FEDERAL PROSECUTION OF VIOLATIONS OF INTELLECTUAL PROPERTY RIGHTS

(COPYRIGHTS, TRADEMARKS AND TRADE SECRETS)

VI. APPENDICES

LEGISLATIVE HISTORY - COPYRIGHT FELONY ACT

H.R. Rep. No. 997, 102ND Cong., 2ND Sess. 1992, 1992 U.S.C.C.A.N. 3569,
P.L. 102-561, CRIMINAL PENALTIES FOR COPYRIGHT INFRINGEMENT
DATES OF CONSIDERATION AND PASSAGE
Senate: June 4, October 8, 1992
House: October 3, 1992
Senate Report (Judiciary Committee) No. 102-268,
Apr. 7, 1992 (To accompany S. 893)
House Report (Judiciary Committee) No. 102-997,
Oct. 3, 1992 (To accompany S. 893)

HOUSE REPORT NO. 102-997
October 3, 1992
[To accompany S. 893]

The Committee on the Judiciary, to whom was referred the Act (S. 893) to amend title 18, United States Code, to impose criminal sanctions for violation of software copyright, having considered the same, report favorably thereon with amendments and recommend that the Act as amended do pass.
The amendments are as follows:
Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. CRIMINAL PENALTIES FOR COPYRIGHT INFRINGEMENT.

Section 2319(b) of title 18, United States Code, is amended to read as follows:

"(b) Any person who commits an offense under subsection (a) of this section-

"(1) shall be imprisoned not more than 5 years, or fined in the amount set forth in this title, or both, if the offense consists of the reproduction or distribution, during any 180-day period, of at least 10 copies or phonorecords, of 1 or more copyrighted works, with a retail value of more than $2,500;

"(2) shall be imprisoned not more than 10 years, or fined in the amount set forth in this title, or both, if the offense is a second or subsequent offense under paragraph (1); and

"(3) shall be imprisoned not more than 1 year, or fined in the amount set forth in this title, or both, in any other case.".

SEC. 2. CONFORMING AMENDMENTS.

Section 2319(c) of title 18, United States Code, is amended-

(1) in paragraph (1) by striking " 'sound recording', 'motion picture', audio-visual work', 'phonorecord'," and inserting " 'phonorecord' "; and

(2) in paragraph (2) by striking "118" and inserting "120". Amend the title so as to read:
An Act to amend title 18, United States Code, with respect to the criminal penalities for copyright infringement.

EXPLANATION OF AMENDMENT

Inasmuch as S. 893 was ordered reported with a substitute to an amendment in the nature of a substitute, as amended, the contents of this report constitute an explanation of that substitute.

SUMMARY AND PURPOSE

The purpose of S. 893 is to harmonize the current felony provisions for copyright infringement and to provide an effective deterrence to the piracy of motion pictures, sound recordings, computer programs, and other original works of authorship. Piracy of copyrighted works costs U.S. industries millions of dollars a year, resulting in losses of jobs and diminution in the number of works created. Effective criminal penalties will aid in preventing Such losses.

INTRODUCTION

During this Congress, proposals to amend the copyright criminal felony provisions have been initiated by Senator Hatch, first as part of an omnibus crime package and later as a separate bill, S. 893. In both cases, the (identical) provisions concerned only computer programs. The provisions sought to amend title 18, United States Code, and built on amendments made in 1982 with respect to audiovisual works and sound recordings. There is no companion House bill. The Subcommittee on Intellectual Property and Judicial Administration held a hearing on S. 893 on August 12, 1992. Testimony was received from: James Charne, General Counsel of Absolute Entertainment, Inc.; Gail Penner, Counsel, Autodesk, Inc. representing the Software Publishers Association; Edward J. Black, Vice President and General Counsel, Computer & Communications Industry Association; and, David Ostfeld, Chairman, Institute of Electrical & Electronics Engineers-U.S.A.

