Copyright Infringement and Bankruptcy: The Meaning Of Willful in Two Statutory Schemes

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INTRODUCTION

A single mother of two downloads twenty songs off of the Internet from a service provider. A record company sues her for willful copyright infringement alleging that she downloaded the music when she had reason to know that the songs were illegal downloads. Thus, the download of the songs was considered a willful copyright infringement under the Copyright Act and was subject to the maximum permissible statutory damages within the judge’s discretion. The download of each song was considered an infringement and was multiplied by the $150,000 in damages that could be awarded under the Act. The judge, within the limits of the Act, found for the plaintiffs, a large record company, and ordered that the defendant pay $3 million. Unfortunately, when the woman declared personal bankruptcy after the decision the damages were not subject to discharge because they were considered a willful and malicious injury. Thus, her infringement and the grossly excessive damages would follow her throughout the bankruptcy proceedings and for the rest of her life.

The Bankruptcy Act was enacted with the purpose of giving debtors a fresh start.² So, in the hypothetical above, the single mother who downloaded a minimal twenty songs off the Internet, if done so without intent, would not be burdened for the rest of her life by the $3 million judgment against her if she declared bankruptcy. In fact, under the Bankruptcy Code, even the presumption is in favor of the debtor, meaning that the record company would have to prove that

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² Local Loan Co. v. Hunt, 292 U.S. 234, 244 (1934) (quoting Williams v. United States Fidelity & Guaranty Co., 236 U.S. 549, 554-555 (1915)).
the single mother’s infringement was willful and malicious.\textsuperscript{3} Nevertheless, because of changing definitions of willful and malicious under the Bankruptcy Code, and various judicial interpretations of their definitions within the Copyright Act, the single mother above may be liable for the full judgment.

In my note, I will first look at the specific qualifications needed for dischargeability of debts in bankruptcy proceedings.\textsuperscript{4} One exception to discharge of debts is “willful and malicious injury,” which sets forth a bar denying discharge of debts resulting from any injury done in an intentional manner.\textsuperscript{5} This exception is applied in a two-step manner by courts: first, they determine whether the behavior was done willfully; second, they determine whether the conduct at issue was done maliciously.\textsuperscript{6} While the definition of willfulness has not been contested, maliciousness has been controversial.

Prior to the current standard, the definition of maliciousness included reckless behavior. This made its scope much broader than was intended,\textsuperscript{7} as evidenced by the case law and legislative history.\textsuperscript{8} The current standard, articulated by the Supreme Court in the landmark case of \textit{Kawaauhau v. Geiger}, only includes actual knowledge rather than recklessness.\textsuperscript{9}

\textsuperscript{3} Matter of Crosswhite, 148 F.3d 879, 881 (7th Cir. 1998).

\textsuperscript{4} Under the Bankruptcy Code, certain exceptions, including the “willful and malicious” exception, do not apply to legal persons, such as corporations, and thus, only an individual would be eligible for exemption under the exception.


\textsuperscript{6} \textit{Id}.

\textsuperscript{7} \textit{See} Tinker v. Colwell, 193 U.S. 473, 487 (1904).


\textsuperscript{9} \textit{See infra} note 58.
Nevertheless, the Copyright Act, which has implications for discharge in bankruptcy proceedings, still uses a recklessness standard in its definition of willful.\textsuperscript{10} Thus, if one infringes a copyright willfully, and such infringement is then potentially subject to discharge, a bankruptcy judge has to determine whether the willful infringement meets the copyright standard as well as the bankruptcy standard.

In the case of copyright infringement, a copyright owner may either elect to pursue actual damages or statutory damages provided for under the Copyright Act. Willful copyright infringement, under the Copyright Act, provides for the maximum of statutory damages at $150,000 per infringement within the court’s discretion.\textsuperscript{11} Such statutory damages have become increasingly problematic in intellectual property litigation. Although the courts have reformed their standard from a per-infringement scheme to a work-infringed scheme, an infringement can result in substantial statutory awards. Such damages, particularly those against individuals, can be unreasonably financially burdensome. If the court determines that the infringement was willful within the meaning of the Bankruptcy Code, resulting debts will not be discharged and that judgment will follow the individual indefinitely.

**INDIVIDUAL INFRINGEMENT: NONDISCHARGEABILITY OF INDIVIDUAL DEBTS DUE TO INTELLECTUAL PROPERTY INFRINGEMENT**

Alternative provisions of the Bankruptcy Code govern discharge of individual debts versus corporate debts. As stated under §523(a), a debtor is subject to discharge if he is an “individual.”\textsuperscript{12} Courts have found that Congress did not intend “corporate debtor” to be interchangeable with “individual debtor,” and this inappropriate use would “render meaningless”


\textsuperscript{11} See infra note 76.

the word “individual.”\footnote{13} Thus, the willful and malicious exemption to discharge only applies to persons, such as the single mother infringer.

