
INVESTIGATING THE HYPOTHETICAL “REASONABLE ROYALTY” FOR COPYRIGHT INFRINGEMENT

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ABSTRACT

Congress has legislated into the Copyright Act of 1976 three types of monetary rewards for victorious plaintiffs in copyright infringement cases: (1) actual damages according to proof of how much harm was suffered by the copyright owner as a result of the infringement, (2) the infringer’s profits from the copyright infringements, or (3) statutory damages. On occasion, cases have arisen in which copyright infringement is proven, yet none of these three forms of monetary relief are available.

To redress that apparent anomaly, some courts have approved an alternative recovery, namely a monetary award equal to a hypothetical royalty based on what a willing buyer would have paid a willing seller to license the copyrighted material. Select cases have adopted this fourth form of monetary damages when infringement is found and the first three forms of relief are unavailable.

This Article analyzes the rationale of those cases, rooted in the legislative history of the Copyright Act of 1976 and a comparison to patent law to show that, as appealing as this fourth form of damages might appear, its reward is contrary to the language of the Act and the intent of Congress. Therefore, courts should not award this form of monetary relief, unless and until Congress amends the Act to that effect.

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INTRODUCTION

A plaintiff files suit for copyright infringement, proceeds to trial, prevails (whether at summary judgment or at trial), and obtains judgment in its favor. Moving from liability to damages, how much is to be awarded?

The Copyright Act of 1976,¹ which governs copyright damages, allows a victorious plaintiff to elect among three alternative forms of monetary relief: actual damages according to proof of how much harm was suffered by the copyright owner as a result of the infringement;² infringer’s profits according to proof of how much harm was attributable to the infringement;³ and a backstop not dependent on either of the foregoing types of proof, called “statutory damages.”⁴

On rare occasion, though, none of the three types of recovery is available.⁵ Then-Seventh Circuit Judge Richard Posner, sitting by designation as the trial court judge in *Deltak, Inc. v. Advanced Systems, Inc.*,⁶ faced just that situation. Applying the statute as written, he determined that the prevailing plaintiff, Deltak, Inc., was not entitled to monetary recovery.⁷

Reversing on appeal, the Seventh Circuit could not reconcile the disconnect between proven liability and zero damages of any sort.⁸ It therefore decided to create a new form of recovery, available under those circumstances—namely, a hypothetical royalty based on what a willing buyer would have paid a willing seller, had they undertaken a license.⁹ Subsequent decisions have at times rejected, but more frequently embraced, that expedient. As we will see, this solution is not one that Congress has authorized, tempting though it may be. For that reason, future cases should revert to Judge Posner’s disposition in the rare

¹ Copyright Act of 1976, 17 U.S.C. §§ 101-1332 (2012) (governing law on copyright).

² *Id.* § 504(b) (“The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.”).

³ *Id.* (“In establishing the infringer’s profits, the copyright owner is required to present proof only of the infringer’s gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.”).

⁴ *Id.* § 504(c).

⁵ *See infra* note 33 (discussing three cases in which plaintiff was not entitled to monetary recovery of damages, nor out of pocket expenses, nor statutory damages).

⁶ 574 F. Supp. 400, 403-12 (N.D. Ill. 1983).

⁷ *Id.* at 412-13 (“I find that Deltak has failed to prove damages from the infringement.”).

⁸ *See Deltak, Inc. v. Advanced Sys., Inc.* 767 F.2d 357, 364 (7th Cir. 1985) (“Since we do not believe the district court’s ‘acceptance’ was a finding of fair market value, and discern no other finding of fair market value, we must remand for further proceedings on the issue of the fair market value of the fifteen Lists.”).

⁹ *See infra* Section I.A (asserting *Deltak*’s impact).

cases that arise under that posture,¹⁰ until such time (if ever) as Congress sees fit to amend the statute to adopt the Seventh Circuit's rationale.

I. COPYRIGHT CASES UNDER 1976 ACT DEALING WITH HYPOTHETICAL LICENSING FEES

A. Deltak

In *Deltak*, the parties had sold rival kits to teach data processing skills.¹¹ Defendant ASI, a competitor in the field, exactly copied the descriptions of the tasks from Deltak's entire pamphlet, but substituted its own publications for Deltak's, thus preserving the pamphlet's form but converting it into a marketing tool for ASI. It then distributed fifteen of the infringing pamphlets without charge to mutual customers of ASI and Deltak, in an ultimately unsuccessful attempt to woo them away from Deltak.¹² Under the circumstances, neither damages to the plaintiff nor profits to the defendant ensued:

[T]he item that was infringed, the CDS Task List, although nominally sold by the plaintiff was in fact a component of a larger product (the whole CDS packet) itself intended as a tool for selling something else (the teaching materials); and the infringer did not sell the infringing document either, but also used it as a sales tool.¹³

Under those anomalous circumstances, the plaintiff suffered no loss of revenue and the defendant earned no profits. Moreover, unlike the first two forms of relief, which are always available, an award of statutory damages is subject to the requirement of prompt registration.¹⁴ Under the facts presented, failure to register the copyrighted work on a timely basis precluded recovery of statutory damages.¹⁵ Hence, Judge Posner denied any payment from the defendant.¹⁶

¹⁰ See *infra* note 104 (discussing that although there are some cases that discuss royalty standard proposed in *Deltak*, only few cases actually implement *Deltak*'s standard when awarding damages).

¹¹ *Deltak*, 574 F. Supp. at 402 (describing parties' goods and related markets).

¹² Parts I-III of this Article derive substantially from 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.05 (2018). These Parts are necessary building blocks for the remaining Parts, which do not appear in that treatise.

¹³ *Deltak*, 574 F. Supp. at 403.

¹⁴ 17 U.S.C. § 412 (2012) (requiring registration as prerequisite for certain types of damage remedies). For an extended discussion, see *infra* Section IV.D.1.

¹⁵ *Deltak*, 574 F. Supp. at 403 ("If Deltak had registered its copyright within the time provided by the Copyright Act, I would have no hesitation in awarding not only the maximum statutory damages under section 504(c)(2) of \$50,000, but also attorney's fees . . .").

¹⁶ *Id.* ("However, the parties have agreed that Deltak may not get either statutory damages or attorney's fees, because it did not register its copyright in time.").

Refusing to accept that result, the Seventh Circuit vacated the ruling below by grafting onto the law a novel type of monetary award. Representing the “value of use” to the infringer, it computed a license fee calculated by the hypothetical sum of what a willing buyer would have paid a willing seller to undertake the utilization in question.¹⁷ It reached that result by positing that “actual damages” could result from three different premises, of which the evidence failed to support two.¹⁸ The third premise, on which the Seventh Circuit hung its hat, was that “when ASI reproduced the fifty infringing copies, it was manufacturing assets and thereby damaging Deltak to the extent of the value of use of the assets in terms of acquisition costs saved by ASI.”¹⁹ In this typology, *saved acquisition costs* qualify as one recoverable form of “the actual damages suffered by [the copyright proprietor] as a result of the infringement” that Congress made recoverable.²⁰ But the Seventh Circuit’s opinion wobbles on that score, at one point canvassing prior opinions to conclude “that saved acquisition cost is a measure of damages *or profit*”²¹ rather than rooting it strictly as an interpretation of the phrase in the statute: “actual damages.”

In any event, at the end of the day, the Seventh Circuit produced a novel legal ruling under the current Copyright Act of 1976.²² As justification, it relied on the Supreme Court’s condemnation, under the predecessor Copyright Act of 1909, of weak disincentives against purloining copyrighted material:

A rule of liability which merely takes away the profits from an infringement would offer little discouragement to infringers Even for uninjurious and unprofitable invasions of copyright the court may, if it deems it just, impose a liability within statutory limits to sanction and vindicate the statutory policy.²³

¹⁷ *Deltak*, 767 F.2d at 362.

¹⁸ *See id.* at 360-64 (“First, it could be that, but for the infringement, Deltak would have sold fifty more copies to various customers (other than ASI). Second, ASI might have purchased (and hence Deltak sold) fifty copies so as not to have infringed. Third, when ASI reproduced the fifty infringing copies, it was manufacturing assets and thereby damaging Deltak to the extent of the value of use of the assets in terms of acquisition costs saved by ASI.”); *id.* at 363 (noting that court “retain[ed] lingering doubts about whether, if ASI went hat in hand to Deltak to buy fifteen copies of the Task List, Deltak would have sold any to ASI” and that “[t]hese doubts incline us to refrain from holding the district court’s finding that Deltak did not lose any sales to ASI to be clearly erroneous”). These two formulae can be dubbed “out-of-pocket losses,” as opposed to the third formulation, a hypothetical royalty of what might have been earned.

¹⁹ *Id.* at 360.

²⁰ 17 U.S.C. § 504(b) (2012).

²¹ *Deltak*, 767 F.2d at 362 n.3 (emphasis added).

²² *Id.* at 363-64 (vacating award of no damages and remanding to trial court for determination of fair market value of producing fifteen infringing pamphlets).

²³ *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952).

Additionally, the Act's legislative history was integral to its ruling,²⁴ as explored in depth below.²⁵

B. Business Trends

Parallel circumstances soon percolated up to the Second Circuit. In *Business Trends Analysts, Inc. v. Freedomia Group, Inc.*,²⁶ defendant infringed the plaintiff's robotic studies.²⁷ To combat poor sales and to expand its customer base, defendant slashed its price by ninety percent. Defendant's president testified that that discount "was calculated to, and did, bring a discrete, concrete market advantage"²⁸ The district court thereupon set damages based on the number of infringing copies sold, relying in part on the Seventh Circuit's ruling in *Deltak*.

On appeal, the Second Circuit reversed.²⁹ Quoting a treatise that critiqued the Seventh Circuit's logic as reliant on "the most transparent of fictions,"³⁰ Judge Winter's panel opinion explicitly declined to follow *Deltak*.³¹ The three types of monetary relief specified by the Act were unavailable under the circumstances presented, and the plaintiff received nothing.³²

²⁴ See *Deltak*, 767 F.2d at 362 n.3 ("We recognize that there are similarities between the concepts of reasonable royalty in patent law and value of use as saved acquisition cost in copyright law Congress might have intended statutory damages to have the same function as reasonable royalties, and thereby have precluded the use of anything similar to reasonable royalties as a measure of actual damages in copyright cases, but *the legislative reports do not say so, and neither they nor the Copyright Act defines actual damages.*" (emphasis added)).

²⁵ See *infra* Section III.A (describing error in labelling *Szekely* "1909 Act case").

²⁶ 700 F. Supp. 1213 (S.D.N.Y. 1988), *rev'd*, 887 F.2d 399 (2d Cir. 1989).

²⁷ *Id.* at 1238.

²⁸ *Id.*

²⁹ *Bus. Trends Analysts, Inc. v. Freedomia Grp., Inc.*, 887 F.2d 399, 404 (2d Cir. 1989).

³⁰ *Id.* at 405 (quoting NIMMER & NIMMER, *supra* note 12, § 14.05[C][1]). The court continued: "We believe, as does Nimmer, that *Deltak* is based on a perceived need to avoid 'the anomaly of affording plaintiffs a right without a remedy.'" *Id.* at 406 (quoting NIMMER & NIMMER, *supra* note 12, § 14.05[C][1]).

³¹ The body of the opinion quotes four paragraphs from the Nimmer treatise, and then concludes:

That eminent text goes on to suggest that whether to follow *Deltak* involves a choice between "reason" (rejecting it) and "experience" (adopting it). We view the choice, however, as between carrying out or rejecting a rational, if strict, policy embraced by Congress. Our obligation in those circumstances not being in doubt, we decline to follow *Deltak*.

