

the asserted belief or misunderstanding to be nothing more than simple disagreement with known legal duties imposed by the law, and will find that the government has carried its burden of proving knowledge. . . .

In summary, when Moran's actions were viewed from the totality of the circumstances, the government failed to convince me beyond a reasonable doubt that Moran acted willfully. Moran is a long-time street cop who was fully cooperative with law enforcement authorities. He is obviously not sophisticated and, at least from the record, his business operation of renting movies to the public was not large or sophisticated. Rather, Moran's business appears to have been of the "mom-and-pop" variety. Moran's practice of "insuring," while obviously shifting the risk of loss from Moran to the copyright holder, was conducted in such a way as not to maximize profits, which one assumes would have been his purpose if he had acted willfully. For example, Moran purchased multiple authorized copies of the same movie, but he made only one unauthorized copy for each authorized version purchased. This suggests that Moran truly believed that what he was doing was in fact legal. I therefore find Moran not guilty.

NOTES AND QUESTIONS

1. Which interpretation of the willfulness requirement makes more sense to you?
2. Congress amended §506 in 1997 as part of the No Electronic Theft (NET) Act, which we discuss in more detail below. Under revised §506, "evidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement." Does this resolve the controversy the *Moran* court discussed about the definition of "willfully"?

We next examine the 1976 Act's original requirement that the infringement be committed "for purposes of commercial advantage or private financial gain" before criminal liability may accrue. This requirement, as the next case shows, is ill suited to addressing the conduct of those who do not have an economic motive for infringing copyright.

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United States v. LaMacchia
 871 F. Supp. 535 (D. Mass. 1994)

STEARNS, J.: This case presents the issue of whether new wine can be poured into an old bottle. The facts, as seen in the light most favorable to the government, are these. The defendant, David LaMacchia, is a twenty-one year old student at the Massachusetts Institute of Technology (MIT). LaMacchia, a computer hacker, used MIT's computer network to gain entree to the Internet. Using pseudonyms and an encrypted address, LaMacchia set up an electronic bulletin board which he named Cynosure. He encouraged his correspondents to upload popular software applications (Excel 5.0 and WordPerfect 6.0) and computer games (Sim City 2000). These he transferred to a second encrypted address (Cynosure II) where they could be downloaded by other users with access to the Cynosure password. Although LaMacchia was at pains to impress the need for circumspection on the part of his subscribers, the worldwide traffic generated by the offer of free software attracted the notice of university and federal authorities.

On April 7, 1994, a federal grand jury returned a one count indictment charging LaMacchia with conspiring with "persons unknown" to violate 18 U.S.C. §1343, the

wire fraud statute. According to the indictment, LaMacchia devised a scheme to defraud that had as its object the facilitation “on an international scale” of the “illegal copying and distribution of copyrighted software” without payment of licensing fees and royalties to software manufacturers and vendors. The indictment alleges that LaMacchia’s scheme caused losses of more than one million dollars to software copyright holders. The indictment does not allege that LaMacchia sought or derived any personal benefit from the scheme to defraud.

On September 30, 1994, the defendant brought a motion to dismiss, arguing that the government had improperly resorted to the wire fraud statute as a copyright enforcement tool in defiance of the Supreme Court’s decision in *Dowling v. United States*, 473 U.S. 207 . . . (1985).

The *Dowling* Decision

Paul Edmond Dowling was convicted of conspiracy, interstate transportation of stolen property [ITSP], copyright violations and mail fraud in the Central District of California. Dowling and his co-conspirators sold bootleg Elvis Presley recordings by soliciting catalogue orders from post office boxes in Glendale, California. The infringing recordings were shipped in interstate commerce to Maryland and Florida. The eight ITSP counts on which Dowling was convicted involved thousands of phonograph albums. “[E]ach album contained performances of copyrighted musical compositions for the use of which no licenses had been obtained nor royalties paid. . . .” *Dowling, supra* at 212 . . . Dowling appealed his convictions (except those involving copyright infringement). The Ninth Circuit Court of Appeals affirmed. . . .

The Supreme Court granted certiorari only as to Dowling’s convictions for interstate transportation of stolen property. The Court, in an opinion by Justice Blackmun, held that a copyrighted musical composition impressed on a bootleg phonograph record is not property that is “stolen, converted, or taken by fraud” within the meaning of the Stolen Property Act. Justice Blackmun emphasized that cases prosecuted under §2314 had traditionally involved “physical ‘goods, wares [or] merchandise.’” The statute “seems clearly to contemplate a physical identity between the items unlawfully obtained and those eventually transported, and hence some prior physical taking of the subject goods” *Id.* at 216 . . . In Dowling’s case there was no evidence “that Dowling wrongfully came by the phonorecords actually shipped or the physical materials from which they were made.” *Dowling, supra* at 214. . . .