The creditor seeking to establish an exception to the discharge bears the burden of proof and must establish nondischargeability by a preponderance of the evidence.\footnote{14} Proof of copyright infringement does not, in and of itself, bar discharge of the resulting debt; the court must instead apply the standards of bankruptcy law to the infringement to determine if the conduct was willful within the meaning of the Bankruptcy Code.\footnote{15}

**BANKRUPTCY STANDARD: TRULY WILLFUL COPYRIGHT INFRINGEMENT UNDER SECTION 523(a)(6)**

It has been noted by the Supreme Court that the purpose of the Bankruptcy Act was to "relieve the honest debtor from the weight of oppressive indebtedness and permit him to start afresh free from the obligations and responsibilities consequent upon business misfortunes."\footnote{16} The Court intended this to serve both a public and private service whereby the debtor timely surrendered the indebted property and was relieved of the future burden of his debt.\footnote{17} In essence, he was given a second chance.\footnote{18}


\footnote{14} *Matter of Crosswhite*, 148 F.3d at 881.


\footnote{16} *Local Loan*, 292 U.S. at 244 (quoting Williams v. United States Fidelity & Guaranty Co., 236 U.S. 549, 554 (1915)).

\footnote{17} *Id*.

\footnote{18} Under 11 U.S.C. § 362(a)(1) the filing of a petition for bankruptcy operates as a stay of the debts that arose before the filing of the claim. Further, 11 U.S.C. § 362(a)(3) prevents "any act to obtain possession of property of the estate or of property from the estate or to exercise control over property of the estate." Thus, a debtor’s discharge is only retrospective. *See Hazelquist v. Guchi Moochie Tackle Company, Inc.*, 437 F.3d 1178, 1180 (Fed. Cir. 2006)(holding that the debtor was responsible for new claims for infringement after filing of the petition); Richard M. Cieri, Neil P. Olack & Joseph M. Witalec, *Protecting Technology and Intellectual Property Rights When a Debtor Infringes on Those Rights*, 8 AM. BANKR. INST. L. REV. 349, 357 (2000).
In general, bankruptcy presumes an honest debtor and that debts are dischargeable unless a creditor proves an exception to discharge.\(^{19}\) Nondischargeability, or an exception to relief, must be established by the creditor by a preponderance of the evidence.\(^{20}\) When examining such cases, bankruptcy courts may consider circumstantial evidence that establishes what the debtor must have known when taking the action that caused the injury.\(^{21}\) One exception to nondischargeability is “willful and malicious injury by the debtor to another entity or to the property of another entity.”\(^{22}\) When evaluating an exemption claim such as willful and malicious injury, the court should construe the statute in favor of the debtor and against the creditor.\(^{23}\) Such an interpretation, consistent with the underlying values of the Bankruptcy Code, is only available to the honest debtor because any improper behavior of “a debtor places the rectitude of his or her prior dealings with creditors directly at issue.”\(^{24}\)

An injury applicable to § 523(a)(6) includes injuries resulting from tort, specifically, harm to the personal or property rights of others, such as copyright.\(^{25}\) All injuries, however, must be done intentionally in order to meet the requirements of the statute.\(^{26}\) A determination of “intentional” injury is distinct from damage.\(^{27}\) The determination must focus on whether the


\(^{21}\) In re Su, 290 F.3d 1140, 1146 (9th Cir. 2002).


\(^{24}\) *Id.*

\(^{25}\) *Id.* at 376.

\(^{26}\) *Id.*

debtor intended to violate the legal rights of the creditor, rather than the damage resulting from the harm. In all cases, the willful and malicious prongs of the exception to discharge must be analyzed separately and courts have defined them as such.

“Willful” is defined in Black’s Law Dictionary as “voluntary and intentional, but not necessarily malicious.” Legislative history indicates that the intended meaning of “willful” within the meaning of § 523(a)(6) was “deliberate or intentional,” and that “to the extent [other cases] apply a ‘reckless disregard’ standard, they are overruled.”

In contrast to the willfulness standard, the maliciousness standard has been unsettled. There has been a split in authority between courts requiring intent for both the act and the injury versus intent for just the act that results in injury. The maliciousness standard does not, however, require a showing of personal ill will or spite. Prior to the landmark case of Geiger, courts thought that the debtor must have engaged in either of the above interpretations of malice. However, in the Supreme Court’s first noted interpretation of the willful and malicious

