

On the origin of copyright trolls

The case of law firm Prenda Law has been garnering attention in the US. Edwards Wildman's **Martin Koppers** and **Glenn Pudelka** discuss what it means for aggressive copyright litigation

It is likely that you have heard about patent trolls – the pejorative term for patent holders that do not market goods or services, but live off disputes relating to the patents they have hoarded. It was asked several years ago, whether these entities are fact or fiction – the answer as we now know is, they are a fact, as recognised by the renewed attempt to pass the SHIELD Act in the United States.¹

It is however somewhat less likely that you have heard about the patent troll's slightly more shy relative, the copyright troll. Such entities thrive off obtaining limited ownership interests in works in copyright and enforcing such against as many infringers as possible. As a rule, they do not engage in the creation, distribution or use of creative expression.

Quite fittingly perhaps, given the Statute of Anne, it has been asserted that the first sighting of a copyright troll was in England.² The troll in question, Harry Wall, had been spotted feeding off the tastier provisions of the Dramatic Literary Property Act 1833 (3&4 Will. IV, c. 15). His business model was remarkably similar to that of his descendants; he acquired powers of attorney from composers with a view to enforcing their rights, and preyed on infringers by extracting licence fees and settlements, by means of threatening them with statutory damages.

The two core elements of his business were thus: a) the right and ability to sue; and b) the threat of statutory damages. In 1878, the Royal Commission on Copyright heard evidence that there was concern that Wall did not care for the works, but only pecuniary recompense.³

In modern times, AF Holdings and related entities have recently brought the legitimacy of the evolved business concept of a non-creative exploitative copyright holder to the attention of several US courts. Before examining this closer, and making practical recommendations for rights holders, it is worth examining what exactly sustains trolls.

The current business models of most trolls make use of (and indeed require) three things:

- Independent standing to sue;
- Divisibility of copyright (disaggregation); and
- Statutory damages provisions.

At first blush when reading the United States' 1976 Copyright Act, it appears a troll's independent standing to sue does not exist, since it is only the "owner" of rights granted by copyright that is permitted to bring an action for infringement. The definition of owner of copyright, however, recognises exclusive licensees as copyright owners. This change in the legal basis, since the Copyright Act, for being able to bring an action, *prima facie*, makes perfect sense.

Another additional feature introduced by the Copyright Act was the divisibility of copyright's enumerated rights (including temporal, geographic or subject matter subdivisions). The wording in section 201(d) (2) states that, "[A]ny of the exclusive rights comprised in a copyright, including any subdivision of any of the rights" may be "transferred" and "owned separately". The restriction on this, however, is that such divisibility can only extend to the rights specifically enumerated in the Copyright Act's grant, meaning that a mere right to sue/enforce is not sufficient.⁴

The availability of statutory damages, under section 504(c)(1), completes the conditions required for a troll to exist. Statutory damages do away with the need to prove, for example, lost profits, as part of an assessment of actual damages.

Not being a primary market actor in relation to expressions, whether by creation or distribution, it is very unlikely that a troll will have suffered any actual harm or lost profits from infringement. Just as importantly, the fixed amounts awarded per work infringed, as the court "considers just", allow for potentially very large aggregation.

There are two bands of statutory damages. The first is between \$750 – \$30,000 per infringement and the second up to \$150,000 where wilful infringement is successfully established by a plaintiff. Many commentators have observed that the test applied by the courts in respect of wilfulness is not a particularly strict one.

The award per work rule allows for almost punitive damages, further proving beneficial, in that settlements are thus greatly facilitated, reducing time and cost.⁵ Naturally, the amounts received by settlement in most

instances are much lower than what may have been awarded, however, owing to the large number of such cases brought, the troll will achieve economies of scale, especially since the costs and logistics of maintaining several hundred infringement actions are considerable. This is especially the case when attorneys' fees and cost are considered and that the party prevailing may be awarded such costs under Section 505.

So how does a troll use the above in practice? In general, it follows a four step process:

1. Find a creator;
2. Locate a copier/distributor;
3. File an action; and
4. Settle the claims.

It is clear that the troll first has to woo a copyright holder. This will usually be done by identifying a rights holder that wishes to enforce its rights, but lacks the time, facilities and/or means of doing so. The absence of the usual outside law firm is presented as an attractive proposition – a 'mere' transfer of ownership of certain rights allows the troll to proceed, at its own expense, with steps two to four above.

Next, once a representative catalogue of works has been obtained, the troll will search for corresponding infringements. For the most part after the identification of such, the specific rights (or parts thereof) are acquired from the willing owner. This is made possible, as explained above.

Since the modern troll's business model is based on high-frequency digital infringement, having been made an exclusive licensee, it has standing to commence action in Federal court. Because it is not in the Troll's interest to curb infringement, the usual pre-action steps, including cease and desist letters are typically not taken. The alleged infringer will be served without prior notice. This compounds the effect the complaint has, and leads on to the next step.

Most of the infringers that face lawsuits brought by trolls in federal court will shy away from choosing to defend themselves, when presented with an option to settle. The amount of statutory damages awardable together with the attorneys' fees and costs, typically make a

defence unpalatable. Therefore, in most cases, the troll will collect a non-negligible settlement often in the low thousands soon after issuing proceedings. This procedure is relatively lucrative when several hundred defendants settle.