Id. at 407.

³² See *id.* ("Under such circumstances, no apportionment is appropriate.").

C. Davis v. The Gap

The Second Circuit’s rejection of *Deltak* proved short-lived. A third case arose, in which the plaintiff once again prevailed, but owing to the anomalous nature of the infringement, no loss resulted to the plaintiff and no profits accrued to the defendant—in a posture for which statutory damages were unavailable.³³

In *Davis v. The Gap, Inc.*,³⁴ plaintiff created “nonfunctional jewelry worn over the eyes in the manner of eyeglasses.”³⁵ All parties conceded “that the Gap, without Davis’s permission, used a photograph of an individual wearing Davis’s copyrighted eyewear in an advertisement for the stores operating under the ‘Gap’ trademark that was widely displayed throughout the United States.”³⁶ Plaintiff sued defendant, a multi-billion dollar clothing outfitter, for \$2.5 million in unpaid licensing fees (as well as ten million dollars in punitive damages).³⁷ The district court held that *Business Trends* “expressly rejected the ‘lost license’ theory” on which plaintiffs suit relied.³⁸

Yet the Second Circuit reversed.³⁹ Writing for the panel, Judge Leval reverted to the same scholarly treatise that Judge Winter had quoted.⁴⁰ But he was not persuaded by that treatise’s characterization of patent-style “reasonable royalties” as being unavailable under the 1909 Act.⁴¹ Instead, Judge Leval cited a number of cases, purportedly decided under the 1909 Act, allowing copyright plaintiffs to recover a hypothetical licensing fee.⁴²

³³ To belabor the matter, all three cases just considered arose in the same posture in which a prevailing plaintiff who, ineligible for statutory damages because of untimely registration, also could not recover any out-of-pocket damages or lay claim to any profit earned by the defendant.

³⁴ 186 F.R.D. 322 (S.D.N.Y. 1999), *rev’d*, 246 F.3d 152 (2d Cir. 2001).

³⁵ *Davis v. The Gap, Inc.*, 246 F.3d 152, 156 (2d Cir. 2001).

³⁶ *Id.* The subject ad featured plaintiff’s handiwork: “The central figure, at the apex of the V formation, is wearing Davis’s highly distinctive Onoculii eyewear; he peers over the metal disks directly into the camera lens.” *Id.* at 157.

³⁷ *Id.* at 156.

³⁸ *Davis*, 186 F.R.D. at 324.

³⁹ *Davis*, 246 F.3d at 158 n.1 (noting that, as in *Deltak*, belated registration precluded recovery of statutory damages).

⁴⁰ *See id.* at 158-59 (citing NIMMER & NIMMER, *supra* note 12, § 13.01).

⁴¹ The court continued:

We are not persuaded by Nimmer’s reasoning. First, but perhaps least important, the Nimmer treatise’s assertion that “the courts under the 1909 Act rejected the ‘reasonable royalty standard,’” seems overstated. Nimmer cites only one case which so held. *See Widenski v. Shapiro, Bernstein & Co.*, 147 F.2d 909 (1st Cir. 1945). However, other courts, including ours, took the contrary position under the 1909 Act. *See, e.g., Szekely*, 242 F.2d at 268-69 (assessing damages based on the hypothetical license fee the infringer avoided paying); *Nucor*, 513 F.2d at 153 & n.3 (defendants liable for market value of infringed architectural plans).

Id. at 171 (citations and footnote omitted).

⁴² *See id.* at 167-69. The Article evaluates that contention below. *See infra* Part III.

Although rejecting Davis's prayer for millions of dollars as a "wildly inflated claim of entitlement,"⁴³ the court ruled that "a jury could reasonably find that Davis established a fair market value of at least \$50 as a fee for the use of an image of his copyrighted design."⁴⁴

II. COPYRIGHT CASES UNDER 1909 ACT DEALING WITH HYPOTHETICAL LICENSING FEES

The previous trio of cases under the current Copyright Act referenced decisions that were decided under the prior enactment. It therefore becomes relevant to investigate how the 1909 Act treated awards under circumstances comparable to *Deltak/Davis*, in which there were neither actual damages (in the sense of losses) nor profits from the infringement.⁴⁵

A. Widenski

One case brought under the 1909 Act explicitly posed the question under review. In *Widenski v. Shapiro, Bernstein & Co.*,⁴⁶ a plaintiff acting on behalf of American Society of Composers, Authors and Publishers ("ASCAP") attempted to secure recovery against a Rhode Island café by analogy to the "reasonable royalty" rule established under patent law.⁴⁷ The First Circuit highlighted the differences between the governing copyright and patent statutes, noting that:

[A] plaintiff in a patent case, if he prevails on the issue of infringement, may recover upon the basis of an established or reasonable royalty only after he has failed to prove satisfactorily his own loss and the infringer's profits. Thus the royalty rule provides successful plaintiffs in patent suits who have been harmed but cannot prove either their actual damages or the defendant's actual profits with a means to escape the hollow victory of an award of purely nominal damages. But the Copyright Act itself makes provision for similarly situated plaintiffs in copyright cases in the "in lieu" clause of § 25(b), a provision not found in the corresponding section of the Patent Law, (35 U.S.C. § 70), and from this we conclude that it is a

⁴³ *Id.* at 161. In addition, the court rejected recovery of speculative profits to The Gap from the advertisement—in this respect affirming the decision below. *Id.* at 160-61.

⁴⁴ *Id.* at 161 (finding that Davis had testified that "on one occasion he was paid a royalty of \$50 for the publication by Vibe magazine of a photo of the deceased musician Sun Ra wearing Davis's eyewear").

⁴⁵ See *supra* note 18 (noting that form of "actual damages," as referred to here, corresponds to first two prongs considered by *Deltak*). Plainly, actual damages cannot refer to the third prong that *Deltak* ultimately adopted—saved acquisition costs—as the result would be to assume the conclusion being tested.

⁴⁶ 147 F.2d 909 (1st Cir. 1945).

⁴⁷ *Id.* at 909-10.

substitute for the established or reasonable royalty rule applied in patent cases.⁴⁸

That citation to the language of the Copyright Act of 1909 is crucial. The language applicable in that provision required the losing defendant to “pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement”⁴⁹ That same provision authorized “in lieu” damages in a minimum amount of \$250, which is what the district court awarded.⁵⁰

We have previously seen that statutory damages under the 1976 Act require timely registration—but no such disability attended the predecessor provision. In other words, “in lieu” damages under the 1909 Act could always be awarded, regardless whether the work in question had been belatedly registered.

The First Circuit affirmed, with the observation that:

[I]t seems to us highly significant that we have been referred to and have found no case applying the patent rule contended for by the defendant in a copyright case, and that the Supreme Court in [*Sheldon v. Metro-Goldwyn Pictures Corp.*] refused to sanction the closely analogous contention that damages in a copyright case ought to be the price at which the copyright proprietor had indicated his willingness to sell to the infringer.⁵¹

That appellate pronouncement, rooted in a Supreme Court holding, stood throughout the decades that the 1909 Act governed. No case was decided contrary to *Widenski* (despite the contrary claim urged in *Davis v. The Gap*).⁵²

B. Krofft

The closest that any decision came to adopting the later *Deltak/Davis* rationale arose “[i]n the twilight hours of the 1909 Act’s pendency”—and even then arose only “in a backhanded fashion.”⁵³

Unlike the plaintiff in *Widenski*, the plaintiffs in *Sid & Marty Krofft Television Productions, Inc. v. McDonald’s Corp.*⁵⁴ never argued that they were entitled to reasonable royalties. Instead, they urged numerous entitlements, each opposed

⁴⁸ *Id.* at 911.

⁴⁹ Copyright Act of 1909 § 25(b), 17 U.S.C. § 101(b) (2012).

⁵⁰ *Widenski*, 147 F.2d at 910.

⁵¹ *Id.* at 911-12.

⁵² See *Davis v. The Gap, Inc.*, 246 F.3d 152, 171-72 n.6 (2d Cir. 2001); *infra* Section III.A, III.B (contending that neither *Szekely* nor *Nucor* are 1909 Act cases).

⁵³ NIMMER & NIMMER, *supra* note 12, § 14.05[2][b] (footnote omitted). The new Act was passed in 1976, although it did not take effect until 1978. Plainly, no decision handed down in 1977 could form part of the legislative history for the 1976 Act. Therefore, this case did *not* figure in the background against which Congress legislated the new remedies provisions to be construed below.

⁵⁴ 562 F.2d 1157 (9th Cir. 1977).

by defendants. The result was that the district court cobbled together complex and seemingly contradictory jury instructions, which the Ninth Circuit later had to untangle on appeal (causing it to comment incidentally on the royalty issue).

Plaintiffs sought three measures of recovery for infringement of their H. R. Pufnstuf children's television show by the production of defendants' McDonaldland television commercials: (1) compensatory damages of \$250,000, (2) an order for an accounting of profits attributable to the infringements, and (3) alternatively, "in lieu" damages.⁵⁵ The jury awarded them only \$50,000, limited to compensatory damages.⁵⁶ Both parties appealed; plaintiffs argued that the district court erred in awarding only compensatory damages, and instead should have ordered either an accounting of profits by defendants or in lieu damages.

The issue on appeal was "whether the jury considered profits in assessing damages."⁵⁷ If so, the verdict would have to be thrown out. The contention on appeal was that the jury inappropriately considered, as the measure of plaintiff's damages, extraneous income (for instance, the amount of money that McDonald's made from purveying food).⁵⁸ In the course of trying to interpret the effect of inconsistent and confusing jury instructions, the Ninth Circuit mentioned that the instructions "amount[ed] to a determination of what a willing buyer would have been reasonably required to pay to a willing seller for plaintiff's work."⁵⁹ The vital aspect of this decision is the posture in which it arose. The Ninth Circuit majority was not stating its views as to what damages were recoverable under the 1909 Act; instead, it was evaluating an appeal rooted in the claim that the instructions tainted the jury verdict. The panel concluded that the instructions were not fatally flawed.⁶⁰ In light of evidence that plaintiffs were unable to obtain new licensing arrangements, or extend their existing ones for such matters as Kellogg's cereal commercials and the Ice Capades, the jury's award in the amount of \$50,000 was eminently defensible as a matter of actual pecuniary loss.

Therefore, the panel's evocation of "what a willing buyer would have been reasonably required to pay to a willing seller for plaintiffs' work,"⁶¹ in no way constituted the Ninth Circuit's own articulation of recoverable damages under the 1909 Act—instead, the panel was simply trying to make sense of the district court's suboptimal jury instructions. By no means did the Ninth Circuit endorse the instructions that were actually given—or recommend any instruction phrased

⁵⁵ *Id.* at 1162; *see also* NIMMER & NIMMER, *supra* note 12, § 14.05[B][1].

⁵⁶ *Sid & Marty Krofft Television Prods., Inc.*, 562 F.2d at 1160.

⁵⁷ *Id.* at 1173.

⁵⁸ *Id.* at 1174.

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ *Id.*

in terms of a willing buyer and seller.⁶² The panel’s sole exercise was to determine whether the jury had been confused when investigating damages to plaintiff into scrutinizing instead the defendant’s profits. Given the juxtaposition of all the instructions, it concluded that no confusion had taken place. Accordingly, it affirmed that aspect of the verdict.

III. MISIDENTIFICATION OF 1909 ACT CASES

Davis cited several reasons for rejecting the critique of *Deltak* that *Business Trends* had followed. Among them was *Davis*’s assertion that numerous cases decided under the 1909 Act, apart from *Widenski*, confronted the same issue. In particular, *Davis* relied on two cases⁶³ for the proposition that “courts, including ours, took the contrary position under the 1909 Act”⁶⁴: *Szekely v. Eagle Lion Films, Inc.*⁶⁵ and *Nucor Corp. v. Tennessee Forging Steel Serv., Inc.*⁶⁶ It thus becomes vital to test that assertion.