28 Bukowski, 266 B.R. at 844-45.
31 S. REP. NO. 95-989, at 79 (1978), as reprinted in 1978 U.S.C.C.A.N. 5787, 5865. See also Andrea R. Blake, Debts Nondischargeable for “Willful and Malicious Injury”: Applicability of Bankruptcy Code 523(a)(6) in a Commercial Setting, 104 Com. L.J. 64, 65 (Spring, 1999); Matter of Morgan, 22 B.R. 38, 39 (Bankr. D. Neb. 1982). Prior to the enactment of the Bankruptcy Code, the leading case on willful and malicious injury was Tinker v. Colwell, which held that a reckless disregard of the rights of others would prevent a discharge of debt. This has since been overruled as inconsistent with the legislative history of § 523(a)(6) and the standard of willful and malicious. In re Adams, 761 F.2d 1422, 1426 (9th Cir. 1985).
33 In re Wernecke, 1 F. Supp. 127, 128 (D.C.N.Y. 1932) (punitive damages are the proper remedy for ill will towards a particular individual).
34 Bukowski, 266 B.R. at 843; Blake, supra note 32.
exception in *Tinker v. Colwell*, the Court held that damages resulting from criminal conversation, or adultery, were not dischargeable because the adultery was a trespass of the personal property and rights of the plaintiff, namely his wife.\(^{35}\) In applying the exception, Justice Peckham, defined “willfulness” as “intentional and voluntary.”\(^{36}\) As noted, the term “malicious” did not require a specific “malignant spirit” towards the harmed, but was defined as a “wrongful act, done intentionally without just cause or excuse.”\(^{37}\) Nevertheless, the Court cautioned that the spirit of the Bankruptcy Act was to discharge the honest debtor; thus, one who behaved maliciously would not qualify for discharge of debts just as one who behaved intentionally would not qualify.\(^{38}\) Ultimately, the Court pronounced a combined principle, “we think a willful disregard of what one knows to be his duty, an act which is against good morals, and wrongful in and of itself, and which necessarily causes injury and is done intentionally, may be said to be done willfully [sic] and maliciously, so as to come within the exception.”\(^{39}\) The standard set forth by *Tinker* became injury resulting from a “reckless disregard” and prior to the Bankruptcy Reform Act of 1978, such an injury did not qualify for discharge, even absent ill-will.\(^{40}\)

In the 1978 revisions of the Bankruptcy Code, however, *Tinker* was specifically addressed in order to overrule any reckless standard that may have been applied by lower courts. The “reckless disregard” standard was specifically overruled.\(^{41}\)

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\(^{36}\) *Tinker*, 193 U.S. at 485.

\(^{37}\) *Id.* at 486-87.

\(^{38}\) *Id.* at 488.

\(^{39}\) *Id.* at 487.

\(^{40}\) *Id.* at 487.

During the period between *Tinker*’s articulation and its legislative correction, there was a divergence of interpretations of the willful and malicious standard. One interpretation by courts used a subjective reasoning approach, which articulated the requirement in an “actual malice” theory, whereby if a defendant deprived a person of their property or legal rights with the belief that he had a right to do so, it was not willful or malicious.\(^\text{42}\) In contrast, other courts interpreted the malicious and willful standard with objective reasoning, finding the maliciousness standard satisfied whenever the defendant’s conduct was intentional.\(^\text{43}\) This was called the “legal malice” standard.\(^\text{44}\)

Under the “actual malice” theory, or narrow approach, courts generally interpreted “malicious” and “willful” together, and required a showing of specific intention to cause the harm.\(^\text{45}\) Courts found that for a willful and malicious injury to create a nondischargeable debt there had to be intent to do harm to the creditor or his property.\(^\text{46}\) Courts that interpreted the standard in this strict sense thought maliciousness could not be implied in the debtor’s action, and did not use less stringent standards of “reckless disregard,” or negligence in their holdings.\(^\text{47}\) In effect, these courts found that the reversal of *Tinker*, by Congress, was not only a reversal of the interpretation of willfulness but also of maliciousness; and that specific malice was the new


\(^{43}\) *In re* Remick, 96 B.R. at 939.

\(^{44}\) *Id.*


standard. Under this new standard courts were only willing to find that there was willful or malicious conduct when the debtor was “certain, or substantially certain” that harm would result from his actions.

In contrast to the “actual malice” interpretation, legal malice is satisfied with any intentional act. Courts found “legal malice” based on intentional wrongful acts done without just cause or excuse to another’s injury. As opposed to those courts that accepted the actual malice approach, courts that embraced the legal malice theory held that Congress only overruled Tinker with respect to the “willful” prong of its holding; thus, no specific malice was required. Malice can be implied or inferred from the debtor’s conduct. Malice can also be established through evidence that the debtor “acted in knowing contravention of the rights of the creditor and that the resulting is of the type which logically flows from that act.”

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49 Id. at 379 (quoting In re Fercho, 39 B.R. 764, 767 (Bankr. D.N.D. 1984).


51 Id. (citing 1A Collier on Bankruptcy ¶ 17.17, p. 1652, 1653, 1654 (14th ed. 1976)).

52 In re McNallen, 62 F.3d 619, 625 (4th Cir. 1995) (quoting St. Paul Fire & Marine Ins. Co. v. Vaughn, 779 F.2d 1003, 1009-10 (4th Cir. 1985)).