Justice Blackmun felt compelled, however, to answer the government’s argument that the unauthorized use of the underlying musical compositions was itself sufficient to render the offending phonorecords property “stolen, converted or taken by fraud.”

[T]he Government’s theory here would make theft, conversion, or fraud equivalent to wrongful appropriation of statutorily protected rights in copyright. The copyright owner, however, holds no ordinary chattel. A copyright, like other intellectual property, comprises a series of carefully defined and carefully delimited interests to which the law affords correspondingly exact protections. *Id.* at 216. . . .

A copyright, as Justice Blackmun explained, is unlike an ordinary chattel because the holder does not acquire exclusive dominion over the thing owned. . . . Justice Blackmun offered the “fair use” doctrine (17 U.S.C. §107) and the statutory scheme of compulsory licensing of musical compositions (17 U.S.C. §115) as examples of ways in which the property

rights of a copyright holder are circumscribed by the Copyright Act. *Dowling, supra*, 473 U.S. at 217. . . .

It follows that interference with copyright does not easily equate with theft, conversion or fraud. The Copyright Act even employs a separate term of art to define one who misappropriates a copyright: . . . “an infringer” . . . There is no dispute in this case that Dowling’s unauthorized inclusion on his bootleg albums of performances of copyrighted compositions constituted infringement of those copyrights. It is less clear, however, that the taking that occurs when an infringer arrogates the use of another’s protected work comfortably fits the terms associated with physical removal employed by §2314. The infringer invades a statutorily defined province guaranteed to the copyright holder alone. But he does not assume physical control over the copyright; nor does he wholly deprive its owner of its use. . . .

The ITSP statute, Justice Blackmun observed, had its roots in efforts by Congress to supplement the efforts of state authorities frustrated by jurisdictional problems arising from the transportation of stolen property across state lines. *Id.* at 219-220. . . .

No such need for supplemental federal action has ever existed, however, with respect to copyright infringement, for the obvious reason that Congress always has had the bestowed authority to legislate directly in this area. . . . Given that power, it is implausible to suppose that Congress intended to combat the problem of copyright infringement by the circuitous route hypothesized by the government.

. . . In sum, the premise of §2314 — the need to fill with federal action an enforcement chasm created by limited state jurisdiction — simply does not apply to the conduct the Government seeks to reach here. *Id.* at 220-221.

A review of the evolution of criminal penalties in the Copyright Act led Justice Blackmun to observe that:

[T]he history of the criminal infringement provisions of the Copyright Act reveals a good deal of care on Congress’ part before subjecting copyright infringement to serious criminal penalties. . . . In stark contrast, the Government’s theory of this case presupposes a congressional decision to bring the felony provisions of §2314, which make available the comparatively light fine of not more than \$10,000 but the relatively harsh term of imprisonment of up to 10 years, to bear on the distribution of a sufficient quantity of any infringing goods simply because of the presence here of a factor — interstate transportation — not otherwise thought relevant to copyright law. The Government thereby presumes congressional adoption of an indirect but blunderbuss solution to a problem treated with precision when considered directly. *Id.* at 225-226.

. . . Justice Blackmun concluded that “the deliberation with which Congress over the last decade has addressed the problem of copyright infringement for profit, as well as the precision with which it has chosen to apply criminal penalties in this area, demonstrates anew the wisdom of leaving it to the legislature to define crime and prescribe penalties. Here, the language of §2314 does not ‘plainly and unmistakably’ cover petitioner Dowling’s conduct.” *Id.* at 228. . . . Dowling’s ITSP convictions were reversed.

The Copyright Law

. . . Since 1897, when criminal copyright infringement was first introduced into U.S. copyright law, the concept differentiating criminal from civil copyright violations has been that the infringement must be pursued for purposes of commercial exploitation. . . .

Discussion

The wire fraud statute, 18 U.S.C. §1343 was enacted in 1952. . . .

As the legislative history makes clear, the wire fraud statute was intended to complement the mail fraud statute by giving federal prosecutors jurisdiction over frauds involving the use of interstate (or foreign) wire transmissions. . . .

. . . Wire fraud offers an especially pleasing feature from the government's perspective that is particularly relevant to LaMacchia's case. Unlike the criminal copyright statute, 17 U.S.C. §506(a), the mail and wire fraud statutes do not require that a defendant be shown to have sought to personally profit from the scheme to defraud. . . .