A. Szekely

Davis goes out of its way to label *Szekely* “a 1909 Act case.”⁶⁷ In *Szekely*, plaintiff wrote a screenplay that Eagle Lion Films allegedly infringed. Given that the screenplay was unpublished, the Second Circuit expressly characterized the case as one “alleg[ing] infringement of his *common law* copyright.”⁶⁸ Far from arising under the federal Copyright Act of 1909, this diversity case⁶⁹ reached its conclusion based on state law, without ever citing to any aspect of the 1909 Act or any other federal statute.⁷⁰ The later reference to *Szekely* as “a 1909 Act case” is therefore erroneous.

⁶² The panel no more endorsed that instruction than its opposite, which the district court had also included in the jury instructions, namely that prevailing plaintiffs “may recover only that sum of money which they have proven to be their *actual pecuniary loss*.” *Id.* at 1173.

⁶³ See *supra* note 41 (quoting court’s use of *Szekely* and *Nucor* as examples of cases supporting reasonable royalty standard).

⁶⁴ *Davis v. The Gap, Inc.*, 246 F.3d 152, 171 (2d Cir. 2001).

⁶⁵ 242 F.2d 266, 268-69 (2d Cir. 1957).

⁶⁶ 513 F.2d 151, 153 (8th Cir. 1975).

⁶⁷ *Davis*, 246 F.3d at 167.

⁶⁸ *Szekely*, 242 F.2d at 267.

⁶⁹ As noted by the district judge, “The Court has jurisdiction of the action by reason of diversity of citizenship.” *Szekely v. Eagle Lion Films, Inc.*, 140 F. Supp. 843, 844 (S.D.N.Y. 1956), *aff’d*, 242 F.2d 266 (2d Cir. 1957).

⁷⁰ The Second Circuit opinion hardly cites any authority, so it is difficult to know on what body of law the court reached its decision. But the district court cites to state court decisions under New York law. *Id.* at 848.

B. Nucor

Davis equally goes out of its way to label *Nucor* “a 1909 Act case.”⁷¹ But that early authority also arose over unpublished works that were, instead, protected by common law copyright. *Nucor* expressly announced that its decision concerned “architectural plans . . . protected by *common law* copyright.”⁷² The matter arose as a diversity case that reached its decision by applying the substantive law of Arkansas.⁷³ Again, the case contained no citations whatsoever to the damages provision of the 1909 Act or any other provision of Title 17 of the United States Code—or, for that matter, any other federal statute. Rather, it cited to the Arkansas Supreme Court as the ultimate decider of that jurisdiction’s law⁷⁴ and to various other state decisions for the test to evaluate “fair market value.”⁷⁵ The later reference to *Nucor* as “a 1909 Act case” is, accordingly, also erroneous.⁷⁶

IV. LEGISLATIVE HISTORY

As noted above, the foundation for the “hypothetical reasonable royalty” approach is rooted in the Act’s legislative history. *Deltak* noted that such a remedy is made explicit under patent law, and conceded that “Congress might have intended statutory damages to have the same function as reasonable royalties, and thereby have precluded the use of anything similar to reasonable royalties as a measure of actual damages in copyright cases,” before continuing,

⁷¹ *Davis*, 246 F.3d at 168.

⁷² *Nucor Corp.*, 513 F.2d at 152 (emphasis added). Architectural plans were unpublished works under the law then extant. As the appellate court observed in an earlier opinion, “an owner does not lose his common law copyright by permitting interested persons to view and inspect a building during and after construction.” *Nucor Corp. v. Tenn. Forging Steel Serv., Inc.*, 476 F.2d 386, 390-91 (8th Cir. 1973).

⁷³ As the district court opinion opens, “On February 2, 1972 the plaintiff, NUCOR, a Delaware Corporation, filed complaint against the defendants, Tennessee Forging Steel Services Inc., a Virginia Corporation, Charles N. Munn, William White and City of Hope, Arkansas.” *Nucor Corp. v. Tenn. Forging Steel Serv., Inc.*, 339 F. Supp. 1305, 1306 (W.D. Ark. 1972), *rev’d*, 476 F.2d 386 (8th Cir. 1973).

⁷⁴ *See Nucor Corp.*, 513 F.2d at 153 n.4. The matter was even more explicit in the prior appeal:

The matter was tried below on the theory that Arkansas law controls. We accept that approach, but note that there is little Arkansas law directly on point. We are, thus, faced with the difficult task of attempting to determine how the Arkansas Supreme Court would decide the matter if it were presented to that court.

Nucor Corp., 476 F.2d at 389.

⁷⁵ The case references state court decisions under Utah and New York law to define “fair value.” *Nucor Corp.*, 513 F.2d at 153 n.3.

⁷⁶ When *Nucor* was decided in 1975, the 1909 Act still governed as a matter of federal law. Therefore, had plaintiff filed suit under federal law, that enactment would have been implicated. But this case, like *Szekely*, was not filed under the 1909 Act and posed no issues under federal law.

“but the legislative reports do not say so, and neither they nor the Copyright Act defines actual damages.”⁷⁷

For some judges, the words of the statute mean everything. As textualists, they discount committee reports, floor statements, and other like explications.⁷⁸ But *Deltak* crafted its rule here under consideration by explicit reference to the voluminous legislative history underlying the 1976 Act; therefore, examination of those materials becomes essential to an evaluation of that decision on its own terms.⁷⁹ Necessarily, the current examination is non-textualist. (Nonetheless, the end of this Article uses the tools of textualism itself to re-examine the matter—as we will see, that modality leads to the same conclusion).⁸⁰

A. Structuring the Damages Provisions

Over the last century, the only constant in the history of the Copyright Act has been change. Amendments to the 1909 Act were frequent; the omnibus 1976 revision itself has been subject to change about once every six months.

Against that background, one remarkable feature stands out—the text of § 504(b) reads today exactly the way it was enacted in 1976.⁸¹ Over the course of the intervening decades, Congress has returned to § 504 on six occasions. Five of them modified statutory damages set forth in § 504(c),⁸² and one added

⁷⁷ *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 362 n.3 (7th Cir. 1985) (emphasis added).

⁷⁸ Even for those strict constructionists, resort to ulterior sources of explication is inevitable. See William N. Eskridge, Jr., *Should the Supreme Court Read The Federalist But Not Statutory Legislative History?*, 66 GEO. WASH. L. REV. 1301, 1313-14 (1998) (maintaining that Justice Scalia’s use of *The Federalist* as “evidence” as opposed to legislative history is “little more than a language game”); David Nimmer, *Appreciating Legislative History: The Sweet and Sour Spots of the DMCA’s Commentary*, 23 CARDOZO L. REV. 909, 956-59 (2002) (arguing for use of legislative history despite imperfections).

⁷⁹ See *Deltak*, 767 F.2d at 363 n.3 (referring to legislative history in comparing statutory damages and reasonable royalties). A non-exhaustive gathering of the primary material fills seventeen volumes! See generally GEORGE S. GROSSMAN, OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (2001).

⁸⁰ See *infra* Section VI.A (analyzing text of Copyright Act to demonstrate that every reference to “reasonable royalties” is outside context of general copyright infringement).

⁸¹ See *infra* note 84 and accompanying text (comparing text of 1976 version and current code).

⁸² See Copyright Cleanup, Clarification and Corrections Act of 2010, Pub. L. No. 111-295, § 6(f)(2), 124 Stat. 3180, 3182 (codified as amended at 17 U.S.C. § 504(c)(2) (2012)); Fraudulent Online Identity Sanctions Act of 2004, Pub. L. No. 108-482, § 203, 118 Stat. 3912, 3916 (codified as amended at 17 U.S.C. § 504(c) (2006)) (augmenting statutory damages against domain name registrars); Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160, § 2, 113 Stat. 1774, 1774 (codified as amended at 17 U.S.C. § 504(c) (2000)) (trebling amounts of statutory damages from 1976 levels); Act of Nov. 13, 1997, Pub. L. No. 105-80, § 12(a)(13), 111 Stat. 1529, 1535 (codified as amended at 17 U.S.C. § 504(c)(2) (2000)); Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, § 10(b), 102 Stat. 2853, 2860 (codified as amended at 17 U.S.C. § 504(c)

§ 504(d) to the Act to allow doubling of damages under circumscribed conditions.⁸³ But the reference to actual damages in § 504(a), along with the full text of § 504(b), has remained unaffected:

(b) ACTUAL DAMAGES AND PROFITS.—The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.⁸⁴

The journey backwards in time is more remarkable still. Already by 1965, the draft bill then under consideration contained a paragraph 504(b) identical to the provision that was ultimately enacted⁸⁵ (except insofar as it was not yet gender neutral).⁸⁶ Indeed, the first draft of the omnibus bill, promulgated the previous year, was identical as well, albeit the provision at that time was numbered section 38(b).⁸⁷

In sum, from 1964 until today, there has been no variation in the provision authorizing awards of actual damages under statutory copyright.⁸⁸ In addition,

(1988)) (doubling amounts of statutory damages from 1976 levels).

⁸³ See Fairness in Music Listening Act of 1998, Pub. L. No. 105-298, § 204, 112 Stat. 2830, 2833 (codified as amended at 17 U.S.C. § 504(d) (2000)) (applying damages where infringer has no reasonable belief of exemption). That provision applies the Fairness in Music Licensing Act to augment the general provision authorizing award of plaintiff's damages and defendant's profits by affording special remedies against those who use music in their establishments outside a statutory safe harbor. See 17 U.S.C. § 504(d) (awarding damages in addition to existing penalties). In particular, it allows, under specified circumstances, "an additional award of two times the amount of the license fee that the proprietor of the establishment concerned should have paid the plaintiff." *Id.* The discussion below reverts to this feature in Section VI.A, *infra*.

⁸⁴ 17 U.S.C. § 504(b).

⁸⁵ See *Copyright Law Revision: Hearings on H.R. 4347, H.R. 5680, H.R. 6831, and H.R. 6835 Before Subcomm. No. 3 of the H. Comm. on the Judiciary, 89th Cong. 17-18 (1965)* [hereinafter *1965 Hearings*].

⁸⁶ The only difference between the 1965 draft and today's text is that the first sentence currently references "actual damages suffered by him or her" and the last one "his or her deductible expenses," whereas the 1965 draft lacked "or her" in both instances. Compare 17 U.S.C. § 504(b), with *1965 Hearings, supra* note 85, at 17-18.

⁸⁷ See STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 23 (Comm. Print 1965) (repeating exact language of "Actual Damages and Profits" of § 504(b)).

⁸⁸ Perhaps most telling is the section-by-section commentary that accompanied the bill one year before its enactment. By that juncture, there was no commentary at all about the damage provision. See *Copyright Law Revision: Hearings on H.R. 2223 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary, 94th*

although the verbiage of the 1909 Act differed,⁸⁹ its substance was also the same.⁹⁰ Congress has embodied essentially the same strictures in the domain of actual copyright damages for over a century, even while it has repeatedly overhauled the provisions for statutory damages,⁹¹ along with the rest of the statute.⁹²

B. *Testimony Regarding Application*

Not only has the language of the statute itself been static, but the award of actual damages was never historically controversial. Indeed, until *Deltak* and *Davis* construed the phrase “actual damages suffered by him or her [i.e., the copyright owner] as a result of the infringement” to refer to a *hypothetical* royalty that a willing buyer would have paid a willing seller, nobody dreamed that it could refer to anything other than real losses.