53 Id.


55 Vaughn, 779 F.2d at 1009-10 (“To require such specific malice would restrict § 523(a)(6) to the small set of cases where the debtor was foolhardy enough to make some plainly malevolent utterance expressing his intent to injure his creditor.”).
In the 1998 landmark case, *Kawaauhau v. Geiger*, the Supreme Court resolved discrepancies that *Tinker* left behind, and ultimately decided between the “actual malice” approach and the “legal malice” approach of divergent lower courts. Under *Geiger*, the meaning of willful remained intentional or deliberate, however, the application of the standard was limited. 56 The Supreme Court held that the §523(a)(6) exclusion from discharge was limited to conduct associated with "intentional torts," or to instances where the actor “intend[ed] the consequences of an act.” 57 In ruling, the Court found that expanding the exclusion from discharge to reckless or negligent conduct would be inconsistent with Congressional intent. 58

Justice Ginsburg for the unanimous court wrote, “The word ‘willful’ in (a)(6) modifies the word ‘injury’ indicating that nondischargeability takes a deliberate or intentional injury, not merely a deliberate or intentional act that leads to injury. Had Congress meant to exempt debts resulting from unintentionally inflicted injuries it might have described instead ‘willful acts that cause injury.’” 59

In *Geiger*, the Court did not specify whether “intent” should be interpreted through the actual malice approach or the legal malice approach. 60 Nevertheless, the Court’s analysis implied that the legal malice approach was to apply, or that willfulness might be established by showing that the debtor knew that injury was substantially certain to result from his actions. 61

First, the Court endorsed the 1916 opinion of *McIntyre v. Kavanaugh*, in which it had held that a

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56 *Bukowski*, 266 B.R. at 843.


58 *Geiger*, 523 U.S. at 61.

59 *Geiger*, 523 U.S. at 61.

60 *Bukowski*, 266 B.R. at 843.

61 *Id.* at 843-44.
voluntary act committed with actual knowledge of harm, which does in fact cause harm, meets the willful and malicious standard, and constitutes an intentional injury. Further, the Court also accepted the position of the Restatement (Second) of Torts § 8A (1964), which required the “actor either to desire the consequences of an act or to know that the consequences are substantially certain to result.” In holding that the debtor must either actually intend to cause the result, or reasonably believe that the harm will result, the Court was protecting the purpose of bankruptcy law in discharging the honest debtor.

COPYRIGHT LAW AND ITS INTERACTION WITH THE “TRULY WILLFUL COPYRIGHT INFRINGEMENT” STANDARD

The primary objective of Copyright Law, as stated in the United States Constitution, is to “promote the progress of science.” Congress enacted the Copyright Act to give authors and inventors a limited monopoly in order, “to motivate the creative activity of authors and inventors.” The Supreme Court has noted that rewarding the author is not the central goal; “copyright law, like the patent statutes, makes reward to the owner of a secondary consideration.” The underlying theory of intellectual property law, particularly in copyright, is to provide an incentive to create, rather than to provide a guarantee to those who make such works that there will be a reward for their work. As a result, those copyright owners who pursue a nondischargeability determination against an infringer usually do not have an economic

62 Id. at 843; McIntyre v. Kavanagh, 242 U.S. 138, 142 (1916).
63 Bukowski, 266 B.R. at 843-44 (citing Restatement (Second) of Torts § 8A (1964)).
64 Bukowski, 266 B.R. at 844.
65 U.S. CONST., art. I, § 8(8).
68 Id.
incentive – depending on the nature of the work, they often will face little in actual damages. Nevertheless, copyright owners often find that there is a moral incentive to protect their works from infringement.

Despite the problems of actual damages, the broadening of statutory damages has made it easier for copyright owners to seek rewards for their labor, which is contrary to the goals of Copyright law. Under Section 504 of the Copyright Act, an infringer of copyright is liable for either actual damages or statutory damages. An award of statutory damages does not even require a showing that the infringer knew that his conduct was copyright infringement. Discretionary statutory damages were adopted for the purpose of “avoid[ing] the strictness of construction incident to a law imposing penalties, and to give the owner of a copyright some recompense for injury done him, in a case where the rules of law render difficult or impossible proof of damages or discovery of profits.” In effect, statutory damages serve both a compensatory and a punitive function.

Statutory damages are limited to not less than $750 or more than $30,000 per infringed copyright, within the court’s discretion. Alternatively, if the court finds that the infringement

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70 *Id.*


72 *Sony*, 464 U.S. at 489.


74 *See* L.A. News Serv. v. Reuters Television Int'l, Ltd., 149 F.3d 987, 996 (9th Cir. 1998); 50 Am.Jur. 2d Copyright § 263 (2008) (504(c) does not contain the 1909 Act provision that statutory damages shall not be regarded as a penalty).

