

Recent Developments in the Law

Vol. No. LIV

December 2003

LETTER

*December, 2003 Special Issue
Copyright Awards*

In order to keep you abreast of the recent developments in the law, we are reporting the substance of several current decisions of major import in the jurisdictions of Maryland, the District of Columbia, and Virginia

This material is being provided for your general information only, and is not a substitute for obtaining legal advice. The information provided is not given as legal advice nor in the course of an attorney-client relationship. You should always consult an attorney for advice about the specific circumstances of your case.

Recent Developments in the Law

Jeffrey R. Schmieler, Esquire
Saunders & Schmieler, P.C.
8737 Colesville Road
Suite L-200
Silver Spring, Maryland 20910
(301) 588-7717
www.sslawfirm.com

© Saunders & Schmieler, P.C. 2003

Major Verdicts in Copyright Infringement Cases

Lowry's Reports, Inc. v. Legg Mason, 271 F. Supp.2d 737 (N.D. Md. 2003).

On October 3, a jury in Baltimore, Maryland federal court found that Legg Mason had willfully infringed the copyrights of Lowry's Reports, Inc. and awarded Lowry's just under \$20 million.

Lowry's Reports, Inc. is a six person business located in Florida. Its *Reports* provide original and proprietary technical analysis of the stock market and each issue includes unique statistics, comparative graphs, charts, and commentary. The *Reports* reflect and analyze market conditions at the close of business the previous day and attempt to predict when assets should be invested in stocks generally, and when they should be moved to other financial instruments. Lowry's uses its confidential algorithms to calculate "Lowry's numbers": figures that represent "buying power," "selling pressure," and "short term buying power." These numbers measure the current flow of money into and out of the stock market and the value of the numbers diminish rapidly.

To protect against disclosure of "Lowry's numbers" to nonsubscribers, Lowry's has limited its subscriptions to individuals and never offers subscriptions or group licenses. Every subscriber is required to execute a subscription agreement that strictly prohibits unauthorized copying or

dissemination of the *Reports* or their contents, including "Lowry's numbers."

For over a decade, Legg Mason, a global financial-services firm that provides marketing strategy to brokers, paid for and received a single copy of the *Reports*. From 1994 until July 1999, Legg Mason's research department regularly faxed copies of the complete *Reports* to branch offices, where employees further duplicated and distributed them. In July 1999, the department began posting every issue of the *Reports* on its intranet every day, where all of its brokers had access. It also distributed additional copies to the department via paper and email.

Lowry's discovered Legg Mason's practice sometime in mid to late 2000. In 2001, Lowry's president informed Legg Mason that he considered Legg Mason's practice of distributing its *Reports* as an infringement of Lowry's copyrights. Although Legg Mason ceased posting the *Reports* on its intranet, one of its employees continued to email copies of all the *Reports* to the members of the research department. After July 2002, the employee emailed them exclusively to a subordinate employee in the research department.

Lowry subsequently brought suit against Legg Mason alleging common-law unfair competition, breach of contract, and copyright infringement in violation of the Copyright Act of 1976 (17 U.S.C. §§ 101 et seq.). The district court dismissed Lowry's common-law unfair competition claim as it was preempted by the Copyright Act. And the court refused to grant Legg Mason's motion for summary judgment regarding the breach of contract claim as a reasonable trier of fact could conclude that Legg Mason's employee executed a subscription agreement that precluded her from disseminating the *Reports* without Lowry's consent. The heart of Lowry's lawsuit concerned its claim for copyright infringement under the Copyright Act. In order to establish a *prima facie* case of copyright infringement, it was necessary for Lowry's to prove: (1) that it owned valid copyrights; and (2) that Legg Mason encroached upon one of the exclusive rights those copyrights conferred. Lowry's was able to prove ownership of copyrights by presenting certificates of copyright registration to satisfy the first element.

The court held that Lowry's established the second element of copyright infringement by proving the unauthorized distribution of the *Reports* by Legg Mason's employees. Furthermore, Legg Mason itself was responsible for its employees actions through vicarious copyright liability. Vicarious copyright liability reaches any defendant who has the right and ability to supervise the infringing activity and also has an obvious and direct financial interest in exploitation of the copyrighted material. The court found there was no doubt that Legg Mason had the right and ability to supervise its own employees who distributed the *Reports* and that Legg Mason had an obvious and direct financial interest in the *Reports* widespread copying.

Legg Mason attempted to establish three affirmative defenses to relieve it of liability: equitable estoppel, fair use, and implied license. Equitable estoppel would have required Legg Mason to prove: (1) Lowry's knew or should have known that Legg Mason was infringing its copyrights; (2) Lowry's, through misrepresentation or concealment, induced Legg Mason to reasonably believe that Lowry's did not intend to enforce its rights; (3) Legg Mason was ignorant of the true facts; and (4) Legg Mason relied to its detriment on Lowry's misleading conduct. Legg did not identify any affirmative misrepresentation by Lowry's - only claiming that Lowry's remained silent and inactive too long after discovering the infringing intranet postings. The court found that silence and inaction was not enough as each copy of the *Reports* contained a copyright notice and Lowry's mailed a memorandum to all subscribers reminding them they were not permitted to reproduce any or all of Lowry's publications. Thus, its equitable estoppel defense failed.