The issue arose squarely at the outset of the revision process. In October 1956 and March 1958, William S. Strauss and Professor Ralph S. Brown prepared two of the thirty-four studies that Congress commissioned as a prelude to the omnibus revision⁹³—though it took another twenty years for the process to reach fruition. Those studies canvassed damages under copyright law.⁹⁴

Cong. 2087 (1975) [hereinafter *1975 Hearings*] (commenting only on “notice” and “deposit and registration requirements” for copyrights).

⁸⁹ Two amendments to the damage provisions occurred during the pendency of the 1909 Act. Both provided “for low maximum damages for innocent infringers.” See STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW 19 (Comm. Print 1960) (study prepared by William S. Strauss).

⁹⁰ In 1964, Register of Copyrights Abraham L. Kaminstein called on his deputy, George D. Cary to explain the new provisions dealing with remedies. STAFF OF H. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: PART 4, at 116 (Comm. Print 1964) (requesting comment on sections 35, 36, and 37, “dealing with infringement, injunctions, and impounding”). Mr. Cary then elaborated, “These sections are, generally speaking, nothing more than a rewriting of the same concepts that exist in the present law.” *Id.*

⁹¹ See *infra* Section IV.D (discussing “spirited debate and numerous proposals” for revisions from legislators and lobbyists).

⁹² For a comprehensive overview of the statute and all its amendments, from 1976 through 2007, see generally DAVID NIMMER, *Codifying Copyright Comprehensibly*, in COPYRIGHT ILLUMINATED: REFOCUSING THE DIFFUSE US STATUTE (2008).

⁹³ See STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW, at ix (Comm. Print 1960) (study prepared by William S. Strauss); STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE OPERATION OF THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW 59 (Comm. Print 1960) (study prepared by Ralph S. Brown, Jr.); STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: REMEDIES OTHER THAN DAMAGES FOR COPYRIGHT INFRINGEMENT 111 (Comm. Print 1960).

⁹⁴ See *supra* note 93.

In terms of our subject matter, Mr. Strauss took the bull by the horns. Mr. Strauss, the then-Attorney Adviser of the Copyright Office, cited *Widenski*.⁹⁵ He explained the losing argument in that appeal for “the application of an analogy to the ‘established royalty’ rule of the patent law.”⁹⁶ Rather, as he explained:

The circuit court held that the “in lieu” clause was, in regard to copyright cases, a substitute for the established or reasonable royalty rule and that damages in a copyright case need not be the price at which the copyright proprietor had indicated his willingness to sell to the infringer.⁹⁷

That 1956 reference appears to have put the matter to bed. Although voluminous materials follow over the course of the next two decades, nobody attempted to resurrect the losing party’s argument from *Widenski*. Instead, the appellate court’s logic appeared to reflect the unchallenged view limiting the scope of permissible recovery.⁹⁸

The only other collateral reference in the legislative history to this argument occurred in 1958. Professor Brown invoked what “may be called ‘contractual’ cases.”⁹⁹ In that context, he cited a “very recent case”¹⁰⁰ in which “the defendant Eagle Lion used a screenplay for which the plaintiff, under the terms of a contract with a codefendant, Geiger, was to receive \$35,000, of which only \$10,000 had been paid.”¹⁰¹ “The court held that the defendant’s appropriation had made plaintiff’s interest in the play valueless, and that plaintiff was entitled to the unpaid \$25,000 as compensatory damages.”¹⁰² Based on that case, Professor Brown concluded that “in appropriate cases techniques are available for determining actual damages.”¹⁰³ But neither Professor Brown nor anyone

⁹⁵ See *supra* Section II.A (discussing *Widenski*).

⁹⁶ See STAFF OF S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW 4 (Comm. Print 1960) (study prepared by William S. Strauss).

⁹⁷ *Id.*

⁹⁸ In the succeeding seventeen volumes, there does not appear to be any further reference back to *Widenski*.

⁹⁹ See STAFF OF S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE OPERATION OF THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW 70 (Comm. Print 1960) (study prepared by Ralph S. Brown, Jr.).

¹⁰⁰ *Id.* The case referenced is *Szekely*. See *supra* Section III.A (discussing *Szekely*). The only other reference to *Szekely* throughout the seventeen volumes of legislative history relate to a wholly distinct matter (namely, to the district court ruling, insofar as it illuminated the proper standard for joint authorship). See STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: RENEWAL OF COPYRIGHT 175 n.531 (Comm. Print 1961) (study prepared by Barbara A. Ringer).

¹⁰¹ STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE OPERATION OF THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW 70 (Comm. Print 1960) (study prepared by Ralph S. Brown, Jr.).

¹⁰² *Id.*

¹⁰³ *Id.* at 71. Professor Brown went on to add considerations about large jury awards:

else, in that study or over the ensuing decades, ever postulated that, outside of contracting parties, others could recover under facts similar to those in *Deltak* or *Davis*.¹⁰⁴

The *damages* under consideration throughout the deliberation of the 1976 Act were not the type that *Business Trends* later characterized as “a gain in economic theory,” but instead were “actual” “damages.”¹⁰⁵ Consider the statement offered by a senior staffer at the Copyright Office in 1963:

I think most of us here have had the experience, and realize how difficult it is to prove the damages to a copyright of a book, for instance, before the book is published. Prospective or speculative damages are obviously excluded. The actual costs even of printing the book have not yet been incurred, because the book is still in manuscript form. Therefore the

Some fears have been expressed, derived from experience in unfair competition and common-law copyright cases, especially in California, that juries may make excessively large awards. Thus far there seem to be not enough instances to support a generalization that juries are overgenerous in this field. No cases reported under the Copyright Act seem to have resulted in large awards by juries. Awards that are “grossly excessive” or that fail to meet other measuring sticks of judicial discretion may of course be cut down by remittitur (unless the plaintiff chooses the alternative of a new trial).

Id. (footnote omitted). Those sentiments reverberate in the context of an award in Oakland, over half a century later, of \$1.3 billion—a verdict that the district court rejected, on which proposition it was affirmed on appeal. See NIMMER & NIMMER, *supra* note 12, § 14.05[D][2][c][ii] (discussing Oracle Corp. v. SAP AG, 765 F.3d 1081 (9th Cir. 2014)).

¹⁰⁴ Although dozens of cases have invoked *Deltak*’s standard of a hypothetical royalty, an exhaustive investigation reveals that only a small handful of published opinions have actually relied on that language to award damages. At the circuit court level, only *Deltak* and *Davis* do so. Although a similar ruling eventually came to pass in *Gaylord v. United States*, 595 F.3d 1364 (Fed. Cir. 2010), that case arose under a special statute waiving sovereign immunity, which specifically allows recovery of “reasonable and entire compensation.” 28 U.S.C. § 1498(b) (2012). That case therefore falls into a special paradigm.

At the district court level, only *Barrera v. Brooklyn Music, Ltd.*, 346 F. Supp. 2d 400 (S.D.N.Y. 2004), and *Coton v. Televised Visual X Ography, Inc.*, 740 F. Supp. 2d 1299 (M.D. Fla. 2010), are relevant. See NIMMER & NIMMER, *supra* note 12, § 14.05[G][3] (surveying lower court cases that deal with hypothetical license fees). Instead, the vast bulk of cases to make an award have fallen into the pattern of what Professor Brown labels above “contractual cases.” In other words, when an *actual* amount was negotiated by the parties, that amount serves as the basis of an award—as opposed to cobbling together the *hypothetical* amount of how much they would have bargained at arms’ length as a theoretical matter.

¹⁰⁵ *Bus. Trends Analysts, Inc. v. Freedonia Grp., Inc.*, 887 F.2d 399, 405 (2d Cir. 1989). It should be recalled that *Deltak* entertained three potential meanings for “actual damages.” The first was sales that would have taken place but for the infringement, the second was purchases that the defendant would have made from the plaintiff but for the infringement. See *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 360 (7th Cir. 1985); *supra* note 18. Neither was present on the facts presented, so the appellate panel moved to the third potential meaning, a hypothetical royalty. See *Deltak*, 767 F.2d at 360-64. But it is only the first two contenders that were on the minds of all parties when putting together the various components of the 1976 Act.

infringer, being aware that the court can only award one or the other, feels that he's got a pretty good chance of coming out ahead¹⁰⁶

That reference to “one or the other” refers to either damages or profits, but not both—an issue that divided the *Krofft* panel members.¹⁰⁷ But that collateral issue is not of the essence here. Instead, if hypothetical royalties had been a cognizable recovery, then infringers would not have been able to calculate that they have “a pretty good chance of coming out ahead.” Instead, they would have known that they faced payment of a hypothetical “reasonable royalty.” Once again, this window into the thoughts of the Act’s drafters reveals how utterly foreign the notion that damages under copyright law included hypothetical royalties is.

This is not to say that there was no dissent regarding actual damages and profits—a host of issues arose, as to which the disputes were protracted and

¹⁰⁶ STAFF OF H. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: PART 4, at 138 (Comm. Print 1964).

¹⁰⁷ See *supra* Section II.B (discussing *Krofft*). The issue returns later. See *infra* notes 108, 161.

pointed.¹⁰⁸ Emotions ran high.¹⁰⁹ But across many volumes of deliberations, one never runs across the argument that “actual damages” encompass an award of a *hypothetical royalty* or to any reference as to “what a willing buyer would pay a willing seller” as the metric for courts to determine awards to copyright infringers.¹¹⁰ In short, the later rulings in *Deltak* and *Davis* represent a

¹⁰⁸ A dozen major issues were identified in 1956, with many concomitant sub-issues. See STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW 31-32 (Comm. Print 1960) (listing “major issues regarding damages”) (study prepared by William S. Strauss). Over the succeeding decades, the major flash points throughout the long deliberations of the bill that ultimately became the 1976 Act focused on the following web of issues.

- (1) As previewed in the foregoing footnote, were actual damages and profits cumulative or alternative remedies? See STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION: PART 2, at 261-62 (Comm. Print 1963) (statement of The Author’s League of America); *id.* at 302 (statement of Bernard A. Helfat); *id.* at 319-20 (statement of Irwin Karp); *id.* at 363 (statement of The Motion Picture Association of America); STAFF OF H. COMM. ON THE JUDICIARY, COPYRIGHT LAW REVISION: PART 4, at 142-43 (Comm. Print 1964) (statement of Julian T. Abeles).
- (2) Should innocent infringers pay damages, or be excused from all payment? See *infra* Section III.D (discussing alternative of statutory damages award).
- (3) What minimum and maximum amounts should be imposed for statutory damages? See *infra* Section III.D (discussing statutory damages).
- (4) Should registration be required as a condition for imposition of statutory damages? See *infra* Section III.D.1 (discussing registration requirement).
- (5) Should special damage strictures be imposed on various industries, notably newspapers and jukebox operators? See *Copyright Law Revision: Hearings on S. 597 Before the Subcomm. on Patents, Trademarks, and Copyrights of the S. Comm. on the Judiciary*, 90th Cong. 628 (1967) [hereinafter *1967 Senate Hearings*] (statement of Walter B. Potter, President, National Newspaper Association); *id.* at 281-82 (statement of Perry S. Patterson); STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 231 (Comm. Print 1965) (statement by Stanford Smith, General Manager, American Newspaper Publishers Association); *1965 Hearings*, *supra* note 85, at 581 (statement of Nicholas E. Allen, Counsel, Music Operators of America, Inc.); *id.* at 632 (statement of Herbert J. Miller).