75 17 U.S.C. § 504 (c)(1) (2004); *see also* 17 U.S.C. § 504 (c)(2) (if the court finds that there was an unknowing violation of the copyright, or innocent infringement, it may lower the statutory damages to not less than $200).
was committed willfully it is within its discretion to increase the award of statutory damages to not more than $150,000, the maximum amount awarded for statutory damages. The definition of “willful” under the Copyright Act is not defined.

A problem when analyzing discharge of debts arising from copyright infringement claims is that “willful and malicious” injury under § 523(a)(6) and “willful infringement” under the Copyright Act are not equivalent. Courts interpreting willfulness in the context of the Copyright Act have interpreted the term to mean actual knowledge that there was a high probability of infringing a copyright or a reckless disregard for that probability. Such a reckless disregard standard is in direct contradiction with the standard set forth in Geiger – which required that an injury be deliberate or intentional. Thus, willful copyright infringement alone should not suffice to establish the exception to discharge, and the bankruptcy court should be required to “look behind the judgment” and decide whether the debt should be non-dischargeable pursuant to the principles of the “willful and malicious” standard.

Prior to the Geiger standard, courts concluded that willful copyright infringement would not be discharged by a defendant’s bankruptcy. However, courts were applying the reckless disregard standard of willfulness under the Copyright Act. Courts were further holding that

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statutory damages could be recovered even if liability was considered contributory liability. In *In re Massier*, the lower court awarded damages for willful copyright infringement without stating whether the damages were actual or statutory. In its review, the bankruptcy court found that because the district court awarded the copyright owner “damages” for the debtor’s infringement there was proof that the plaintiff had sustained “injury” within the meaning of the Bankruptcy Code, regardless of whether the damages were identified as “actual” or “statutory.” Thus, prior to *Geiger*, a knowing violation of federal copyright law was held to be not dischargeable in bankruptcy.

After the *Geiger* decision, the Bankruptcy Court of the Northern District of California recognized that a reckless disregard standard did not comport with the requirements of the malicious and willful exception. The court noted that two different tests were required in order to meet the standards under the Copyright Act and the Bankruptcy Act, a “subjective test” and an “objective test.” In a claim for willful copyright infringement, the burden of proof is on the infringer to establish that a “just cause or excuse” existed in order to avoid increased statutory damages. In contrast, to establish willful and malicious conduct under bankruptcy law, the creditor must not only establish willful conduct, that is, that from a subjective point of view the

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82 Id. at 1455.


84 Id.


87 Id. at 440.

88 Id. at 436.
debtor was substantially certain that the injury was going to occur, but also malicious conduct, or that there was no just cause or excuse.\textsuperscript{89}

A problem for the court in this matter, and a foreseeable issue for future courts, is that the differences in the two types of claims prevent operation of collateral estoppel.\textsuperscript{90} Collateral estoppel bars relitigation of an issue if the bankruptcy court establishes that the identical issue was heard and litigated in an earlier proceeding and that the decision of that issue was “necessary to the judgment.”\textsuperscript{91} An answer, in part, was provided by the 1979 Supreme Court decision of \textit{Brown v. Felsen}. The amendments to the Bankruptcy Act in 1970 granted sole jurisdiction to bankruptcy courts to decide questions of dischargeability, and the Supreme Court held, in \textit{Felsen} that all provisions under the Bankruptcy Act be given the “fullest possible inquiry.”\textsuperscript{92} As a result, the Court held that bankruptcy courts should not be limited to the record taken at the trial court, or state-court level, when determining the eligibility of a debtor’s discharge.\textsuperscript{93} Their decision, however, was limited to res judicata, or all issues “litigated previously,” rather than collateral estoppel, or “those questions actually and necessarily decided in a prior suit.”\textsuperscript{94} In their decision the Court noted, that the issue of collateral estoppel has been contentious.\textsuperscript{95}

After \textit{Geiger}, courts sought to show that allowing statutory damages with no proven injury was compatible with the \textit{Geiger} standard. A July 2005 decision of the Bankruptcy Court

