UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

KAPLAN, INC. Plaintiff, vs. KENNETH CHOU, BENNY Y. CHANG, JASON HANSON, DOES 2 through 20, AND UNKNOWN ENTITY d/b/a, USMLEPRO, USMLE TEST CENTER, INC. and SIMILAR NAMES Defendants.	Civil Action No: 1:07-cv-10677-HB Honorable Harold Baer, Jr. ECF Case

MEMORANDUM IN SUPPORT OF PLAINTIFF'S MOTION FOR FINAL JUDGMENT

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TABLE OF CONTENTS

Page

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Plaintiff KAPLAN, INC. moves for final judgment against defaulting Defendant KENNETH CHOU and for dismissal without prejudice of all other Defendants. Granting the requested relief will conclude this action.

I. THE DEFAULT JUDGMENT SOUGHT AGAINST DEFENDANT KENNETH CHOU IS APPROPRIATE IN THE CIRCUMSTANCES.

A. The Facts Of Record Show That A Default Judgment Is Warranted.

Plaintiff KAPLAN initiated this action on November 29, 2007, seeking damages and injunctive relief from infringing website sales of its copyrighted and trademarked medical course instructional DVD's and books. This Court has federal question subject matter jurisdiction.[1]

Post-complaint investigation led to the discovery that KENNETH CHOU, then a medical student at Upstate Medical University, was Doe 1, and a First Amended Complaint was filed on

[1] The procedural history and jurisdictional specifics are detailed in the accompanying Declaration of Thomas W. Kirby (cited as "Kirby Dec."), one of Plaintiff's counsel. See Kirby Dec., ¶¶ 3-7.

March 6, 2008 naming him as a defendant.[2] Shortly thereafter CHOU was served, the website sales stopped, and the websites used to make them were taken down.[3] CHOU then retained New York counsel and initiated settlement discussions.[4]

CHOU, through his counsel, has stipulated "that he has been validly served with process and he voluntarily appears as a party defendant in this action." (Stipulation to Facilitate Possible Settlement, ¶ 2; Dkt. Entry 14.) However, he never answered the First Amended Complaint, sought relief from the Clerk's Certificate of default against him,[5] or responded to discovery served upon him.[6] Instead, after purporting to be seriously interested in settlement and approving a November 3, 2008, letter to this Court advising that a settlement in principle had been reached,[7] he changed his mind.[8]

CHOU was informed promptly that, if settlement were not reached, KAPLAN would seek stringent remedies by default.[9] On December 3, after he withdrew from settlement efforts, CHOU was reminded that of his failure to respond to earlier discovery, and additional discovery requests were served on him.[10] By *pro se* letter to the Court dated December 18, 2008, CHOU acknowledged that he had been served in and was aware of this action.[11] He attempted to blame

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[2] Kirby Dec., ¶ 5.

[3] Kirby Dec., ¶ 5; Torres Dec., ¶ 5.

[4] Kirby Dec., Exhibit H.

[5] Kirby Dec., Exhibit A.

[6] Kirby Dec., ¶ 5, ¶7.

[7] Kirby Dec., Exhibit C.

[8] Kirby Dec., Exhibit H.

[9] Kirby Dec., Exhibit D.

[10] Kirby Dec., Exhibit E.

[11] Kirby Dec., Exhibit G.

his previous failures to act on his former counsel (who actually worked hard and creatively on his behalf).[12] However, CHOU has done nothing further. Hence this motion.[13]

B. The Specific Relief Sought By KAPLAN Is Factually Supported And Authorized By Law.

This Motion for Judgment is based on the allegations of the First Amended Complaint,[14] which CHOU has admitted by failing to respond, and on the attached requests for admission that were served on him on December 3, 2008, which he has admitted by neither objecting nor responding.[15] It also relies on the facts attested to by the Kirby Declaration and the Declaration of Preeti Torres, Deputy General Counsel of KAPLAN. KAPLAN believes those materials are sufficient to justify the requested relief. As a precaution, however, KAPLAN also is filing concurrently a Motion for Discovery Sanctions under Fed. R. Civ. P. 37. As demonstrated in support of that motion, CHOU completely failed to respond to litigation discovery, but, as confirmed by the January 21, 2009 letter from his former counsel,[16] he provided information, including a deposition, pursuant to the confidential settlement process worked out with his counsel – which settlement process CHOU now has abandoned. That deposition and related materials include abundant facts amply supporting the requested relief. KAPLAN's Motion for Discovery Sanctions proposes that, as a remedy for CHOU's discovery defaults, KAPLAN be

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[12] Kirby Dec., Exhibit H.