[The court then reviewed three reasons why it found it difficult to permit a wire fraud prosecution under *Dowling*. Here, we concentrate only on the third.]

. . . Third, even were I to accept the argument made by the government in *Dowling*, that illegal conduct alone may suffice to satisfy the fraud element of [§1343], the holding would not cover LaMacchia's case for the simple reason that what LaMacchia is alleged to have done is not criminal conduct under §506(a) of the Copyright Act. . . .

What the government is seeking to do is to punish conduct that reasonable people might agree deserves the sanctions of the criminal law. But as Justice Blackmun observed in *Dowling*, copyright is an area in which Congress has chosen to tread cautiously, relying "chiefly . . . on an array of civil remedies to provide copyright holders protection against infringement," while mandating "studiously graded penalties" in those instances where Congress has concluded that the deterrent effect of criminal sanctions are required. *Dowling, supra* at 221, 225. . . . "This step-by-step, carefully considered approach is consistent with Congress' traditional sensitivity to the special concerns implicated by the copyright laws." *Id.* at 225. . . . Indeed, the responsiveness of Congress to the impact of new technology on the law of copyright, limned earlier in this opinion, confirms Justice Blackmun's conviction of "the wisdom of leaving it to the legislature to define crime and prescribe penalties." *Dowling, supra* at 228. . . .

"The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the institutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology."

Sony Corporation of America v. Universal City Studios, Inc., 464 U.S. 417, 431. . . .

While the government's objective is a laudable one, particularly when the facts alleged in this case are considered, its interpretation of the wire fraud statute would serve to criminalize the conduct of not only persons like LaMacchia, but also the myriad of home computer users who succumb to the temptation to copy even a single software program for private use. It is not clear that making criminals of a large number of consumers of computer software is a result that even the software industry would consider desirable. . . .

This is not, of course, to suggest that there is anything edifying about what LaMacchia is alleged to have done. If the indictment is to be believed, one might at best describe his actions as heedlessly irresponsible, and at worst as nihilistic, self-indulgent, and lacking in any fundamental sense of values. Criminal as well as civil penalties should probably attach to willful, multiple infringements of copyrighted software even absent a commercial motive on the part of the infringer. One can envision ways that the copyright law could be modified to permit such

prosecution. But, “[i]t is the legislature, not the Court which is to define a crime, and ordain its punishment.” . . .

For the foregoing reasons, defendant LaMacchia’s motion to dismiss is *ALLOWED*. . . .

Note on Internet-Era Amendments to the Copyright Felony Provisions

Congress responded to the *LaMacchia* case with the 1997 enactment of the NET Act. Indeed, the legislative history explicitly states that the purpose of the NET Act is “to reverse the practical consequences of *United States v. LaMacchia* . . . by criminaliz[ing] computer theft of copyrighted works, whether or not the defendant derives a direct financial benefit from the act(s) of misappropriation, thereby preventing such willful conduct from destroying businesses, especially small businesses, that depend on licensing agreements and royalties for survival.” H.R. Rep. 105-339, 105th Cong., 1st Sess. 1997.

The NET Act retained the rule providing that an infringement conducted willfully for purposes of commercial advantage or private financial gain is criminal. However, it added a new definition to §101, defining “financial gain” to mean “receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works.” The NET Act also amended §506(a) to provide for a second type of criminal liability. An infringer may now be held criminally liable when the infringement involves the willful “reproduction or distribution, including by electronic means, during any 180-day period, of 1 or more copies or phonorecords of 1 or more copyrighted works with a total retail value of more than \$1,000. . . .” 17 U.S.C. §506(a)(1)(B). Thus, after the NET Act, an infringer need not have a commercial motive to be a criminal. Note, however, that the NET Act did not amend the wire fraud statute, so the holding of *Dowling* continues to apply: a prosecutor cannot use the wire fraud statute to bring what is essentially a copyright infringement claim.

The NET Act did not change the criminal penalties applicable to “conventional” criminal infringements—i.e., those that meet the traditional prongs of willfulness and a purpose of commercial advantage or private financial gain. It did, however, provide a special menu of penalties for those without such economic motives who are convicted under the new crime of willfully reproducing or distributing copies or phonorecords with a total retail value of \$1,000. In addition to the fines already applicable, the NET Act provides prison terms of: (1) up to three years for reproduction or distribution of ten or more copies or phonorecords of one or more copyrighted works with a total retail value of \$2,500 or more; (2) up to six years for repeat offenses defined in (1); and (3) up to one year for reproduction or distribution of one or more copies or phonorecords with a total retail value of more than \$1,000. 18 U.S.C. §2319(c). Offenses involving works with a total retail value over \$2,500 are felonies; offenses involving works with a total retail value of \$1,000 to \$2,500 are misdemeanors.