¹⁰⁹ Consider the Proposal to Abolish Copyright (by Piraticus), which suggests:

[A] copyright term limited to 1 year. If the author has anything worthwhile he can “clean up” in that period. Thereafter his writings ought to be free as the air we breathe, without taxes, without levies, without conditions, without restrictions, without anything that impedes drinking deep from the cup of knowledge.

1965 Hearings, *supra* note 85, at 240.

¹¹⁰ Broadening our perspective from copyright law to general legal concerns, the conclusion remains the same. A commentator of the time synthesized this aspect of legal damages by positing that a plaintiff could “prove his losses by direct testimony of customers who would have patronized him, but, as a result of the defendant’s conduct, did not.” Note, *The Requirement of Certainty in the Proof of Lost Profits*, 64 HARV. L. REV. 317, 318 (1950). “More often the claimant will attempt to prove the profits he would have made but for the wrong by showing what profits had been made in comparable past periods or what a similar business had been earning during the period for which recovery is sought.” *Id.* at 318-19

phenomenon wholly alien to the elaborate formulation of damages in the 1976 Act.

C. *References to “Reasonable Royalty”*

Ironically, the Copyright Act actually contains multiple references to *reasonable royalties*. But those references uniformly appear as part of the administrative component of the Act that sets rates for its various compulsory licenses¹¹¹—never in the context of determining recoveries for copyright infringement as addressed in *Deltak* and *Davis*.

To delve into some of the details, at its enactment in 1976, the Act included four compulsory licenses, enumerated below. To administer those compulsory licenses, the Act chartered a Copyright Royalty Tribunal (“CRT”) “to make determinations concerning the adjustment of reasonable copyright royalty rates” and “to make determinations as to reasonable terms and rates of royalty payments.”¹¹²

Two of those compulsory licenses applied to mechanical recordings and jukeboxes.¹¹³ The 1976 Act empowered the CRT to adjust the royalties paid pursuant to each.¹¹⁴ Even before enactment, those proposals attracted a great deal of attention. Thus, addressing jukeboxes, Herbert J. Miller, Jr., captioned a portion of his prepared statement, “THE ‘REASONABLE’ ROYALTY.”¹¹⁵ In the body, he complained about the royalties sought by ASCAP and Broadcast Music, Inc. (“BMI”) under the mechanical compulsory license.¹¹⁶

Another compulsory license of the 1976 Act applied to noncommercial broadcasting.¹¹⁷ Separate from the above, the statute chartered the CRT to determine “reasonable terms and rates of royalty payments” for that third compulsory license.¹¹⁸ This provision attracted a great deal of alternative

(footnote omitted).

¹¹¹ These provisions appear in the “within-the-beltway” features of the Act, rather than in those of nationwide import. See David Nimmer, *Codifying Copyright Comprehensibly*, 51 UCLA L. REV. 1233, 1238 (2004) (“The smaller portion of the Copyright Act of 1976 at its enactment consisted of National Copyright Legislation (NCL), that is, general principles of nationwide import. The larger part of the enactment, by contrast, consisted of endless regulation of specialized application, primarily of interest to a beltway subculture.”).

¹¹² Act of Oct. 19, 1976, Pub. L. No. 94-553, § 801(b)(1), 90 Stat. 2541, 2594 (codified as amended at 17 U.S.C. § 801(b)(1)-(2) (2012)).

¹¹³ See *id.* § 115; *id.* § 116.

¹¹⁴ See *id.* § 116.

¹¹⁵ 1965 Hearings, *supra* note 85, at 629.

¹¹⁶ *Id.* (“[I]t is incomprehensible how any objective individual can contend that the payment of a ‘reasonable’ performing rights fee would not have a substantial, if not devastating, impact on these operators.”).

¹¹⁷ See 17 U.S.C. § 118 (“Use of certain works in connection with noncommercial broadcasting.”).

¹¹⁸ *Id.* § 118(b).

proposals in the legislative historical materials, each replete with their own references to such matters as “a timely offer of a license for a reasonable fee.”¹¹⁹

Finally, the 1976 Act, at enactment, set forth minutely regulated rates payable for cable television—the most complicated of the four compulsory licenses, and indeed the most convoluted section of the entire enactment.¹²⁰ Here, Congress itself set the pertinent royalty fees, subject to administration by the CRT.¹²¹ This provision proved to be one of the flashpoints for the entire bill. Indeed, the twin controversies over reasonable fees to be paid for cable TV rebroadcasts and for jukebox fees delayed adoption of the Act for over a decade.¹²² The indomitable Jack Valenti weighed in here, on behalf of the Motion Picture Association of America: “Now what we are advocating, Mr. Chairman, are fees that are just and reasonable; that is all. We believe that you cannot have just and reasonable fees unless you have a careful examination of all the under-girding facts on which you build your edifice of a fee schedule.”¹²³

References to “a royalty fee” permeate his testimony,¹²⁴ along with “fair payment” and “just and reasonable fees.”¹²⁵ But, as always, context is everything. All those references arose only with respect to what was then called the “arbitration tribunal”¹²⁶ or “royalty tribunal”¹²⁷ (which ultimately became the CRT) tasked by statute with administering the Copyright Act’s four compulsory licenses. Neither Mr. Valenti nor anyone else invoked those considerations vis-à-vis infringement damage awards. In short, the domain in question mentioning “reasonable royalties” has no connection to Article III judges and hence cannot support their invocation of that metric when computing copyright infringement damages.¹²⁸

¹¹⁹ *1967 Senate Hearings, supra* note 108, at 155-56. Consider the further latitude proposed at that juncture: where the court finds that the copyright owner either has failed to make a timely reply to a request for a license or has not made timely offer of a license for a reasonable fee, it may reduce or withhold any award of damages under § 504 and may, in its discretion, award to the infringer costs and attorneys’ fees under § 505. *Id.* at 156; *see also id.* at 1009-10.

¹²⁰ *See* 17 U.S.C. § 111.

¹²¹ *See id.* § 111(d)(5)(B).

¹²² *See* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 873-74 (1987) (discussing negotiations over copyright liability that started in 1961).

¹²³ *Hearings on S. 1361 Before the Subcomm. on Patents, Trademarks, and Copyrights of the S. Comm. on the Judiciary*, 93rd Cong. 280 (1973) [hereinafter *1973 Hearings*].

¹²⁴ *See, e.g., id.* at 281.

¹²⁵ *See 1975 Hearings, supra* note 88, at 708-89.

¹²⁶ *1973 Hearings, supra* note 123, at 281.

¹²⁷ *1975 Hearings, supra* note 88, at 739.

¹²⁸ By contrast, Article III judges sitting on the D.C. Circuit at times review determinations of royalty rates paid under the compulsory licenses. In those instances, reference to “reasonable royalties” arises naturally as a matter of parsing the language that Congress actually incorporated into those features of the Act (which are wholly separate from the

D. *Alternative Award of Statutory Damages*

The above has explored how the current Act was structured in terms of “actual damages” for copyright infringement and “reasonable royalties” in the separate domain determined administratively.¹²⁹ As an alternative to actual damages (and profits), prevailing plaintiffs in copyright infringement cases under the 1909 Act could recover “in lieu” damages, the predecessor to “statutory damages” in the draft revision bill.¹³⁰

Unlike the virtual silence that prevailed as to formulations for actual damages under the current Act,¹³¹ tremendous dissent punctuated the formulation of statutory damages. As of the mid-1960s, the doyen and doyenne of the copyright bar were respectively Herman Finkelstein¹³² and Harriet Pilpel.¹³³ Each addressed statutory damages. Important commentary on point also came from staff of the Copyright Office, including Assistant Register Barbara Ringer (later to serve as Register of Copyrights), from academics (including Professor Melville B. Nimmer), and from a host of interested parties.

1. Requirement of Registration

Mr. Finkelstein, ASCAP’s long-time General Counsel, highlighted the innovation that unlike “in lieu” damages under the 1909 Act, the draft bill required registration as a condition to the award of statutory damages:

The [draft bill] provides that, if a work is not registered, there shall be no award of statutory damages or attorneys fees. It seems to me that that is a great encouragement for registration. If the author does everything that can be done to put the public on notice—if he has his copyright notice, and if he has registered the work (and there is no police force out there trying to detect infringements for him,) and he goes to all the trouble and expense of ascertaining that the work has been infringed—it seems to me that experience

provisions under examination in *Deltak* and successor cases). See *Intercollegiate Broad. Sys. v. Copyright Royalty Bd.*, 796 F.3d 111, 127 (D.C. Cir. 2015) (“Intercollegiate contends that the Board failed to honor the statutory requirement that, in setting reasonable royalty rates, it ‘distinguish among the different types of eligible nonsubscription transmission services then in operation’”); *Music Choice v. Copyright Royalty Bd.*, 774 F.3d 1000, 1010 (D.C. Cir. 2014) (“The Judges acted within their discretion when, after identifying weaknesses with the proposed benchmarks, they employed interim guideposts to determine a reasonable rate.”).

¹²⁹ See *supra* Section IV.C (explaining different contexts for use of terms “actual damages” and “reasonable royalties”).

¹³⁰ See *supra* Section II.A (discussing “in lieu” damages).

¹³¹ See *supra* Section III.A (discussing *Szekely*).

¹³² See NIMMER & NIMMER, *supra* note 12, § 10.10[E] (“The former General Attorney for ASCAP, Herman Finkelstein, has characterized nondramatic performances as ‘renditions of a song . . . without dialogue, scenery or costumes.’”).

¹³³ See Nimmer, *supra* note 111, at 1235 n.3 (citing Harriet Pilpel, Melville B. Nimmer Memorial Lecture at UCLA Law: The Magnetic Reach of the First Amendment (Oct. 6, 1988)).

under the existing law has shown that the statutory damage provisions are the only thing that the author can fairly rely on.¹³⁴

Under the 1909 Act, an aggrieved copyright owner whose work had been infringed could simply belatedly register the work and then sue, collecting “in lieu” damages in the process. By contrast, under the 1976 Act (both in its draft form and as enacted, and continuing to date), the copyright owner cannot obtain statutory damages unless it registered the work prior to the commencement of infringement.¹³⁵

Why was this alteration made to the strictures that had long applied under the 1909 Act? Ms. Ringer explained the rationale: “There seemed to be some general recognition at the meeting that, since you don’t get statutory damages or attorney’s fees under a common law copyright today, it is appropriate to induce registration by withholding them with respect to unregistered works.”¹³⁶

Ms. Ringer’s perspective failed to win universal accord. The late Professor Melville Nimmer, for example, courteously urged deletion of that aspect.¹³⁷ Others were more strident in expressing the same viewpoint, such as Julian Abeles of the Music Publishers’ Protective Association, who described the rule as “a crook’s paradise.”¹³⁸ But their viewpoint was a minority view. At the end of the day, the “general recognition” noted in the Ringer statement prevailed.¹³⁹

¹³⁴ STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 202-03 (Comm. Print 1965).

¹³⁵ Later, we will see a small exception to that requirement. *See infra* note 140 (describing grace period for copyright registration following copyright publication).

¹³⁶ STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 206 (Comm. Print 1965). Earlier still, there had been a very different proposal. *See* STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 3, at 29-30 (Comm. Print 1964) (providing that copyright owners shall be entitled to recover damages for “infringement commenced before copyright registration”). As Ms. Ringer noted at the time, it was “argued quite strenuously that our recommendation” should not be adopted, and it was dropped. STAFF OF H. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: PART 4, at 96 (Comm. Print 1964).

¹³⁷ *See* STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 319 (Comm. Print 1965) (“In my view this section should be deleted.”).

¹³⁸ STAFF OF H. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: PART 4, at 99 (Comm. Print 1964).