[13] Defendant KENNETH CHOU is neither an infant, incompetent, nor a member of the armed forces. Kirby Dec., ¶ 12.

[14] Kirby Dec., Exhibit I.

[15] By not responding to KAPLAN'S Request for Admissions (Kirby Dec., Exhibit B), KENNETH CHOU has admitted, among other things, that he "knew, understood, and intended" that his "sales would infringe Kaplan's copyrights in the materials" and "infringe Kaplan's trademarks" and knew that he "had no lawful right to do so." He admitted that he "obtained many of the Kaplan materials" copied from the "library of the medical school" he was "attending, knowing that library rules forbade removal of those materials from the library." He admitted his "infringing activities were for the purpose of making money" and to having "received an unknown amount in excess of $100,000 from sales of infringing copies of Kaplan materials." He "intentionally destroyed records" of his sales and related activities for "the purpose of interfering with Kaplan's investigation." Kirby Dec., ¶ 9.

[16] Kirby Dec., Exhibit H.

authorized to rely on those materials as if they were provided during litigation discovery in this action.

1. CHOU Pirated KAPLAN Works For Commercial Gain.

It is well settled that, "to prevail on a claim of copyright infringement, the plaintiff must demonstrate both (1) ownership of a valid copyright and (2) infringement of the copyright by the defendant." *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.2d 101, 108-09 (2d Cir. 2001); *Hamil America, Inc. v.* GFL, 193 F.3d 92, 98 (2d Cir. 1999). Although the term "piracy" is overworked in copyright and trademark cases, it squarely applies here. Plaintiff KAPLAN offers instructional courses that help medical students prepare for professional exams and, in those courses, provides access to its copyrighted and trademarked instructional materials.[17] It owns the copyrights in those materials and had registered them with the U.S. Copyright Office by 2006.[18] CHOU had access to KAPLAN materials through his medical school, which had a group arrangement with KAPLAN.[19] In violation of school rules and policy, CHOU made large numbers of infringing copies for the specific purpose of selling them over the Internet, including through websites he created for that purpose.[20] The copies were held out as being KAPLAN materials.[21] CHOU carried out those sales in ways calculated to avoid detection and resulting liability.[22] He used false names in conducting his business and false return mailing addresses in

[17] Torres Dec., ¶ 2.

[18] Torres Dec., ¶ 3.

[19] Torres Dec., ¶ 5.

[20] Torres Dec., ¶ 5.

[21] *See* the website pages in Exhibits A and B to the First Amended Complaint (Kirby Dec., Exhibit I).

[22] Kirby Dec., ¶ 11.

delivering product.[23] In fact, extensive investigation was necessary to identify and then locate and serve him.

CHOU has admitted his infringing sales revenue exceeded $100,000.[24] Based on the timeframe, observations of CHOU's listings and their prices, and KAPLAN's (and its trade association SIIA's) experience on similar matters, KAPLAN believes the actual amount far exceeds $100,000.[25] However, upon being served in this action, CHOU destroyed his business records for the specific purpose of frustrating KAPLAN's investigation and proof.[26] Faced with such deliberate spoliation and obstruction, the Court can and should assume that his actual volume of infringing sales was much higher. Thus, this case involves a large scale, lengthy, financially motivated theft of intellectual property by CHOU.

2. Statutory Damages Are Authorized.

The Copyright Act provides for the plaintiff to recover, at its election, either (1) its actual damages and (to the extent not redundant) defendant's profits attributable to infringement, or (2) statutory damages. Either basis supports the amount KAPLAN seeks in this motion. For the sake of simplicity, KAPLAN primarily couches its request in statutory damage terms as set forth further below.