The NET Act was not initially used much by prosecutors. There is no consensus on why this was the case. Some thought the expense of a criminal proceeding might not be worth incurring for small-scale infringements that nevertheless were labeled criminal by the Act. Others opined that the lack of sentencing guidelines was a disincentive to prosecution. In 1999, Congress held hearings to understand the reasons for the virtually complete lack of prosecutorial activity under the NET Act. Justice Department and industry representatives testified that the penalties under the then-current law were insufficient to deter infringement. See H.R. Rep. No. 106-216, at 4. Faced with evidence of continued large-scale infringement, Congress enacted the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999. This Act authorized enhanced prison sentences based on the retail price of the item

infringed and the number of infringing copies in certain circumstances. It also increased damages available in civil actions (see Chapter 10).

Neither the NET Act nor the penalty enhancements of 1999 proved effective to address a phenomenon that the motion picture industry perceived as particularly damaging: the availability of movies on the Internet before they are available for purchase on DVD and sometimes even before they are released to theaters. In 2005, Congress passed the Artists' Rights and Theft Prevention (ART) Act as part of the Family Entertainment and Copyright Act. The ART Act added two new criminal prohibitions, one to the general federal criminal laws and one to the Copyright Act. The first prohibition makes it a felony to knowingly use an audiovisual device to make a copy of a copyrighted movie "from a performance of such work in a motion picture exhibition facility," a practice sometimes referred to as "camcording" a movie. 18 U.S.C. §2319B. The second prohibition specifies another way in which willful infringement of a copyright rises to the level of criminal infringement: "by the distribution of a work being prepared for commercial distribution, by making it available on a computer network accessible to members of the public, if such person knew or should have known that the work was intended for commercial distribution." 17 U.S.C. §506(a)(1)(C). Although this legislation clearly was aimed at Internet availability of pre-release motion pictures, the statute defines "work being prepared for commercial distribution" to include computer programs, musical works and sound recordings, as well as motion pictures and other audiovisual works, that have not been commercially distributed. *Id.* §506(a)(3). It also expressly includes motion pictures that have "been made available for viewing in a motion picture exhibition facility" but have not yet been "made available in copies for sale to the general public in the United States in a format intended to permit viewing outside a motion picture exhibition facility." *Id.* §506(a)(3)(B). Violations of §506(a)(1)(C) are punishable with up to three years imprisonment, with enhancements for subsequent offenses and offenses "committed for purposes of commercial advantage or private financial gain." 18 U.S.C. §2319(d).

The push to strengthen criminal copyright enforcement next produced the Prioritizing Resources and Organization for Intellectual Property (PRO-IP) Act of 2008, which reorganized the Department of Justice to create the Intellectual Property Enforcement Division, headed by an enforcement officer reporting directly to the Deputy Attorney General; authorized the appointment of "intellectual property attachés" to be posted to U.S. embassies abroad; established the Office of the Intellectual Property Enforcement Representative within the Executive Office of the President; and gave the head of that office comprehensive advisory authority over domestic and international enforcement policy. In addition, the PRO-IP Act amended §411 to specify that registration of copyright is a prerequisite for filing a civil infringement lawsuit. By inference then, registration is *not* a prerequisite for commencing a criminal prosecution.

The coming years likely will see more legislative activity on the subject of criminal copyright infringement unless the problem of large-scale infringements is otherwise solved, perhaps through the use of technological protection devices (*see* Chapter 9). Be sure to check the latest statute when evaluating conduct and determining the applicable range of penalties.

NOTES AND QUESTIONS

1. Read §506 in its entirety. In what ways may a person be criminally liable for copyright infringement? Can an indirect infringer, i.e., one who is secondarily liable, be criminally liable?

Does the Copyright Act answer this question? If not, what do you think the answer should be?

Note that the Digital Millennium Copyright Act (DMCA), which we discuss in Chapter 9, contains its own section on criminal liability. *See* 17 U.S.C. §1204; *infra* Chapter 9. Section 1204 criminalizes violations of §§1201-02 that are willful and “for purposes of commercial advantage or private financial gain.” 17 U.S.C. §1204(a). Section 1201 finds a violation, *inter alia*, when a person sells technology or a product that is “primarily designed or produced for the purpose of circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner . . .” *Id.* §1201(b)(1)(A). Such a person is in a position somewhat analogous to an indirect infringer because the person does not actually conduct the circumvention but rather assists the circumventor. The statute expressly provides for criminal liability for such a person under §1204. Does this help to answer the question whether an indirect infringer should be held criminally liable under §506 or is it irrelevant?