¹³⁹ *See* STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 206 (Comm. Print 1965). As she rightly noted, the expansion of statutory copyright to unpublished works opened the floodgates to protection. Under that circumstance, the innovation of requiring timely registration actually safeguarded the status quo, whereby unpublished works could not recover “in lieu” damages when infringed (because not protected under federal law). As one observer elaborated:

I take it that the purpose of [this provision], in view of the influx of numerous works now protected by common-law copyright but then protected under a new statute by statutory copyright, is to preserve the common-law copyright protection but not to increase it. The situation under this section is no different from what it is today. Today if you have a work and it isn’t either registered or published with a copyright notice it has common-

Congress made statutory damages available only for previously¹⁴⁰ registered works¹⁴¹ to serve (in Finkelstein's words) as "a great encouragement for registration."¹⁴² The hoped-for result would be to render comprehensive the forms filed at the United States Copyright Office. In addition, given that deposit is an ancillary requirement to registration, it also served to augment the collection of the Office's parent body, the Library of Congress.¹⁴³ On top of that, registration served an important goal to aid courts that would ultimately be called upon to adjudicate copyright infringement disputes.¹⁴⁴

That registration was made mandatory did not render it onerous. At enactment, the statute set the fee for registration at the less than confiscatory rate of ten dollars.¹⁴⁵ It rose over time to its current level of eighty-five dollars.¹⁴⁶ In the later words of one Register of Copyrights, this is "one of the biggest bargains in

law copyright, and you can't get statutory damages. I don't see that this is any different. *Id.* at 112.

¹⁴⁰ In other words, if infringement begins on January 14, 2018, then failure to register the work by that date forfeits recovery of statutory damages. A grace period, however, applies following a work's first publication—it allows for registration within three months. *See* 17 U.S.C. § 412(2) (2012) (stating that statutory or attorney's fees will not be awarded for "any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work"). Thus, if the work had been first published on January 8, and was infringed on January 14, it is timely for the author to register the work by April 7—the author may still recover statutory damages in that instance. By contrast, if the author waited until April 10 to register, or if the infringement that occurred on January 14 related to a work that would not be first published until January 20, then no such recovery would be forthcoming.

¹⁴¹ In other words, let us imagine a copyright subsisting in 1980, not previously registered by its proprietor, and which is infringed in that year. As of 1981, the copyright owner can register the work and file suit. But it will not be able to recover statutory damages in that lawsuit—even with respect to ongoing infringement that occurs in 1982 and thereafter (i.e., subsequent to the work's registration).

¹⁴² *See* STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5 at 202-03 (Comm. Print 1965).

¹⁴³ *See* 17 U.S.C. §§ 407, 408(b) (requiring deposit of copies of publication with Copyright Office within three months of publishing copyrighted work for use by Library of Congress); H.R. REP. NO. 94-1476, at 150-153 (1976) ("Thus, the fundamental criteria governing regulations issued under section 407(c) . . . would be the needs and wants of the Library.").

¹⁴⁴ *See* 17 U.S.C. § 410(c) ("In any judicial proceedings the certificate of a registration made before or within five years after first publication of the work shall constitute prima facie evidence of the validity of the copyright and the facts stated in the certificate. The evidentiary weight to be accorded the certificate of a registration made thereafter shall be within the discretion of the court.").

¹⁴⁵ Act of Oct. 19, 1976, Pub. L. No. 94-553, § 708(a)(1), 90 Stat. 2541, 2593 (codified as amended at 17 U.S.C. § 708(a)).

¹⁴⁶ For the pertinent history, see NIMMER & NIMMER, *supra* note 12, § 7.24.

Washington.”¹⁴⁷ The only other requirements to obtain registration are to fill out a certificate and mail it, along with a deposit copy, to the Copyright Office.¹⁴⁸

The promised benefit of increased registration came with a price—it was recognized, even at this juncture, that failure to register would limit recovery to actual damages and profits.¹⁴⁹ Nobody tried to sugar-coat that disability by maintaining that “actual damages” encompassed “hypothetical imputed royalties” saved in the process of infringing.

2. “The Only Thing the Author Can Rely On”

Ms. Pilpel echoed Mr. Finkelstein’s perspective (quoted above) that “the statutory damage provisions are the only thing that the author can fairly rely on.”¹⁵⁰ She emphasized that “[s]tatutory damages are of course very important in situations where actual damage can’t be proved.”¹⁵¹

Even when they articulated those views in the mid-1960s, these commentators were already rehearsing a familiar trope. The Register of Copyrights had noted, as early as 1961, that the “need for this special remedy arises from the acknowledged inadequacy of actual damages and profits in many cases.”¹⁵² Many other commentators likewise noted that “where the profits or the damages cannot be established, the court can assess [in lieu] damages as it may deem to be just, within the statutory limitations.”¹⁵³ One report to Congress characterized

¹⁴⁷ H.R. REP. NO. 101-279, at 15 (1989).

¹⁴⁸ See 17 U.S.C. § 408(a) (“[T]he owner of copyright or of any exclusive right in the work may obtain registration of the copyright claim by delivering to the Copyright Office the deposit specified by this section, together with the application and fee specified by sections 409 and 708.”).

¹⁴⁹ See STAFF OF H. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: PART 4, at 137 (Comm. Print 1964) (“With respect to an infringement commenced before registration, the monetary recovery is limited to actual damages; or, if the infringement is shown to be willful, then the recovery of the infringer’s profits, in excess of actual damages, is permitted.”).

¹⁵⁰ See STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 202-03 (Comm. Print 1965).

¹⁵¹ STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION: PART 2, at 174 (Comm. Print 1963).

¹⁵² STAFF OF H. COMM. ON THE JUDICIARY, 87TH CONG., COPYRIGHT LAW REVISION 102 (Comm. Print 1961). The Register later underscored that “the right of the copyright owner to elect minimum statutory damages in cases where infringement has been proved is an important one under the present copyright statute, and that it should be preserved and made clear in the new law.” *1965 Hearings, supra* note 85, at 1867 (statement of Hon. Abraham L. Kamenstein, Register of Copyrights).

¹⁵³ *1965 Hearings, supra* note 85, at 295 (statement of Julian Abeles, Music Publishers Protective Association, Inc.). Indeed, a Colorado congressman bitterly complained, with respect to jukeboxes, that this provision “is unfair and unjust, and therefore it should not be enacted,” given that it allowed minimum statutory damages of \$250 “regardless of what damage may have accrued to the individual for the playing of that record.” *Id.* at 537-38, 540 (statement of Rep. Byron G. Rogers).

that automatic minimum of in lieu damages as “the major deterrence to infringement,” served “by educating the trade to the fact that minimum statutory damages under copyright illuminate a ‘no trespassing’ sign.”¹⁵⁴

Moving from a “no trespassing” sign to the image of a “red flag,” consider the testimony from Edward A. Sargoy on March 15, 1962. One of the chief witnesses at the revision hearings, Mr. Sargoy stated the following on behalf of the American Bar Association:

Licensing systems, and the respect for copyrights, are destroyed if you don’t have any red flag, as a deterrent to the millions of unauthorized uses that are possible, such as minimum statutory damages if you don’t get in touch with the company and get permission to use the film an extra day, or to take it to the other theater; a permission that might cost only \$15, \$20, or \$25 extra.

Breach-of-contract remedies against licensees who violate their contracts, which would only award the normal contract value of the appropriated use, are tantamount in effect to a compulsory licensing system. The licensee who gets hundreds of prints a year can use them when and as he pleases in the hope that, if he is caught with one out of a hundred unauthorized uses, he will then pay the normal licensing value for the appropriated use discovered. Why should he pay for 99 other uses until he’s caught? And that’s the only remedy you have for your breach of contract. That’s assuming you have a contract with this fellow. If you haven’t got a contract with the infringer, if it’s a lost or stolen print, you haven’t even got a contract remedy.

Remedies for replevin or conversion are impractical because, in matters such as these, the offender easily disposes of the film, and the sheriff can never find it when he comes to seize it. The damage for conversion is only the physical value of a print. It’s not the value of the million, or 2 million, or 3 million dollars you have put into the negative. It’s only the physical materials of the copyrighted print that have any value at common law, and this is a nominal value for the common law remedy of conversion. We’re not talking of a copyright remedy.

Now that’s where the great value of these minimum statutory damages lies. In the early 1930s one out of every two theaters in the United States was abusing its exhibition license agreements by what we call bicycling the pictures to other theaters, or switching the theaters or holding over for an extra day, without the knowledge of the copyright distributor.^[155] Such

¹⁵⁴ 1965 Hearings, *supra* note 85, at 1006-07 (statement of Edward A. Sargoy, The Copyright Committee of the Motion Picture Association of America, Inc.); *see also id.* at 1053-54.

¹⁵⁵ Mr. Sargoy was referring to the practice of “bicycling” film prints, whereby an exhibitor paid to show a movie in a 200-seat theater, but then surreptitiously took it to a 600-

practices had existed practically from nickelodeon days. It was at that time that we decided to go in and apply copyright law, rather than the breach-of-contract remedies, and those were the years in which we established legal precedents as to motion pictures under copyright.

We taught the entire industry and made it copyright conscious as to the very existence of this \$250 minimum damage provision. I know of only two cases, out of thousands, where we ever collected the \$250. We were not interested in doing that. But we wanted to show these people that there is such a thing as statutory damages, and to deter them, and to keep the potential thousands of infringing uses out of courts.

The result of that educational process for the industry, by making it copyright conscious of the existence of the \$250 minimum damage provision, was that in the 1940s we couldn't even find a newsreel that played out of turn in any theater un the United States. And that's exactly what we wanted. We'd rather collect 50,000 normal license fees a day than catch 1 fellow and collect \$250 from him.¹⁵⁶

From that excerpt, it is apparent that the “value of the appropriated use” was on the minds of the drafters of the 1976 Act and was expressly referenced as among “[b]reach-of-contract-remedies against licensees who violate their contracts.”¹⁵⁷ In other words, such relief did not lie against copyright infringers

seat theater, 300 miles away, where the rental might have been five times as much. *Cf.* *Silverman v. CBS Inc.*, 870 F.2d 40, 49, 51 (2d Cir. 1989) (describing how alleged bicycling of television programs may result in lost copyright royalties).

¹⁵⁶ STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION: PART 2, at 176 (Comm. Print 1963). Later, Louis Nizer embroidered on those remarks concerning bicycling prints. *1965 Hearings*, *supra* note 85, at 1372-73 (observing that treating bicycling of prints as copyright infringement helped reduce such practice).