The Copyright Act provides the option of actual damages/profits so that an infringer is stripped of his profits and required to make good the copyright owner's losses. 17 U.S.C. § 504(b).[27] Honest medical students seeking access to the KAPLAN materials would have paid

[23] Kirby, Dec., ¶11.

[24] Kirby Dec., ¶ 9.

[25] Torres Dec., ¶ 7.

[26] Kirby Dec., ¶ 9.

[27] For purposes of calculating profits, § 504(b) places on the defendant the burden of proving any appropriate deductions from gross receipts.

course fees that are many times what CHOU charged his purchasers for infringing copies of copyrighted course materials. As the attached Declaration of Preeti Torres explains: If his actual sales are assumed to be $200,000 (reasonable in light of the destroyed records), if he charged 15% of the market value for legitimate materials (the lure of infringing materials is that they are cheap), and if half of his customers would otherwise have purchased KAPLAN courses, that would imply lost revenue to KAPLAN of more than $600,000.[28] In addition, there would be liability for damage to KAPLAN's trademarks, as well as for KAPLAN's legal fees, which exceed $150,000.

There is, however, a simpler route to setting damages. Where timely registered works are infringed, as occurred here,[29] the Copyright Act authorizes statutory damages. 17 U.S.C. § 504(c). Where, as here, infringement is "willful," the amount may be as high as $150,000 for each infringed work. *Id.* Congress increased the maximum from $100,000 to $150,000 because it found large awards to be necessary and desirable to deter the great temptation to infringement posed by modern computer technology. H.R. Rep. No. 106-216 (1999), pp. 6-7.

Although statutory damages should at least compensate, they are not limited to actual damages. Because such actual damages often are hard to prove, statutory damages have been authorized to make such proof unnecessary. *Chi-Boy Music v. Charlie Club, Inc.,* 930 F.2d 1224, 1229 (7th Cir. 1991); *Gnossos Music v. Mitken, Inc.,* 653 F.2d 117, 118 (4th Cir. 1981). But beyond that, the critical purpose of deterring similar misconduct permits a maximum per work award for willful infringement, even where the infringement caused little or no damage. *Superior Form Builders, Inc. v. Dan Chase Taxidermy Supply co.,* 74 F.3d 488, 496-97 (4th Cir. 1996) (collecting authority and sustaining maximum awards despite no proof of actual damages);

[28] Torres Dec., ¶ 8.

[29] Torres Dec., ¶ 3, 6.

F.W. Woolworth Co v. Contemporary Arts, Inc., 344 U.S. 228, 234 (1952) (for willful infringement a maximum award is permissible "even for uninjurious and unprofitable invasions").

3. $450,000 In Statutory Damages Should Be Awarded Here.

The infringements here were willful and, indeed, malicious[30] as well. Yurman, 262 F.3d at 112 ("willfulness in this context means that the defendant 'recklessly disregarded' the possibility that 'its conduct represented infringement.'"). CHOU knew his conduct was unlawful, and he acted without the slightest pretense of a justification. He employed various steps to conceal his identity and the true location of his business. He knew of and intended to injure KAPLAN's rights for his own profit. His objective was to steal, plain and simple. This was not a momentary lapse, but a sustained commercial enterprise that likely would still continue but for this lawsuit. It was, among other things, a serious felony. 18 U.S.C. § 2319 (authorizing a ten year term of imprisonment for profit-motivated willful infringement in addition to all civil consequences). As KAPLAN's difficulties in bringing CHOU to judgment demonstrate, the Internet creates a great incentive to such infringement, as well as a shield against liability. To deter others from yielding to the same temptation, a large award is appropriate. *Yurman*, 262 F.3d at 113-14 ("statutory damages are not meant to be merely compensatory or restitutionary. . . . The statutory award is also meant 'to discourage wrongful conduct.'").

CHOU willfully infringed at least 17 registered KAPLAN works.[31] Thus, at the maximum of $150,000 per work, statutory damages of $2,550,000 are possible as to those 17 works. KAPLAN proposes and requests that the Court award $450,000. This is about 1/5 of the per-work maximum for 17 works, and equals the maximum statutory damages for 3 works. On

[30] Kirby Dec., ¶ 11.