COMMITTEE VOTE

On September 30, 1992, a reporting quorum being present, the Committee ordered S. 893 reported to the full House by voice vote, with a substitute to an amendment in the nature of a substitute, as amended.

LEGISLATIVE HISTORY

S. 893 was introduced by Senator Hatch on April 23, 1991. Its provisions were also included as part of the omnibus crime package that passed the Senate on June 27, 1991. S. 893 was reported favorably by the Senate Committee on the Judiciary on April 7, 1992, [FN1] and passed the Senate, as amended, on June 4, 1992. The bill was referred to the Committee on the Judiciary on June 9, 1992, which, on June 11, 1992, referred the bill to the Subcommittee on Intellectual Property and Judicial Administration. On August 12, 1992, the Subcommittee held a hearing on S. 893, and on September 10, 1992 it marked-up and favorably approved an amendment in the nature of a substitute.

DISCUSSION

HISTORY OF CRIMINAL COPYRIGHT STATUTES

The first criminal provision in our copyright laws was a misdemeanor penalty added in 1897 for unlawful performances and representations of copyrighted dramatic and musical compositions. [FN2] In order to constitute a criminal violation, the defendant's conduct was required to have been "willful and for profit." Section 104 of the general copyright revision of 1909 extended this penalty to all types of copyrighted works, again if the conduct was done willfully and for profit. [FN3] Section 506(a) of the 1976 general Copyright Revision Act continued the misdemeanor provision [FN4] of the 1909 Act, but changed, without explanation, the phrasing of the mens rea requirement to conduct engaged in "willfully and for purposes of commercial advantage or private financial gain." Violators were to be fined not more than $10,000 or imprisoned not more than 1 year, or both. In the case of sound recordings or motion pictures, violators were to be fined not more than $25,000 or imprisoned for not more than 1 year, or both. [FN5] Repeat offenders were subject to a fine of not more than $50,000 or imprisonment for not more than 2 years, or both.

In 1982, special provisions for motion pictures and sound recordings were added in the form of felony provisions for first time offenders. [FN6] This act amended both title 17 (the Copyright Act) and title 18. While the criminal offense remained in section 506(a) of title 17, the felony penalties for infringing reproductions or

distributions of motion pictures or sound recordings were placed in new section 2319 of title 18, United States Code. [FN7]
As passed by the Senate, S. 893 sought to build on the 1982 amendments by including computer programs within the felony penalty provisions of section 2319 of title 18. [FN8]

AMENDMENTS

The substitute favorably reported by the Committee takes a different approach From S. 893 as passed by the Senate. Rather than simply adding computer programs to audiovisual works and sound recordings as works whose infringement can give rise to felony penalties, the substitute harmonizes the felony provisions in section 2319 to apply to all types of copyrighted works, as is currently the case for misdemeanor violations. The substitute does not alter the elements that must be established for a criminal copyright violation. The substitute also does not alter the misdemeanor provisions of the current law. Instead, the only changes made by the substitute are (1) an expansion in the types of copyrighted works that may give rise to felony prosecution, and, (2) a revision in the threshold that must be satisfied before felony liability may be imposed.
As in the past, whether conduct constitutes a criminal violation will be determined as follows. First, the Government is required to establish that an act or acts of copyright infringement have occurred. This prima facie case is determined by civil law. [FN9] Second, if a prima facie case of infringement is established, the Government must prove the defendant committed the infringement "willfully and for purposes of commercial advantage or private financial gain." [FN10] Third, if this mens rea is established, in order for the violation to be a felony, the infringing reproductions or distributions must meet certain numerical thresholds. Failure to meet those thresholds will result in the violation being treated as a misdemeanor. Under the Committee substitute, the threshold for determining when an infringement accomplished with the requisite mens rea becomes a felony is to be determined through a combination of the number of infringing copies or phonorecords and their retail value. Specifically, at least 10 copies or phonorecords having a retail value of more than $2,500 [FN11] must be reproduced or distributed without the copyright owner's permission within a 180 day period [FN12] in order to meet the thresholds.