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\item\textsuperscript{89} \textit{In re Chin-Liang Chan}, 325 B.R. at 439.
\item\textsuperscript{90} \textit{Id.} at 437.
\item\textsuperscript{91} Chin-Liang Chan, 325 B.R. at 437.; \textit{see also} Combs v. Richardson, 838 F.2d 112, 115 (4th Cir. 1988); Allen v. McCurry, 449 U.S. 90, 94 (1980).
\item\textsuperscript{92} Brown v. Felsen, 442 U.S. 127, 138 (1979).
\item\textsuperscript{93} \textit{Id.} at 138-39.
\item\textsuperscript{94} \textit{Id.}
\item\textsuperscript{95} \textit{Id.; c.f.} Vern C. Countryman, \textit{The New Dischargeability Law} 45 Am. Bankr. L.J. 1, 49-50 (1971).
\end{enumerate}
\end{footnotesize}
of the Northern District of California declared a Chapter 7 debtor collaterally estopped from disputing statutory damages and liability for attorney’s fees and costs.\textsuperscript{96} The bankruptcy court held the awards nondischargeable because it was found that the debtor had willfully and maliciously infringed a creditor’s copyright even though there was no showing that the creditor had sustained any damages as a result of the debtor’s infringement.\textsuperscript{97} The court reasoned that copyright infringement, “by its very nature,” is harmful to the copyright holder, and that the provision for statutory damages is an indication that Congress was compensating for even unproven harm.\textsuperscript{98} In resolving the conflict between awarding statutory damages and the \textit{Geiger} opinion, the \textit{In re Braun} court noted that a medical malpractice procedure (the conduct at issue in \textit{Geiger}) could be performed intentionally, but also cause harm through recklessness or negligence.\textsuperscript{99} By contrast, the court reasoned that in the present case, intentional copyright infringement was “categorically harmful;” thus, a finding of injury would be unnecessary.\textsuperscript{100} In effect, intentional copyright infringement was per se harmful.

Further, the \textit{In re Wright} court used such a proposition to award analogous statutory damages for willful and malicious cybersquatting under the Anticybersquatting Consumer Protection Act where a defendant’s domain names were found to be diluted and confusingly similar to the plaintiff’s marks.\textsuperscript{101} On appeal, the higher court concluded that such activity was “categorically harmful activity which necessarily caused injury” within § 523(a)(6) and that the

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\textsuperscript{96} In re Braun, 327 B.R. 447, 453 (Bankr. N.D. Cal. 2005).

\textsuperscript{97} \textit{In re Braun}, 327 B.R. 447 at 450.

\textsuperscript{98} Id.

\textsuperscript{99} Id.

\textsuperscript{100} Id. at 451.

\textsuperscript{101} In re Wright, 355 B.R. 192, 210-11 (Bankr..C.D. Cal. 2006).
\end{footnotesize}
awarding of statutory damages was proper.\textsuperscript{102} As such, no inquiry into actual injury was required.

\textbf{STATUTORY AWARDS UNDER WILLFUL INFRINGEMENT}

The improper application of nondischargeability for willful copyright infringement under the willful and malicious exception is most evident when considered in light of the large awards provided under the Copyright Act. In general, awards for damages are meant to make the plaintiff whole, or restore the plaintiff to his or her previous position; however, an award for statutory damages, particularly in the case of willful infringement, goes beyond the defendant’s profits or lost sales.\textsuperscript{103} In many cases, awards of statutory damages are grossly excessive and not dischargeable. Thus the willful and malicious exception undercuts the very goals of the Bankruptcy Act (i.e. the “fresh start” policy), and will be a burden that some debtors do not deserve.

One of the underlying purposes of statutory damages is to discourage wrongful conduct.\textsuperscript{104} Courts are allowed to award damages higher than the $250 minimum set for punitive damages per Section 504 (c)(1).\textsuperscript{105} In contrast to the previous 1909 Copyright Act, the current act does not prohibit statutory damages from being characterized as a penalty.\textsuperscript{106}

\textsuperscript{102} \textit{Id.} at 212.

\textsuperscript{103} 18 AM. JUR. 2D Copyright and Literary Property §262 (2008).

\textsuperscript{104} 18 AM. JUR. 2D Copyright and Literary Property § 263 (2008).

\textsuperscript{105} \textit{Id.}

\textsuperscript{106} \textit{Id.}
The previous standard awarded statutory damages for each infringing copy of a work.\textsuperscript{107} For example, the Supreme Court held that the publication of six copyrighted pictorial illustrations, each in six issues of a newspaper, constituted six cases of infringement.\textsuperscript{108} The issue on appeal was whether the six cases of infringement should be considered only one case of infringement and whether the damages should have been assessed at not less than $250 for each case.\textsuperscript{109} The 1909 Act enumerated its test, based on categories of works, paintings versus lectures, and so forth, and provided for a remedy based on every infringement, copied or sold.\textsuperscript{110} In effect, each work was a “distinct entity,” and every infringement was a “distinct wrong to be redressed through enforcement of this liability.”\textsuperscript{111}

Awarding statutory damages based on the number of infringements led to drastic increases in the calculation of awards, particularly based on the character of the infringement.\textsuperscript{112} The current, more conservative, standard is to calculate the award of statutory damages by the number of works infringed, rather than by the times the work has been infringed individually.\textsuperscript{113}


\textsuperscript{109} \textit{L.A. Westermann Co.}, 249 U.S. at 102.

\textsuperscript{110} \textit{Id.} at 105 (quoting The Copyright Statute, c. 320, 35 Stat. 1075 (comp. St. §§ 9517-9524, 9530-9584) (March 4 1909)).