¹⁵⁷ STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION: PART 2, at 176 (Comm. Print 1963). Presumably the same sentiment underwrites the Register's observation that “[i]n many cases, especially those involving public performances, the only direct loss that could be proven is the amount of a license fee.” STAFF OF H. COMM. ON THE JUDICIARY, 87TH CONG., COPYRIGHT LAW REVISION 102 (Comm. Print 1961). ASCAP and BMI have been among the most prolific litigants in the copyright ambit, recovering from lapsed licensees the amounts that should have been paid. *See NIMMER & NIMMER*, *supra* note 12, § 8.19[B] (“Under ASCAP's auspices, member-composers bring a great many infringement actions.”). Cases arising in that posture correspond to what Professor Brown called “contractual cases.” *See* STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE OPERATION OF THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW 70 (Comm. Print 1960) (study prepared by Ralph S. Brown, Jr.) (describing contractual cases as cases concerning defendant's right to use material in view of earlier or incomplete contractual relations). In other words, the parties have already set their fee by license, which the licensee later declines to pay. *See Chi-Boy Music v. Charlie Club, Inc.*, 930 F.2d 1224, 1226 (7th Cir. 1991) (noting that licensing agreement between Charlie Club and ASCAP entailed annual fee payment which Charlie Club eventually stopped paying). Regardless, though, almost all of these cases award statutory damages rather than actual damages—a

who lacked any antecedent relationship with the plaintiff copyright owner.¹⁵⁸ Instead, the beauty of the copyright system is that it afforded the relief of statutory or “in lieu” damages in amounts many multiples greater than what the licensing fee would have been that those parties would have negotiated. To reiterate Mr. Finkelstein’s aperçu, in the context of the 1909 Act, “the statutory damage provisions are the only thing that the author can fairly rely on.”¹⁵⁹

3. A Host of Proposals

In 1964, Abe Goldman referred to the damages provision as “probably the section that is of the most concern to most of the people” gathered to vet the revision bill.¹⁶⁰ As General Counsel of the Copyright Office, Mr. Goldman highlighted all the changes from the preliminary draft. One provided for the accumulation of damages and profits, rather than making them alternative.¹⁶¹ As to statutory damages, he emphasized “two important changes.”¹⁶² One was to drop the prior bill’s allowance for courts to omit statutory damages altogether for innocent infringers.¹⁶³ The other was to exceed the maximum of ten thousand dollars “if the infringement is proved to have been committed willfully after service of actual notice.”¹⁶⁴ Those two poles furnished the template for

straightforward proposition, given ASCAP’s practice of routinely registering works in its repertoire on a timely basis. *See* NIMMER & NIMMER, *supra* note 12, § 8.19[B] (collecting dozens of cases in that paradigm).

¹⁵⁸ To reiterate, Mr. Sargoy specified about such recovery: “That’s assuming you have a contract with this fellow. If you haven’t got a contract with the infringer, if it’s a lost or stolen print, you haven’t even got a contract remedy.” STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION: PART 2, at 176 (Comm. Print 1963).

¹⁵⁹ STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 203 (Comm. Print 1965).

¹⁶⁰ *Id.* at 199.

¹⁶¹ *Id.* (noting change to preliminary draft provides “damages may be accompanied by a further recovery of any profits of the infringer attributable to the infringement that are not taken into account in computing the actual damages”).

¹⁶² *Id.*

¹⁶³ *Id.* (noting removal of preliminary draft provision that “permit[ted] a court to reduce the amount below \$250 or to omit statutory damages entirely with respect to a person who proved that he was an innocent infringer”).

¹⁶⁴ *Id.*

endless¹⁶⁵ later proposals.¹⁶⁶ Many witnesses passionately¹⁶⁷ urged that innocent infringers be given a pass from statutory damages.¹⁶⁸ One congressman complained that “you are going to have chaos throughout the entire industry, because as you know, and I know, ASCAP, BMI, and one or two of the other so-called protection organizations can each come in and demand his price, and if he does not get it, then you must pay \$250, and attorney fees.”¹⁶⁹

On the other side, others vigorously¹⁷⁰ opposed the expedient of exempting innocent infringers from statutory damages.¹⁷¹ The law, as ultimately enacted,

¹⁶⁵ Even the United States Air Force got into the act (actually, into the Act) with its own preferred amendment. *See 1965 Hearings, supra* note 85, at 1167 (statement of Maxwell C. Freudenberg) (suggesting amendment of provision governing remedies available to copyright owners to reduce liability of United States through Armed Forces Radio and Television Service).

¹⁶⁶ One proposal was to continue the ruling of *Peter Pan Fabrics, Inc. v. Jobela Fabrics, Inc.*, 329 F. 2d 194, 195-97 (2d Cir. 1964), allowing recovery of both statutory damages plus profits. *See 1965 Hearings, supra* note 85, at 133, 141, 149 (statement of Horace S. Manges, American Book Publishers Council, Inc.) (recommending allowing recovery of both statutory damages and profits in conformance with holding of *Peter Pan Fabrics* case).

¹⁶⁷ Speaking on behalf of the National Association of Broadcasters, one speaker commented:

We are pleased to note that the proposed legislation reduces the minimum damages for innocent infringement from \$250 to \$100. While we believe this represents an improvement over the present law, we believe that the court should be given unlimited discretion in this regard and should be permitted to impose no damages whatsoever for innocent infringement. A person should not be penalized for innocence.

1967 Senate Hearings, supra note 108, at 864 (statement of Douglas A. Anello, General Counsel, National Association of Broadcasters).

¹⁶⁸ *See, e.g., 1967 Senate Hearings, supra* note 108, at 914 (statement of John C. Stedman, American Association of University Professors) (recommending provision that allows court to remit statutory damages completely or partially where infringement is nonprofit educational activity or reasonably believed to be fair use); *1965 Hearings, supra* note 85, at 160, 165 (statement of Alfred H. Wasserstrom, The Magazine Publishers Association) (expressing appreciation for provisions that exempt innocent infringers from liability for damages and allow courts to reduce statutory damages against innocent infringers).

¹⁶⁹ *1965 Hearings, supra* note 85, at 540 (statement of Rep. Byron G. Rogers).

¹⁷⁰ Here is a bit of the flavor: “The truly innocent infringer is not the person to whom the copyright law will apply. He will negotiate. It is the one who seeks to appropriate another’s property without payments of just compensation who will take advantage of every opportunity you may afford.” STAFF OF H. COMM. ON THE JUDICIARY, COPYRIGHT LAW REVISION: PART 4, at 156 (Comm. Print 1964).

¹⁷¹ *See, e.g., 1965 Hearings, supra* note 85, at 220-21 (statement of Albert F. Ciancimino, SESAC, Inc.) (noting that discretion to decrease statutory damage awards is disadvantageous); STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 202 (Comm. Print 1965) (arguing against extending innocent infringer exception to printers, publishers, and news media); STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION: PART 2, at 177 (Comm. Print 1963) (“We believe that this minimum statutory damage provision in its present form acts as a substantial and necessary encouragement to the exercise of caution in dealing with copyrighted properties,

contained a compromise: it embodied limited remission from the minimum for innocent infringers.¹⁷² At the other end of the spectrum, many witnesses urged that the maximum be raised for willful infringement.¹⁷³ That expedient later won enactment without the 1964 gloss that infringement had to be committed “after service of actual notice.”

In addition to those general considerations, numerous industries lobbied for special consideration. One witness, testifying on behalf of The National Association of Greeting Card Publishers, asked “that *greeting cards* be exempted from the provisions of section 411 requiring registration prior to infringement” be a prerequisite for statutory damages and attorneys fees.¹⁷⁴ Another urged that “the schedule of damage should be expanded to award specific statutory damages in cases of infringement of copyrights of designs on

and it should not be weakened.”); *id.* at 301 (“Having gone through the registration procedures established by the statute, the copyright proprietor should be granted protection against all infringers, and a defense of innocence on the part of infringers should not be encouraged.”).

¹⁷² The final statute was passed to allow remission of statutory damages against innocent infringers from nonprofit educational institutions and public broadcasting entities. *See* Act of Oct. 19, 1976, Pub. L. No. 94-553, § 504(c)(2), 90 Stat. 2541, 2585 (codified as amended at 17 U.S.C. § 504(c)(2) (2012)) (“The court shall remit statutory damages . . . if the infringer was: (i) an employee or agent of a nonprofit education institution . . . or (ii) a public broadcasting entity . . .”). Much testimony from those industries supported that construction. *See 1967 Senate Hearings, supra* note 108, at 178 (statement of John Maxwell, National Council of Teachers of English) (“We are equally pleased with . . . section 504, which grants to the court discretionary authority to reduce or to waive the minimum statutory damages in the case of a teacher who in the course of his normal face-to-face teaching activities innocently infringes the law.”); *id.* at 188 (statement of Harry W. Rosenfield) (“[W]e are distressed by the limitation of the provisions of 504(c)(2), the discretionary waiver, by a court, of innocent infringement as being limited only to the classroom teacher. We urgently suggest that this ought to be applied to the teacher on educational broadcasting as well as the librarian.”); *id.* at 593 (statement of Dr. Charles F. Gosnell, Chairman, Committee on Copyright Issues, American Library Association) (proposing amendment extending 504(c)(2) to librarians in addition to teachers); *id.* at 618 (statement of Professor Erwin C. Surrency, Chairman, Joint Libraries Committee on Copyright of the American Libraries Association, Special Libraries Association, Music Libraries Association, and American Association of Law Libraries) (“This committee urges that librarians be included in this exemption along with educators.”). The House Judiciary Committee explained at length how it came to this compromise position. *See* H.R. REP. NO. 2237, at 159 (1966) (describing considerations in coming to final innocent infringer provision).

¹⁷³ One proposal was that there would be no maximum at all for willful infringement, as was the case under the 1909 Act. *See 1967 Senate Hearings, supra* note 108, at 57 (statement of the Authors League of America) (“We believe that the imposition of a fixed ceiling may encourage infringements. Since the present Law has functioned fairly without any limitation in such cases, we urge that the maximum be deleted from section 504(c)(2).”). That proposal failed to win enactment.

¹⁷⁴ *1967 Senate Hearings, supra* note 108, at 730 (statement of Robert W. Weist, Chairman, Legislative Committee, The National Association of Greeting Card Publishers) (emphasis added).

textile fabrics,” suggesting “a statutory minimum standard of damages of \$2 per yard, with a maximum on this account of \$10,000.”¹⁷⁵ The National Newspaper Association asked for carefully tailored dispensation for its constituents.¹⁷⁶ A fourth witness wished to include punitive damages as a form of copyright relief.¹⁷⁷ All those special pleadings failed to move Congress.

By the end of the process, the House-Senate conferees approved the House bill, which “required the court to remit statutory damages entirely in cases where a teacher, librarian, archivist, or public broadcaster, or the institution to which they belong, infringed in the honest belief that what they were doing constituted fair use.”¹⁷⁸ That resolution represented a deliberate compromise, while at the same time, the conferees tilted towards the Senate bill with respect to other remedies.¹⁷⁹

The above considerations provide a window into the thinking behind the 1976 Act. They show that the contours of statutory damages were the subject of spirited debate and numerous proposals.¹⁸⁰ At the end of the day, Congress had to choose among the panoply of potential solutions. It decided to retain statutory damages as a form of automatic recovery—but at the same time made them less than categorical.¹⁸¹ Specifically, Congress chose to limit statutory damages to instances when registration pre-dated infringement (itself subject to an exception)¹⁸² precisely to encourage timely registration of works and thereby render complete the records of the Copyright Office and the deposits to the Library of Congress.

¹⁷⁵ STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION: PART 2, at 302 (Comm. Print 1963) (emphasis added).

¹⁷⁶ See 1965 Hearings, *supra* note 85, at 1464 (statement of Richard Cardwell, National Newspaper Association) (“[W]e strongly urge that the clause in section 101(b) of the present law relating to newspaper reproduction of a copyrighted photograph, which limits liability to a sum between \$50 and \$200, be retained in the present bill as an amendment to section 504(b).”).

¹⁷⁷ See H.R. REP. NO. 94-1733, at 79-80 (1976) (Conf. Rep.) (reducing punitive measures for copyright infringement by decreasing maximum imprisonment term); STAFF OF H. COMM. ON THE JUDICIARY, COPYRIGHT LAW REVISION: PART 4, at 138 (Comm. Print 1964) (“[A] concept of punitive damages over and above the statutory damages . . . might be highly appropriate where there is a willful infringement.”).

¹⁷⁸ H.R. REP. NO. 94-1733, at 80 (Conf. Rep.) (discussing House bill’s provision for remittance of statutory damages in certain circumstances).

¹⁷⁹ *Id.* (adopting Senate bill “with certain modifications” in regards to seizure and forfeiture provisions).