MENS REA REQUIREMENT

The requirement of a mens rea for criminal copyright infringement serves the important purpose of drawing a sharp distinction with civil copyright infringement. Under civil copyright infringement, an intent to infringe is not required, since copyright is a strict liability tort. [FN13] For an infringement to be deemed a criminal violation, however, a specific mens rea must be proved. Even if civil liability has been established, without the requisite mens rea it does not matter how many unauthorized copies or phonorecords have been made or distributed: No criminal violation has occurred.

Under section 506(a) of title 17, United States Code, unamended by the substitute, the mens rea is described as infringement done "willfully and for purposes of commercial advantage or private financial gain." The term "willfully," although used in copyright statutes since 1897 for criminal violations, has never been defined. The substitute to S. 893 does not provide a definition either, since it is the Committee's intention that the standard as construed by the courts continue to be applied. [FN14]

The mens rea requirement serves to leave outside the reach of the criminal law losing parties in ordinary business disputes such as those involving reverse engineering of computer programs [FN15] or contract disputes over the scope of licenses. [FN16] Felony liability is not the result of every unauthorized reproduction or distribution of at least 10 copies or phonorecords having a retail value of more than $2,500 within a 180-day period. First, infringement must be established. Next, the Government must prove that the infringement was done with the requisite mens rea. Unless both these requirements are met, no criminal liability-misdemeanor or felony-will lie, regardless of the number of unauthorized copies or phonorecords that have been reproduced or distributed. In cases where civil liability is unclear-whether because the law is unsettled, or because a legitimate business dispute exists- the Committee does not intend to establish criminal liability.

THE THRESHOLD REQUIREMENT OF NUMBER AND VALUE OF COPIES

The requirement that a requisite number of infringing copies or phonorecords be reproduced or distributed within a 180 day period serves a number of important purposes. First, it excludes from felony prosecution children making copies for friends as well as other incidental copying of copyrighted works having a relatively low retail value. Second, the requirement of reproducing or distributing at least 10 copies within a 180 day period removes the possibility that the increased penalties under the bill for computer program infringement can be used as a tool of harassment in business disputes over reverse engineering. Assuming

arguendo that infringement due to unauthorized reverse engineering is established, and that the infringement was done with the requisite mens rea (which, as noted above, is unlikely), no felony liability should arise, since the Committee has been informed that reverse engineering does not require the reproduction of more than a handful of copies.

Where the requisite number of unauthorized copies or phonorecords with the requisite retail value have been made or distributed willfully and for purposes of commercial advantage or private financial gain within a 180 day period, the violator is subject to the following penalties: (1) imprisonment of not more than 5 years and/or the fine prescribed in title 18 for a first offense; [FN17] (2) imprisonment of not more than 10 years and/or the fine prescribed in title 18 for a second or subsequent offense.

SECTION-BY-SECTION ANALYSIS OF THE COMMITTEE SUBSTITUTE

SECTION 1

Section 1 of the Committee substitute amends section 2319(b) of title 18 in its entirety. Under the substitute, any person who violates section 506(a) of title 17, United States Code, shall be imprisoned for not more than 5 years, or fined in the amount set forth in title 18, or both, if the offense consists of the reproduction or distribution of at least 10 copies or phonorecords, of one or more copyrighted works, with a retail value of more than $2,500 during a 180 day period. [FN18] The phrase "of one or more copyrighted works" is intended to permit aggregation of different works of authorship to meet the required number of copies and retail value. For example, a defendant's reproduction of 5 copies of a copyrighted word processing computer program having a retail value of $1,300 and the reproduction of 5 copies of a copyrighted spreadsheet computer program also having a retail value of $1,300 would satisfy the requirement of reproducing 10 copies having a retail value of at least $2,500, if done within a 180 day period.