Having reviewed what has sustained a typical troll's business and how such has typically operated (there are countless variations), it is now worth examining aspects relating to a contemporary specimen, as mentioned above. Several allegedly linked entities, AF Holdings and Ingenuity 13 (the plaintiffs), 'clients' of Prenda Law were engaged in conduct similar to that described above, occasioning at least 200 actions to be brought in federal courts.

Federal courts have become increasingly aware of the practices of trolls, in particular by the above named entities. Earlier this year, District Judge Otis Wright II, the judge before whom some of the plaintiffs' actions were brought, required the attorney (Of counsel to Prenda Law) for AF Holdings and Ingenuity 13 to appear to justify his alleged violations of Federal Rule of Civil Procedure 11(b)(3) (Rule 11) (evidentiary support) and Local Rule 83-3 (misconduct).⁶

The judge held in connection with Rule 11 that the attorney had occasioned a lack of reasonable investigation into: a) copyright infringement activity; and b) actual infringers' identity. According to the court the proof of infringement submitted, being a snapshot observation of a BitTorrent download, was insufficient to meet the test of copying – since if a download was not completed (or a useable portion acquired), plaintiffs' lawsuit may be deemed frivolous for lacking factual foundation. Moreover, naming the defendant based on an IP address, name of BitTorrent client used, time of download and lack of response by the subscriber was insufficient. The plaintiffs' general deductive process that an internet subscriber remaining silent to requests for information equates to a likelihood of a member of the household being the actual infringer, was not approved of by the court. The court instead recommended additional steps to verify the identity of the infringer.

Importantly, the court expressed concern that, especially in cases where the subject of the works being infringed was x-rated in nature, it was highly likely that the accused would immediately pay a settlement demand, to avoid costs and prevent being named publicly.

Concerning the allegations of misconduct, the court among other things highlighted that Prenda Law may have tried to defraud the court, given that an individual's name/identity may have been misappropriated to facilitate the underlying assignments of rights resulting

in an improper execution and hence lack of standing to sue. This conduct was also to be considered vexatious.

The attorney for the plaintiffs was ordered to show cause for his conduct and informed that his conduct was punishable by fine, incarceration or other sanctions sufficient to deter future misconduct. His failure to appear would result in automatic imposition of sanctions together with a warrant for contempt.

Interestingly, the court initially declined to sanction plaintiffs, since the attorney appeared to be closely related to, or have a fiduciary interest in plaintiffs, and these were likely devoid of assets.

It has been widely reported that in appearing at the hearing the attorney for the plaintiffs and others connected with Prenda Law invoked their right to non-incrimination.⁷ This may in part have been responsible for the court's greater reliance on its inherent authority in issuing sanctions on 6 May 2013 of attorneys' fees and costs, referral of attorneys to their respective bars, as well as referrals to the local US Attorney and IRS. The court emphasised the greater appropriateness of such sanctions, given insufficient findings to support, and likely avoidance of, monetary sanctions.

Whereas the above is one example⁸ of the courts attempting to curb litigation brought by trolls, it is worth highlighting the difference between a troll, and other legitimate forms of enforcement business, which use ethical and reputable means to enforce otherwise practically unenforceable rights. One such example would be organisations that aid small businesses or individuals (such as photographers), which would have almost no other means of adequately proceeding against the unauthorised commercial exploitation of their works.

The above raises several action points for rights holders (or those advising such).

When dealing with an enforcer:

- Carefully examine their credentials and let them explain their business model (for example, do they use reputable attorneys);
- Weigh up the cost and effort of directly using a reputable copyright attorney, perhaps on an alternative fee basis;
- Only make exclusive assignments of rights, and if unsure, seek specialist advice; and
- Beware of negative publicity associated with mass enforcement and seek advice in handling this matter.

Footnotes

1. *Saving High-Tech Innovators from Egregious Legal Disputes Act* of 2013. See also Hearing before the Subcommittee on Courts, the

Internet, and Intellectual Property, "Patent Trolls: Fact or Fiction?" (2006), 109th Congress, 2nd Sess.

2. I. Alexander, "Neither Bolt nor Chain, Iron Safe nor Private Watchman, Can Prevent the Theft of Words": *The Birth of the Performing Right in Britain, in Privilege and Property: Essays on the History of Copyright*, 321, 339 (Eds. Ronan Deazley et al., 2010).
3. Royal Commission on Copyright: Minutes of Evidence, London (1878), Friday, 21st July 1876, at [2092], available at http://copy.law.cam.ac.uk/cam/tools/request/showRepresentation.php?id=representation_uk_1878a&pagenumber=1_201&image_size=middle (03 May 2013)
4. Note *Silvers v Sony Pictures Entertainment, Inc.*, 402 F.3d 881 (9th Cir. 2005).
5. See M.A. Koppers, 'USA: Fading the 'Green Pastel Redness' of Due Process in relation to Statutory Copyright Damages' [2012] 6 Computer Law Review International (CRI); M.A. Koppers, 'US Copyright Infringement by File "Sharing": Statutory Damage(s)' [2010] 2 Computer Law Review International (CRI).
6. *AF Holdings LLC v John Doe*, Case No.2:12-cv-6636-ODW(JCX)(CD California 2013).
7. EFF, James Tyre and Parker Hignis, *Copyright Trolls Offer No Defense to Frustrated Federal Judge*, 02 April 2013, available at <https://www.eff.org/deeplinks/2013/04/copyright-trolls-offer-no-defense-frustrated-federal-judge> (04 May 2013).
8. See also *Righthaven LLC v Democratic Underground LLC* (D.Nev., 14 June 2011).

Authors



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