2. Why do you think Congress added a definition of “financial gain” to the Copyright Act? Did LaMacchia have private financial gain, as that term is now defined, as his purpose? Why do you think Congress added a clause explicitly to include reproduction or distribution by electronic means?

3. Consider whether the infringers in the following hypotheticals are criminals under §506:

- a. You download an article from the New York Times and make copies for 20 family members at a family reunion.
- b. A teenager buys a CD for \$17.99 at a retail store. He uploads it in MP3 format to a chat room or blog. Over the next three months, 10,000 Internet users download it. Would your answer change if only 10 users downloaded it? What about 100?
- c. A group of academic researchers pools software by placing various software packages on a server to which all in the group have access. For example, an MIT researcher might post a copy of SAS, while someone from Wellesley posts a copy of Word. No one software package is worth \$1,000, but the cumulative cost of the software posted exceeds that total.

Determining the “retail value” of a work is relevant for meeting the threshold requirement for certain types of criminal infringement, as well as for establishing whether the offense is a felony or a misdemeanor. The Fourth Circuit has determined that “retail value” refers to the greater of (1) the “prices assigned to commodities and goods for sale at the retail level at the time of sales at issue” or (2) “prices of commodities and goods determined by actual transactions between willing buyers and willing sellers at the retail level.” *United States v. Armstead*, 524 F.3d 442, 446 (4th Cir. 2008). The court rejected the defendant’s argument that because the defendant had sold bootleg copies of DVDs to undercover agents for \$5 each, that was the “going rate” between willing buyers and willing sellers. The government had introduced evidence showing \$19 as the minimum retail price for the DVDs at issue.

Whether bootleg sales have a one-for-one correspondence to lost retail sales for the copyright owner is a hotly debated issue. While the courts calculate the “retail value” for purposes of criminal liability based on the price of legitimate copies, they sometimes use different valuations in other contexts. For example, the Federal Mandatory Victims Restitution Act requires proof of the actual loss suffered. One court reasoned:

It is a basic principle of economics that as price increases, demand decreases. Customers who download music and movies for free would not necessarily spend money to acquire the same

product. . . . I am skeptical that customers would pay \$7.22 or \$19 for something they got for free. Certainly 100% of the illegal downloads . . . did not result in the loss of a sale. . . .

United States v. Dove, 585 F. Supp. 2d 865, 870 (W.D. Va. 2008).

4. A bill proposed in the 108th Congress sought to attack the problem of infringements conducted through peer-to-peer file sharing by amending §506 to include the following:

Any person who—

. . . infringes a copyright by the knowing distribution, including by the offering for distribution to the public by electronic means, with reckless disregard of the risk of further infringement, during any 180-day period, of—

(A) 1,000 or more copies or phonorecords of 1 or more copyrighted works,

(B) 1 or more copies or phonorecords of 1 or more copyrighted works with a total retail value of more than \$10,000, or

(C) 1 or more copies or phonorecords of 1 or more copyrighted pre-release works, shall be punished as provided under section 2319 of title 18. For purposes of this subsection, evidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish the necessary level of intent under this subsection.

Piracy Deterrence and Education Act of 2004, H.R. 4077, 108th Cong., 2d Sess. How would this have changed the standards for criminal liability?

5. In 1996, with virtually no debate, copyright infringement was added to the list of violations eligible to support liability under the Racketeer Influenced and Corrupt Organizations (RICO) Act. 18 U.S.C. §1961(1). If a civil RICO violation is proved, a court may treble the damages otherwise available under the law defining the underlying violation. *Id.* §1964(c). Defendants convicted of criminal RICO violations face imprisonment for up to 20 additional years, the fine set forth in Title 18 (currently up to \$250,000) or “not more than twice the gross profits or other proceeds” from the violation, and forfeiture of all assets acquired or maintained in connection with the violation. *Id.* §1963(a).

Plaintiffs in civil copyright infringement lawsuits alleging large-scale infringement now have begun asserting civil RICO claims. Establishing a civil RICO violation requires proof of the underlying criminal violation (here, willful copyright infringement), an “enterprise,” and a “pattern” of “racketeering activity” by the enterprise. *Id.* §1962. How should these terms be interpreted in the copyright context? Could the manufacture of a device that enables copyright infringement constitute an “enterprise,” and could a “pattern” of indirect infringement constitute the required predicate activity?