The term "retail value" is deliberately undefined, since in most cases it will represent the price at which the work is sold through normal retail channels. [FN19] At the same time, the Committee recognizes that copyrighted works are frequently infringed before a retail value has been established, and that in some cases, copyrighted works are not marketed through normal retail channels. Examples include motion pictures prints distributed only for theatrical release, and beta-test versions of computer programs. In such cases, the courts may look to the suggested retail price, the wholesale price, the replacement cost of the item, or financial injury caused to the copyright owner.

If the offense is a second or subsequent offense, the defendant is subject to imprisonment for not more than 10 years, or a fine in the amount set forth in title 18, United States Code, or both.
If the defendant failed to make the requisite number or value of copies within the 180 day period, but still engaged in the infringing conduct with the requisite mens rea, section 2319(b)(3) subjects the defendant to a term of imprisonment of not more than 1 year or a fine in the amount set forth in title 18, United States Code, or both, as under current law.

SECTION 2

Section 2 contains conforming amendments. Since the substitute harmonizes the felony penalties to apply to all types of copyrighted works, section 2 deletes the references to "sound recording," "motion picture" and "audiovisual work."

EFFECTIVE DATE

The substitute shall take effect on the date of enactment and applies only to conduct engaged in on or after that date.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

COMMITTEE ON GOVERNMENT OPERATIONS OVERSIGHT FINDINGS

No findings or recommendations of the Committee on Government Operations were received as referred to in clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 2(l)(3)(B) of House Rule XI is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 2(l)(3)(C) of rule XI of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill S. 893, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 403 of the Congressional Budget Act of 1974:

U.S. Congress,
Congressional Budget Office,
Washington, DC, October 2, 1992.
Hon. Jack Brooks,
Chairman, Committee on the Judiciary,
House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has reviewed S. 893, a bill to amend title 18, United States Code, to impose criminal sanctions for violation of software copyright, as ordered reported by the House Committee on the Judiciary on September 30, 1992. Enactment of this bill would increase costs to the federal government because prison terms served by some copyright offenders would be longer. It also could increase receipts to the federal government from fines, but we cannot estimate the amount of either increase.

Because S. 893 could affect receipts, it would be subject to pay-as-you-go procedures under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985. Therefore, the estimate required under clause 8 of House Rule XXI is attached.

Under current law, only certain offenses involving copyright violations of sound recordings or audiovisual works are felonies, while all other copyright violations are misdemeanors. S. 893 would change the criteria for determining whether a copyright violation involving sound recordings or audiovisual works is a felony offense. In addition, the bill would apply the same criteria to all copyright violations, not just those involving sound recordings or audiovisual works.

It is impossible to predict with confidence the effect of the new criteria for determining felonies, because some copyright violations that otherwise would have been felony offenses would be misdemeanor offenses, and vise versa. Some offenses that could only have been misdemeanors-namely, those not involving sound recordings or audiovisual works-would be felonies under S. 893.

This probably would result in increased prison terms served and/or fines paid by these offenders, but CBO has no basis for quantifying the increased cost or receipts to the federal government. Any such costs would be paid from appropriated funds.

CBO estimates that enactment of S. 893 would result in no cost to state or local governments.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Mark Grabowicz, and John Stell.

Sincerely,

James L. Blum
(For Robert D. Reischauer, Director).

CONGRESSIONAL BUDGET OFFICE ESTIMATE [FN1]

The applicable cost estimate of this act for all purposes of sections 252 and 253 of the Balanced Budget and Emergency Deficit Control Act of 1985 shall be as follows.