Legg Mason attempted to invoke the defense of fair use only for the paper and email copying within its research department, and not the intranet-related copying. The Copyright Act provides that "the fair use

of a copyrighted work . . . is not an infringement of copyright." Four statutory factors guide the determination whether a particular use is fair: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. The court divided its analysis of whether Legg Mason was entitled to a fair use defense into two phases. The first phase constituted the period from late 1999 through June 19, 2002 when copies were distributed to all six or more members of the department. The second phase constituted the period from June 20, 2002 to late July 2002 when only a single copy of the *Reports* was emailed to a subordinate employee who then printed it on paper.

In the first phase, the court found that all four of the statutory factors weighed against Legg Mason. The first factor did so because none of the employees had a personal interest in the *Reports* and instead used them for a commercial benefit. The second factor weighed against Legg Mason because the *Reports*, as short newsletters, were particularly susceptible to mass photocopying, had fairly modest circulations, and contained fictional expression that fell closer to the core of copyright than nonfictional expression. The third factor weighed against Legg Mason because the company conceded that the *Reports* were distributed in their entirety and were used to advance the business of Legg Mason without due payment to Lowry's. Finally, the fourth factor weighed heavily against Legg Mason because the copying within the research department diminished Lowry's market and the copies substituted for additional subscription copies, whose cost Legg Mason avoided. The court found that after considering all the factors, Legg Mason's use of the *Reports* during the first phase did not constitute fair use.

However, the court found summary judgment of infringement inappropriate with respect to the second phase of copying. Legg Mason argued that the second phase was simply a subordinate employee acting as a "secretary" to make a paper copy at the behest, and for the use of his boss who could have fairly made the copy herself. Yet Lowry's would argue that the subordinate employee printed out several copies of the *Reports* that were distributed to multiple members of the research department, who used them as they had used their earlier infringing email or paper copies. Because a reasonable factfinder could find support for either inference, summary judgment was inappropriate with respect to Legg Mason's second phase of copying.

As with the defense of fair use, Legg Mason attempted to raise the defense of implied license not for the intranet-related copying, but solely for the paper and email copying within its research department. Legg Mason pointed to the fact that Lowry's once sent a copy to the subordinate employee who was acting in his capacity as an assistant of the employee who was entitled to the *Reports*, and Lowry's sent at least once, historical data about its numbers to another member of Legg Mason's research department.

However, the court noted that the subordinate employee did not request to make any copies of the issue Lowry's sent him. Furthermore, the copy Lowry's sent the subordinate employee contained clear notice of copyright. The court held that neither the isolated occurrence of the subordinate employee receiving a copy of the *Reports*, nor the occasional provision of historical data could amount to Lowry's having granted Legg Mason a licensing arrangement that permitted the unlimited distribution of the *Reports* to other employees. Therefore, Legg Mason's defense of implied license failed as a matter of law.

The Copyright Act provides that as a remedy for damages, the owner of the properly registered copyrights may elect to recover (1) its actual damages plus the infringer's profits, or (2) statutory damages. If the copyright owner chooses to recover the first option, it has the burden of establishing a causal nexus between the infringing conduct and the infringer's gross revenue. Because Legg Mason never distributed infringing copies of the *Reports* for sale, or otherwise, outside of Legg Mason,

whatever profits it reaped, if any, from its infringing activities, it reaped indirectly. Lowry's argued that Legg Mason's infringing use of the *Reports* enhanced the overall quality and value of its product, but also produced concrete corporate profits.

Yet, Lowry's own expert could not say whether a causal link connected the infringement to Legg Mason's profits. Furthermore, no Legg Mason brokers testified that any of their investment decisions relied solely on information gained from infringing copies of the *Reports*. Due to the fact that "the complex, variable, independent thought processes of hundreds of individual brokers intervene[d] between the copying and any subsequent gain" Lowry's could articulate no more than a speculative correlation between the infringement and Legg Mason's profits. Thus, the court held that Lowry's claim for Legg Mason's profits must fail.

The Copyright Act permits a court to reduce statutory damages to \$200 per infringed work if "the infringer sustains the burden of proving . . . that such infringer was not aware and had no reason to believe that its acts constituted an infringement of copyright." However, an infringer cannot obtain such a reduction if a proper notice of copyright appears on the material allegedly infringed. Because each and every issue of the *Reports* contained a notice of copyright - the court could not reduce Lowry's statutory damages below \$750 per work.

The Copyright Act also permits a court to increase statutory damages to a maximum of \$150,000 per infringed work if "the copyright owner sustains the burden of proving . . . that infringement was committed willfully." The court left the determination of whether Legg Mason committed the infringement willfully for a jury to decide. On October 3, 2003, the jury returned its verdict and awarded Lowry's just under \$20 million. It awarded \$50,000 for each infringement that occurred before Lowry's gave notice of infringement to Legg Mason, and \$100,000 for each work infringed after notice.