

## D'oh! – Fox Teaches Infringer a Costly Lesson

In a big victory for copyright owners, particularly in the film industry, in December 2013, Twentieth Century Fox Film Corporation achieved a \$10.5 million victory against the former operator of two Internet websites dedicated to streaming episodes of *The Simpsons* and *The Family Guy* television shows. In *Twentieth Century Fox Film Corporation v. Hernandez [Twentieth Century Fox]*,<sup>1</sup> it was alleged that the defendant, Mr. Hernandez, had illegally copied over 700 episodes of the programs from television broadcasts and uploaded them to two websites, Watch The Simpsons Online and Watch Family Guy Online, where the episodes were made available to the public for viewing.

This case is a perfect illustration that statutory damages can be a powerful tool for copyright owners in Canada. Proving actual damages in a copyright infringement case can be difficult, particularly where the defendant is uncooperative and claims not to have any sales records. Section 38.1 of the *Canadian Copyright Act*<sup>2</sup> provides that copyright owners may elect to recover statutory damages instead of lost profits and damages suffered as a result of activities of infringers. Where the infringements are carried out for a commercial purpose, the Act provides for a maximum award of \$20,000 in respect of all infringements relating to each individual work involved in the proceedings. In this case, the maximum

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<sup>1</sup> *Twentieth Century Fox Film Corporation v. Hernandez*, Court File No. T-1618-13, Federal Court (December 3, 2013).

<sup>2</sup> R.S.C. 1985, c. C-42.

statutory damages would have been more than \$14 million. It was alleged that the defendant website operator profited from sales of advertising and promotional items related to the two television shows, and given the extensive number of episodes uploaded and shared by him, the court awarded \$10 million in statutory damages, or approximately \$14,200 per infringing work. The balancing act involved in arriving at the appropriate figure to be awarded for each infringed work has received some attention from the courts in recent years, with a continuing trend in awarding significant statutory damages against copyright infringers, including website operators who illegally upload and share copyrighted works. In exercising their discretion, courts must take into account all relevant factors, including the factors set out in subs. 38.1(5) of the *Copyright Act*—namely, the good faith or bad faith of the defendant, the conduct of the parties before and during the proceedings, and the need to deter other infringements of the copyright in question. This suggests that the list is not exhaustive and other factors may be taken into account in each particular case.

Another decision of the Federal Court giving a similarly high award of statutory damages in the copyright context is *Entral Group International Inc. v. Mcue Enterprise Corp.*<sup>3</sup> There, the defendants acquired copies of the plaintiffs' copyrighted songs and reproduced them by installing copies onto karaoke machines that enabled customers to publicly perform the works in exchange for a fee. The court found that the unauthorized presentation of a work in a commercial establishment was an infringement of the copyright holder's right to perform the work in public and had no difficulty in concluding that the defendants had economically benefited from the infringement of the plaintiffs' copyright interests. The court awarded statutory damages in the amount of \$15,000 per infringed work in respect of each of the seven titles that were the subject matter of the proceeding. Among the factors considered by

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<sup>3</sup> [2010] F.C.J. No. 723, 2010 FC 606.

the court in reaching its decision on the quantum of statutory damages were (1) the willful and ongoing infringement that continued over seven years; (2) the multiple occasions on which the plaintiffs had notified the defendants of their infringing activities; (3) the plaintiffs' reasonable conduct in offering the defendants a typical licence agreement for the use of their copyrighted works; and (4) the defendants' deplorable conduct in choosing to stonewall the plaintiffs, resist the licensing arrangements offered by the plaintiffs, and continue their infringing activity. The court also awarded punitive and exemplary damages of \$100,000 and solicitor-client costs for the defendant's reprehensible conduct.

The United States *Copyright Act* also contains provisions for awards of statutory damages in lieu of actual damages, which range from \$750 to \$30,000 in respect of any one copyrighted work "as the court considers just", regardless of whether the infringing activity was committed for a commercial or non-commercial purpose.<sup>4</sup> This sum may be increased up to \$150,000 per individual work where it can be shown that the infringement was committed willfully. Although statutory damages for copyright infringement can be an appealing remedy to content owners, especially where damages are difficult to quantify or where actual damages are not significant, the statutory damages calculation can, at times, lead to absurd results, particularly in cases of mass infringement found in the context of online peer-to-peer file sharing. In a recent decision by the United States District Court for the Southern District of New York,<sup>5</sup> the court found that the plaintiffs' suggested award for statutory damages was absurdly large. The plaintiffs identified approximately 11,000 sound recordings that they alleged had been infringed through the LimeWire system, a peer-to-peer sharing network. If one were to calculate the statutory damages award at the maximum allowable

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<sup>4</sup> United States *Copyright Act*, 17 U.S.C. §504(c).

<sup>5</sup> *Arista Records LLC v. Lime Group LLC* (2011) 784 F. Supp. 2d 313.

amount of \$150,000 for each individual work, it meant the defendants faced a potential award of over a billion dollars in statutory damages. The court went on to state that if the plaintiffs were able to pursue a statutory damage theory predicated on the number of direct infringers per work, which the plaintiffs advanced, the damages could reach into the trillions. The court rejected the plaintiffs' statutory interpretation as it would award them "more money than the entire music recording industry has made since Edison's invention of the phonograph in 1877", which it found to be an absurd result.

Nevertheless, the threat of a statutory damages award can be a strong enough deterrent for potential infringers by preventing their unjust enrichment in instances where either the infringer is uncooperative and damages would be difficult to prove or actual damages would not be significant. While statutory damages can be a powerful remedy for copyright owners, the *Copyright Act* also has another significant remedy that is worth considering.

Generally, a plaintiff can obtain only an injunction prohibiting the defendant from repeating the infringements specifically addressed in the lawsuit. However, s. 39.1 of the *Copyright Act* permits the court to grant a "wide injunction" restraining infringement of not only the works in issue but any other works owned by the plaintiff. In the *Twentieth Century Fox* case, the Federal Court granted a wide injunction against the defendant, prohibiting him from any further infringing dealings with not only the works involved in the proceedings but also any other works in which Twentieth Century Fox Film Corporation owns copyright, including works that come into existence after the date of the judgment.

The court in *Twentieth Century Fox* also found that the defendant's repeated, blatant, and intentional misconduct merited an award of punitive damages to serve as deterrence and punishment for such illegal activities. The court ordered an award of \$500,000 in this respect. The *Twentieth Century Fox* case is one of the larger statutory damage awards a copyright owner has obtained in

Canada. The wide injunction granted by the court also serves to significantly impair the defendants' future business prospects. In its decision, the Federal Court strongly condemns Internet piracy and sends a message to those who build businesses around illegal file sharing in Canada that it is prepared to use all the tools in the *Copyright Act* to stamp it out.

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#### a cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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