TABULAR OR GRAPHIC MATERIAL SET FORTH AT THIS POINT IS NOT DISPLAYABLE

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee estimates that S. 893 will have no significant impact on prices and costs in the national economy.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 2319 OF TITLE 18, UNITED STATES CODE

* * * * * * *

S 2319. Criminal infringement of a copyright

(a) * * *

(b) Any person who commits an offense under subsection (a) of this section-

(1) shall be fined not more than $250,000 of imprisoned for not more than five years, or both, if the offense-

(A) involves the reproduction or distribution, during any one-hundred-and-eighty-day period, of at least one thousand phonorecords or copies infringing

the copyright in one or more sound recordings;
(B) involves the reproduction or distribution, during any one-hundred-and-eighty-day period, of at least sixty-five copies infringing the copyright in one or more motion pictures or other audiovisual works; or
(C) is a second or subsequent offense under either of subsection (b)(1) or (b)(2) of this section, where a prior offense involved a sound recording, or a motion picture or other audiovisual work;
(2) shall be fined not more than $250,000 or imprisoned for not more than two years, or both, if the offense-

(A) involves the reproduction or distribution, during any one-hundred-and-eighty-day period, of more than one hundred but less than one thousand phonorecords or copies infringing the copyright in one or more sound recordings; or
(B) involves the reproduction or distribution, during any one-hundred-and-eighty-day period, of more than seven but less than sixty-five copies infringing the copyright in one or more motion pictures or other audiovisual works; and
(3) shall be fined not more than $25,000 or imprisoned for not more than one year, or both, in any other case.)

(b) Any person who commits an offense under subsection (a) of this section-

(1) shall be imprisoned not more than 5 years, or fined in the amount set forth in this title, or both, if the offense consists of the reproduction or distribution, during any 180-day period, of at least 10 copies or phonorecords, of 1 or more coyrighted works, with a retail value of more than $2,500;
(2) shall be imprisoned not more than 10 years, or fined in the amount set forth in this title, or both, if the offense is a second or subsequent offense under paragraph (1); and
(3) shall be imprisoned not more than 1 year, or fined in the amount set forth in this title, or both, in any other case.
(c) As used in this section-

(1) the terms ("sound recording", "motion picture", "audiovisual work", "phonorecord",) "phonorecord" and "copies" have, respectively, the meanings set forth in section 101 (relating to definitions) of title 17; and
(2) the terms "reproduction" and "distribution" refer to the exclusive rights of a copyright owner under clauses (1) and (3) respectively of section 106 (relating to exclusive rights in copyrighted works), as limited by sections 107 through (118,) 120, of title 17.
FN1 S. Rept. No. 102-268, 102d Cong., 2d Sess.

FN2 Act of January 6, 1897, 54th Cong., 2d Sess., 29 Stat. 481.

FN3 This provision also imposed liability on those who "knowingly and willfully" aided and abetted criminal infringement.

FN4 The 1976 act dropped the aiding and abetting provision of the former law, however.

FN5 For sound recordings, criminal infringement would lie for violation of the reproduction, derivative, or distribution rights. For motion pictures, criminal infringement would lie for infringement of the reproduction, distribution, or public performance rights. 17 U.S.C. S 506(a)(1978).

FN6 Act of May 24, 1982, P.L. 97-180, 97th Cong., 2d Sess., 96 Stat. 91.

FN7 Section 2319 of title 18 currently reads:

(a) Whoever violates section 506(a) (relating to criminal offenses) of title 17 shall be punished as provided in subsection (b) of this section and such penalties shall be in addition to any other provision of title 17 or any other law.

(b) Any person who commits an offense under subsection (a) of this section-

(1) shall be fined not more than $250,000 or imprisoned for not more than 5 years, or both, if the offense-

(A) involves the reproduction or distribution, during any 180-day period, of at least 1,000 phonorecords or copies infringing the copyright in one or more sound recordings;
(B) involves the reproduction or distribution, during any 180-day period, of at least 65 copies infringing the copyright in one or more motion pictures or other audiovisual works; or
(C) is a second or subsequent offense under either of subsection (b)(1) or (b)(2) of this section, where a prior offense involved a sound recording, or a motion picture or other audiovisual work;
(2) shall be fined not more than $250,000 or imprisoned for not more than 2 years, or both, if the offense-

(A) involves the reproduction or distribution, during any 180-day period, of more than 100 but less than 1,000 phonorecords or copies infringing the copyright in one or more sound recordings; or
(B) involves the reproduction or distribution, during any 180-day period, of more than 7 but less than 65 copies infringing the copyright in one or more motion pictures or other audiovisual works; and
(3) shall be fined not more than $25,000 or imprisoned for not more than 1 year, or both, in any other case.