[31] Kaplan Dec., ¶ 6.

the facts of this case, it believes such an award will adequately deter as well as compensate. If such an award were made, KAPLAN would not seek additional recovery for its trademark claims.[32]

4. KAPLAN Is Entitled To Injunctive Relief And Attorneys Fees.

KAPLAN does, however, seek an injunction against future similar misconduct by CHOU, as well as an order conveying to KAPLAN any right or interest CHOU may have in the Internet domain names, URLs or trade names used in marketing infringing KAPLAN materials. (*See* paragraphs 4 and 5 of the proposed Final Judgment.) 17 U.S.C. § 502(a) makes express that the Court may issue "final injunctions on such terms as it may deem just to prevent or restrain infringement of a copyright." Thus, such relief is authorized and is justified here by CHOU's prior conduct.

Finally, KAPLAN also requests attorney's fees and expenses in the sum of $150,000. The fees incurred and paid to KAPLAN's counsel in this action exceed that figure.[33] 17 U.S.C. § 505 provides that the Court may "award a reasonable attorney's fee to the prevailing party as part of the costs." Because of Defendant CHOU's efforts to conceal his identity and to avoid service, as well as the prolonged and ultimately fruitless settlement efforts, the sum of $150,000 is reasonable. KAPLAN does not seek any additional costs.

[32] Defendant CHOU caused hundreds of thousands of dollars of damages to KAPLAN by selling pirated goods bearing the KAPLAN marks. Congress recently provided that such willful trademark infringement may result in an award of treble damages. Pub. L. No. 110-403 (2008). While CHOU's destruction of his records precludes precision, such an award would be in the range that is consistent with Congress' recent judgment of what is just.

[33] Kirby Dec., ¶ 14.

II. THE BALANCE OF THIS ACTION MAY BE DISMISSED WITHOUT PREJUDICE AND FINAL JUDGMENT ENTERED.

Once judgment is entered against Defendant KENNETH CHOU, KAPLAN's objectives in this case will have been achieved and the remaining defendants may be dismissed without prejudice.

Defendant BENNY Y. CHANG was served with the original Complaint herein and thereafter has cooperated with KAPLAN in seeking to identify Defendant KENNETH CHOU and illuminate related background. It appears that CHANG was not active in infringing KAPLAN copyrights or trademarks and did not benefit in any way from CHOU's infringing sales. In that context, KAPLAN and CHANG have agreed that this action will be dismissed without prejudice as to him.[34]

The First Amended Complaint also identifies other defendants, *i.e.*, JASON HANSON, UNKNOWN ENTITY d/b/a USMLEPRO, USMLE TEST CENTER, INC. and similar names, and Does 2 through 20. Plaintiff KAPLAN's investigation, including but by no means limited to that conducted under the Stipulation to Facilitate Possible Settlement, has convinced it that Defendant KENNETH CHOU was the principal behind the "UNKNOWN ENTITY" and the relief sought against CHOU through the present motion obviates any need for further relief against any other entity related to his websites.[35] KAPLAN also is satisfied that JASON HANSON is an alias used by KENNETH CHOU in connection with some of CHOU's activities.[36] Thus, no relief is sought against any actual person having that name. In these circumstances, Plaintiff KAPLAN requests that this action be dismissed without prejudice as to the remaining defendants.

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[34] Kirby Dec., ¶ 13.

[35] Kirby Dec., ¶ 13.

[36] Kirby Dec., ¶ 13.

Such dismissals, together with the relief sought against Defendant KENNETH CHOU, will fully resolve this action, and KAPLAN requests that Final Judgment be entered on that basis. A proposed form of Final Judgment accompanies the present motion.

III. CONCLUSION.

For the reasons demonstrated above, and based on the supporting evidence, Plaintiff KAPLAN, INC. requests that a default judgment be entered against Defendant KENNETH CHOU, that the action be dismissed without prejudice as to the remaining defendants, and that Final Judgment be entered on that basis.

If this motion is not opposed, KAPLAN requests entry of the proposed Final Judgment on the basis of the papers, including materials made available via the companion discovery-sanctions motion if the Court deems that appropriate. If, however, there is an opposition, KAPLAN requests such a hearing as the Court deems appropriate, and reserves the right to offer additional evidence at that time.

Respectfully submitted,

By: /s/ Thomas W. Kirby

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