\textsuperscript{111} \textit{Id. See also} Robert Stigwood Group Ltd v. O’Reilly, 530 F.2d 1096, 1105 (2d Cir. 1976) (applying the same test the court found for the plaintiffs where the defendant knowingly and willfully infringed on their copyright for Jesus Christ Superstar. The question of damages was determined to be the number of infringing performances of the copyrighted works and was remanded to the trial court with a minimum set at $48,000 for the infringement of 4 copyrights at $250 each with 48 performances).

\textsuperscript{112} Milene Music, Inc. v. Gotauco, 551 F. Supp. 1288, 1296 (D.R.I. 1982) (“Courts thus have focused largely on the element of intent, and the per-infringement award tends understandably to escalate, in direct proportion to the blameworthiness of the infringing conduct.”)

\textsuperscript{113} Walt Disney Co. v. Powell, 897 F.2d 565, 569 (D.C. Cir. 1990).
Such an inquiry takes the focus off of the conduct of the infringer and focuses on the work as a whole.

For example, in one case of willful infringement, plaintiffs were entitled to $50,000 for each “work” infringed. In calculating the damages the court stated that statutory damages “should bear some relation” to actual damages suffered for the copyright infringement, but that statutory damages are “not expected to correspond exactly” to actual damages, and that in the case of willful infringement, they are expected to take on a punitive character to serve the statute’s dual purpose of compensation and deterrence. Such a calculation, in accordance with the statute, is always within the court’s discretion.

In a case of copyright infringement, courts have also been willing to award substantial fees whether the infringement was willful or not. Under Section 505 of the Copyright Act, “the court in its discretion may allow the recovery of full costs by or against any party.” Such fees can be substantial. For example, in *Walt Disney v. Powell*, the United States Court of Appeals for the District of Columbia upheld a $20,000 award of attorneys’ fees against a copyright infringer because it found that the infringer acted willfully and knowingly in violation of six of plaintiff’s copyrights for famous cartoon characters. The court added this judgment to the existing $90,000 judgment, or a $15,000 penalty for each work infringed.

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115 *RSO Records, Inc.*, 596 F. Supp. at 862.
116 *Id. See also* 17 U.S.C. § 504(c)(1).
117 *See* Walt Disney Co. v. Powell, 897 F.2d 565, 568 (D.C. Cir. 1990); *see also* Twin Peaks Prods., Inc. v. Publ’ns Int’l, Ltd., 996 F.2d 1366, 1383 (2d Cir. 1993)(“Fees are generally awarded to a prevailing plaintiff”).
119 *Powell*, 897 F.2d at 568.
120 *Id.* at 569.
As a cautionary note, the Supreme Court found in the 1994 case of *Fogerty v. Fantasy Inc.* that such attorney’s fees should be applied to prevailing plaintiffs and defendants in an “evenhanded manner.” On remand, the Ninth Circuit Court of Appeals held for the defendant and upheld an award of $1,347,519.15 in attorneys’ fees where no copyright infringement was found. By comparison, trademark attorneys’ fees are only recoverable in “exceptional cases” including evidence of fraud or bad faith.

Despite the change in calculating statutory damage from a per-infringement scheme to a “work” infringed structure, a copyright infringer is still subject to enormous statutory damages under the Copyright Act. Further, a copyright infringer is subject to additional attorney’s fees and costs regardless of whether infringement was willful. When such a judgment is found to be willful infringement, it will not be subject to discharge in bankruptcy and will be a substantial financial burden for a copyright infringer.

**CONCLUSION**

Again we are introduced to the “single mother” hypothetical cited previously, which involved a three million dollar judgment against a woman who downloaded twenty songs off of the Internet, and was ignorant of the potential penalties of the click of her mouse. To this, we juxtapose the *Disney* case, wherein a plaintiff was awarded $20,000 in attorneys’ fees, in addition to a $90,000 infringement judgment, based on six violations of copyright. From these cases, one might postulate that the standards for “willful” under the Bankruptcy Act and the Copyright Act are inadequate in their construction. In effect, bankruptcy courts are allowing

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123 *Twin Peaks Prods., Inc. v. Publ’ns Int’l, Ltd.*, 996 F.2d. 1366, 1383 (2d Cir. 1993); see also 15 U.S.C. § 1117.