FN8 Specifically, S. 893 as passed by the Senate provided for:

(1) A fine of not more than $250,000 or imprisonment for not more than 5 years or both if, during any 180-day period, at least 50 copies infringing the copyright in one or more computer programs are reproduced or distributed;
(2) A fine of not more than $250,000 or imprisonment for not more than 2 years or both if, during any 180-day period, more than 10 but less than 50 copies infringing the copyright in one or more computer programs are reproduced or distributed.
(3) A second or subsequent offender under either (1) or (2) will be punished under (1).

FN9 United States v. Larracuente, 952 F.2d 673, 673 (2d Cir. 1992); United States v. Cross, 816 F.2d 297, 303 (7th Cir. 1987); United States v. O'Reilly, 230 USPQ 475 (11th Cir. 1986).

FN10 17 U.S.C. S 506(a) (1978).

FN11 As under current law, the felony penalties are only for violations of the reproduction or distribution right: infringement of the right to prepare derivative works, the right to publicly perform a copyrighted work, or the right to publicly display a copyrighted work is subject only to a misdemeanor penalty.

FN12 This one hundred and eighty day provision was added as an amendment by Mr. Campbell, and conforms to the current provisions in section 2319 of title 18, United States Code.

FN13 Buck v. Jewell-LaSalle Realty Co., 283 U.S. 191, 198 (1931).

FN14 See e.g., United States v. Cross, 816 F.2d 297, 300 (7th Cir. 1987) (defendant must have engaged in the infringing conduct with knowledge that his or her activity was prohibited by law.) For decisions under the 1909 Act, see United States v. Backer, 134 F.2d 533 (2d Cir. 1943), and United States v. Taxe, 540 F.2d 961 (9th Cir. 1976), cert denied, 429 U.S. 1040 (1977). In

Backer, the Second Circuit found liability where the defendant, although without actual notice from the copyright owner, unlawfully issued instructions to make copies resembling the copyrighted work "as closely as they might without 'copyright trouble,'" indicating that the defendant was aware of the legal prohibition against infringement. In Taxe, the 9th Circuit affirmed a jury instruction that advice of counsel is "no defense" but should be considered in whether the defendant's action was "willful."

FN15 This legislation should not be construed by the courts as expressing Congressional intent on the question of whether reverse engineering is or is not a civil violation of copyright law. S. 893 is an amendment the criminal copyright law provisions, and assumes that a prima facie case

of infringement has been proven. The elements of the civil offense of infringement are left to the developing jurisprudence in the area.

FN16 See United States v. Larracuente, 952 F.2d 672, 673 -674 (2d Cir. 1992) ("If the accused infringer has been licensed by a licensee of the copyright owner, that is a matter of affirmative defense").

FN17 See 18 U.S.C. S 3571(b) (fines for individuals); id., S 3571(c) (fines for organizations).

FN18 This 180 day period does not change the 3 year statute of limitations period set forth in section 507(a).

FN19 See generally, United States v. Larracuente, 952 F.2d 672, 674 (2d Cir.1992) (holding that trial court was correct in applying the Sentencing Commission's guidelines "to the normal retail price, rather than the lower bootleg price paid by those who presumably are aware that the prices they are buying are not legitimate," but noting possible exceptions).

FN1 An estimate of S. 893 as ordered reported by the House Committee on the Judiciary on September 30, 1992. This estimate was transmitted by the Congressional Budget Office on October 2, 1992.
H.R. REP. 102-997, H.R. Rep. No. 997, 102ND Cong., 2ND Sess. 1992,
1992 U.S.C.C.A.N. 3569.

###