiffs all had registered copyrights, but the class covered both registered and unregistered works. After three years of mediation, the parties agreed to settle. On the objectors' appeal, the Second Circuit *sua sponte* decided that it lacked jurisdiction to approve awards containing unregistered works as a result of the Section 411 registration requirement.

Rather than take the opportunity to clarify the parameters of Section 411, including the application/registration issue, the Court took a far more narrow approach, and simply determined that the registration requirement for filing lawsuits under the Copyright Act does not present a "jurisdictional" bar-despite the more than 200 lower-court opinions holding that it does. The Court held that registration, while a precondition to filing a lawsuit, is not jurisdictional. Therefore, the fate of an unregistered work-claim rests in the hands of the defendants, and the registration requirement can be-as it was in this instance-waived by defendants. From a practical standpoint, this ruling does not affect many cases as such a defense will rarely be waived. Unfortunately, the holding did not address the key question that does affect a substantial portion of copyright cases: is Section 411's requirement satisfied upon the mere submission of an application to the Copyright Office, thereby allowing a copyright case to proceed?



In sum, the Supreme Court did not move the ball forward for copyright law in 2010. This means that it is more important than ever for plaintiffs and defendants in copyright cases to understand that the law may be different depending on the jurisdiction, and to make litigation decisions accordingly.

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