124 See supra Note 121.
substantial judgments to proceed against a multitude of individual infringers, from the wayward individual who downloads twenty songs to the knowing infringer who downloads 200,000 songs. Although, in *Disney*, the court concluded that the infringer acted willfully and knowingly, which does in fact meet the standards of the willful and malicious exemption, the sympathies invoked by the “single mother” hypothetical above and the $3 million judgment against her are much harder to assess.\(^{125}\)

In fact, the standards for “willful” under the Bankruptcy Act and the Copyright Act are not too low. It is the definition of “willful” under the Copyright Act, previously stated as “actual knowledge of infringing a copyright, a high probability of doing such, or a reckless disregard,” that is incongruous with its companion provisions of the Bankruptcy Code.\(^{126}\) Because the Bankruptcy Code does not include a recklessness standard in its assessment of willful and malicious injury, using it in a copyright judgment may include persons who had no intention of infringing a copyright in an intentional manner – the bar set by the willful and malicious exemption to discharge. Thus, there is a possibility that when a bankruptcy court hears a malicious and willful injury case of copyright infringement, it may not exempt from discharge otherwise reckless debtors who would, but for the low threshold associated with the Copyright Act, not be associated as willful infringers. A counter-argument to this concern is the requirement raised in *In re Galbadon*, which states that a bankruptcy court is required to analyze the trial court’s findings to determine if the copyright infringement is willful as defined under the Bankruptcy Code.\(^{127}\) Thus, one could argue that there would be no danger of a reckless infringer

\(^{125}\) *Powell*, 897 F.2d at 569.


being subject to nondischargeability because there is a duty of every bankruptcy court to ensure that the federal guidelines governing bankruptcy “willfulness” are met.

Nevertheless, such an argument has problems of judicial economy and practicality. Regarding judicial economy, bankruptcy courts could save significant time and money in making the definition of willfulness the same under the Bankruptcy Code and the Copyright Act. It is not hard to imagine that with the threshold for prosecution set so low as to ensnare all violators, from the innocent infringer to the most egregious copier, the courts (including the federal courts hearing copyright cases as well as the bankruptcy courts hearing discharge cases) would be incapable of dealing with the surplus of litigation. In addition, as a matter of practicality, it would be reasonable to assume that the majority of jurists will not look beyond the face of an order of a court of competent jurisdiction to determine whether willful conduct existed, as they are required to do. Therefore, to allow such an examination by statute or judicial decree almost always results in such a review failing to occur.

In considering all of these factors, one must remember that the Supreme Court did not decide whether collateral estoppel is applicable to copyright infringement claims appearing before the bankruptcy courts. Thus, not only are bankruptcy judges overworked with numerous claims, burdened with an extra definition of willfulness, but they are also bound by the decision of the Court to look beyond the trial court’s record regarding the eligibility of the infringement for discharge.

Even if the bankruptcy court judge looks behind the judgment of the trial court, and finds that an infringer acted in a reckless manner, and thus, finds the infringer’s debt dischargeable, the message sent to would-be infringers and their victims may not be what the Government intends.

129 See Countryman, supra note 95.
By having the definitions of “willful” under the Bankruptcy Act and the Copyright Act at odds, the government (including the courts) appears to be sending the message that those who violate the copyright laws will be prosecuted more often than those who violate the bankruptcy laws. In effect, by including reckless behavior in willful infringement, the net is cast wider to capture more infringers. But, there are many problems with this. First, this is a prime example of an uneven application of the laws. While the government may choose to value copyright law over bankruptcy, the issue becomes problematic when the laws that were constructed to complement one another do not. Second, for all intents and purposes, it is just sloppy.

Notwithstanding the different definitions of “willful” within the Bankruptcy Code and the Copyright Act, the presumptions under both acts are incongruent as well, showing that their disagreement goes far beyond a definition. As mentioned earlier, the Bankruptcy Code presumes an honest debtor, and a creditor must prove an exception to discharge.\(^{130}\) In contrast, the Copyright Act places the burden of proof on the accused infringer to prove that there was a just cause or excuse for the infringement.\(^{131}\) The conflict of these presumptions reveals a lack of coordination on the federal level to facilitate the administration of both statutes and demonstrates a greater concern for the rights of the copyright holder rather than the creditor.

The purpose for statutory damages under the Copyright Act is not only to promote progress, but also to effectively deter individuals. Once the deterrent process has had its effect, however, and damages have been awarded, the bankruptcy laws may be unavailable. In effect, it is double punishment for the same offense. Further, those being sanctioned are often of an economic bracket where such penalties are beyond their means. Thus, a question that we, as a society, are going to have to face as more people are prosecuted, and as the Internet becomes


\(^{131}\) See In re Chan, 325 B.R. 432, 436 (Bankr. N.D. Cal. 2005).
more readily available to potential downloaders, is “how will the judicial system deal with increasing numbers of debtors with outstanding judgments?”

The Bankruptcy Act’s original intent, to give debtors’ a fresh start is, in this scenario, being subverted by the more draconian copyright laws. Ultimately, when one looks at the problem of the single mother, a woman in a precarious financial position, it is hard to say that the original intent of the bankruptcy laws should not apply. However, the question of intent (whether she infringed a copyright recklessly or knowingly) should not be so ambiguous as to follow her for the rest of her life; especially because such a question could easily be resolved by congressional action.