¹⁸⁰ See generally *id.* (highlighting debate and innovating solutions taken into account in drafting 1976 Act).

¹⁸¹ *Id.* at 79.

¹⁸² See *supra* note 140 and accompanying text (discussing three-month grace period for availability of statutory damages).

E. *Conclusions as to Awards of a Hypothetical “Reasonable Royalty”*

We can now evaluate *Deltak*'s position that reasonable royalties are an explicit remedy under patent law, along with its concession that “Congress might have intended statutory damages to have the same function as reasonable royalties, and thereby have precluded the use of anything similar to reasonable royalties as a measure of actual damages in copyright cases”—but its ultimate conclusion that “the legislative reports do not say so, and neither they nor the Copyright Act defines actual damages.”¹⁸³

The legislative reports leave little doubt that the opposite was on the drafters' minds. They reflect that *Widenski* represents established law, highlight Congress's intention of bringing forward *Widenski*'s construction under the amended law, and in the process reject the patent measure of reasonable royalties as cognizable damages for copyright infringement.¹⁸⁴

Indeed, the legislative reports reveal that the drafters were very familiar with the concept of recovery of reasonable royalties, and intended it to form an integral part of the Act—but confined to its proper domain. That domain was the administrative determination of proper recovery pursuant to the compulsory licenses that Congress legislated. As previously ventilated, that domain stands wholly apart from judicial calculation of the remedy for infringement.¹⁸⁵

Deltak's claim about what “the legislative reports do not say” entails an inquiry into what is missing from the voluminous legislative history.¹⁸⁶ In that vein, nobody ever testified that courts could impose a reasonable license fee, computed hypothetically, by reference to what a willing buyer would have paid a willing seller.¹⁸⁷ Indeed, testimony offered from the Music Royalty Committee of the International Association of Amusement Parks is highly revealing in this regard. When the Chairman asked for specific recommendations, the witness testified that the copyright owners' option to recover statutory damages “places us in this terrible position.”¹⁸⁸ He continued:

If they had an option to sue us for damages based on what is customary in the field or what is customary in the field related to what they would like to raise it to, or what is customary in the field trebled, even, we would have a

¹⁸³ *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 362 n.3 (7th Cir. 1985).

¹⁸⁴ See H.R. REP. NO. 94-1733, at 49-50 (discussing 1976 Act's allowance solely for actual damages or statutory damages, while not providing reasonable royalty remedy to copyright plaintiffs).

¹⁸⁵ See *supra* Section IV.C (discussing separation between reasonable royalties and statutorily defined remedies).

¹⁸⁶ *Deltak*, 767 F.2d at 362 n.3; see also *supra* note 79.

¹⁸⁷ Quite to the contrary, *Widenski* foreclosed such an argument. See *supra* Section II.A, IV.B (discussing how awards of actual damages were never truly controversial, as no other remedial theories were commonly proposed).

¹⁸⁸ 1965 *Hearings*, *supra* note 85, at 1532 (statement of George A. Hamid, Jr., Vice Chairman, Music Royalty Committee, International Association of Amusement Parks).

position in which we could negotiate. [But the bill contains no such options.] We have no negotiating position.¹⁸⁹

Palpably in the mind of that witness was the unavailability of a fee computed by “what is customary in the field.”¹⁹⁰ Indeed, everyone who participated in the drafting of the 1976 Act shared that mindset. They operated under the belief that damages, to the extent courts could levy them, would either have to be out-of-pocket losses (or profits earned) or the automatic measure of statutory damages.¹⁹¹ They never contemplated the possibility that courts could impose an after-the-fact imputed fee based on hypothetical calculation of what would have been charged. Even in the context of what Professor Brown called “contractual cases,” the tenor of his conclusion was that such cases had to be remediable through statutory damages, or else there would be no relief.¹⁹²

As we have seen, experience has shown “that the statutory damage provisions are the only thing that the author can fairly rely on.”¹⁹³ Nonetheless, in juggling multiple goals, Congress also decided to encourage copyright owners to register by denying them statutory damages when infringement pre-dated registration.¹⁹⁴ Congress deliberately placed its stamp on this domain by sorting through countless proposals, finally choosing the one it deemed optimal.¹⁹⁵ In short, Congress, for copyright law purposes, “intended statutory damages to have the same function as reasonable royalties” in the patent field.¹⁹⁶ It made that equivalent of patent recovery partially automatic but, at the same time, Congress made the copyright recovery less than fully automatic, by incorporating statutory damages onto the face of the statute with an express limitation that the subject work be registered prior to the commencement of infringement. *Deltak’s* conclusion to the contrary is unsupportable.

Writing for the Second Circuit, Judge Winter in *Business Trends* perfectly distilled the situation. He wrote that the 1976 Act embodied: (1) the ability for all copyright owners to recover the losses that they in fact suffered out-of-pocket, which is what “actual damages” means; (2) the ability for all copyright owners, in addition, to obtain disgorgement of profits earned via the resulting

¹⁸⁹ *Id.*

¹⁹⁰ *Id.*

¹⁹¹ See *1967 Senate Hearings*, *supra* note 108, at 605 (“For anyone convicted of infringement there are two penalties, one for the profits he has made and one regardless of any profits, the so-called statutory damages.”).

¹⁹² See *supra* Section IV.B (discussing how even in “contractual cases” courts could use certain “techniques” to determine actual damages to fit in statutorily-provided remedies).

¹⁹³ STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION: PART 5, at 203 (Comm. Print 1965).

¹⁹⁴ See *supra* note 140 and accompanying text (discussing motivation behind Congress’s registration requirement).

¹⁹⁵ See *supra* Section IV.D (emphasizing sheer amount of proposals Congress considered in determining its registration requirement for statutory damages).

¹⁹⁶ *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 362 n.3 (7th Cir. 1985).

infringement;¹⁹⁷ and (3) the ability for copyright owners to recover statutory damages in a minimum amount, but only when they had previously registered their works.¹⁹⁸

Proposition (3), specifically, is nuanced. On the one hand, it creates a tool allowing for enormous recoveries.¹⁹⁹ On the other, it creates an incentive to register, thereby serving the important goals of streamlining infringement litigation, making the records of the Copyright Office complete, and helping to maintain the Library of Congress as the repository of the nation's intellectual output. The Second Circuit in *Business Trends* thus accurately characterized the situation as “a rational, if strict, policy embraced by Congress.”²⁰⁰ As Judge Winter aptly added, “[o]ur obligation in those circumstances not being in doubt, we decline to follow *Deltak*.”²⁰¹ A deep review of the process of putting together the constituent elements of the 1976 Act allows no other reasonable conclusion.

V. A TURN TO PATENT LAW

Turning our focus from copyright to patent law bolsters the conclusion reached in *Business Trends* even further. The pertinent history here teaches two valuable lessons. First, in the face of patentees' sometimes insurmountable difficulties proving damages, the courts began to accept expert testimony concerning a reasonable royalty as a valid means to establish actual damages. The 1909 Copyright Act, by contrast, addressed copyright owners' problems of proof through adopting the “in lieu” regime of damages.²⁰²

Second, and even more crucially, Congress adopted the reasonable royalty as a floor for patent damages to ensure fairness to innocent patent infringers. By contrast, innocent copyright infringers have no comparable need for such solicitude.²⁰³

¹⁹⁷ See 17 U.S.C. § 504(b) (2012) (providing remedial theories for both recovery of copyright owner's actual damages as well as recovery of infringer's profits).

¹⁹⁸ *Bus. Trends Analysts, Inc. v. The Freedonia Grp., Inc.*, 887 F.2d 399, 403 (2d Cir. 1989) (summarizing methods of determining damage awards in 1976 Act).

¹⁹⁹ See *UMG Recordings, Inc. v. MP3.com, Inc.*, No. 00-cv-00472, 2000 U.S. Dist. LEXIS 17907, at *1-2 (S.D.N.Y. Nov. 14, 2000) (awarding in excess of \$53 million in statutory damages, even without proof of actual losses); *UMG Recordings, Inc. v. MP3.com, Inc.*, No. 00-cv-00472, 2000 U.S. Dist. LEXIS 13293, at *18 (S.D.N.Y. Sept. 6, 2000) (contemplating award of \$118 million in statutory damages).

²⁰⁰ *Bus. Trends*, 887 F.2d at 407 (characterizing choice not to follow *Deltak* as following Congress's intent).

²⁰¹ *Id.*

²⁰² See *supra* Section IV.A (discussing amendments to 1909 Act responding to copyright owners' problems regarding proving actual damages).

²⁰³ See *supra* Section IV.B (discussing how damages from copyright infringers can be determined actually in many situations, as opposed to patent infringement damages).

A. Patent History Leading to Royalty Recovery

Through the nineteenth century, patentees could recover compensatory damages for infringement by bringing an action at law, or they could recover the infringer’s profits in an equitable proceeding.²⁰⁴ During this era, the successive statutes authorizing patent infringement actions at law provided damages as a remedy, sometimes subject to a judicial multiplier. The Patent Act of 1790, for example, provided simply for the infringer to pay “such damages as shall be assessed by the jury.”²⁰⁵ The Patent Act of 1793, by contrast, used a narrower formulation based on actual licenses, namely “a sum, that shall be at least equal to three times the price, for which the patentee has usually sold or licensed to other persons, the use of the said invention.”²⁰⁶

“But as experience began to show that some inventions or discovery had their chief value in monopoly of use by the inventor, and not in the sale of licenses, the value of a license could not be made a universal rule, as a measure of damages.”²⁰⁷

Consequently, the Patent Acts of 1800 and 1836 returned to a broader general damages formulation, subject to a multiplier, namely “a sum equal to three times the actual damage sustained.”²⁰⁸ Through the Patent Act of 1870, Congress expanded the federal courts’ equity power to include, in addition to injunctions and infringers’ profits, “the damages the complainant has sustained [by the infringement].”²⁰⁹

1. Early Case Law

During this early period in American history, a patentee could establish damages in an action at law by proving an actual, established license rate for its patent.²¹⁰ On the other hand, a patentee seeking to recover infringers’ profits in equity similarly had to establish the infringers’ actual gains and profits.²¹¹

²⁰⁴ See *Birdsall v. Coolidge*, 93 U.S. 64, 68-69 (1876) (explaining two remedies patentees could seek from infringers: recovering infringer’s profits in equity proceeding or recovering compensatory damages in action at law); DONALD S. CHISUM, CHISUM ON PATENTS § 20.01 (2011) (highlighting two types of recovery available to patentees subject to infringement).

²⁰⁵ Act of Apr. 10, 1790, ch. 7, § 4, 1 Stat. 109, 111 (repealed 1793).

²⁰⁶ Act of Feb. 21, 1793, ch. 11, § 5, 1 Stat. 318, 322 (repealed 1836).

²⁰⁷ *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1853).

²⁰⁸ Act of Apr. 17, 1800, ch. 25, § 3, 2 Stat. 37, 38 (repealed 1836); see also Act of July 4, 1836, ch. 357, § 14, 5 Stat. 117, 123 (“[I]t shall be in the power of the court to render any judgment for any sum above the amount found by such verdict as the actual damages sustained by the plaintiff, not exceeding three times the amount thereof, according to the circumstances of the case . . .”).

²⁰⁹ Act of July 8, 1870, ch. 230, § 55, 16 Stat. 198, 206.

²¹⁰ *Packet Co. v. Sickles*, 86 U.S. 611, 617 (1873) (citing *Seymour*, 57 U.S. at 480) (“[W]here the sale of licenses by the patentee had been sufficient to establish a price for such licenses, that price should be taken as the measure of his damages against the infringer.”).

²¹¹ See *Livingston v. Woodworth*, 56 U.S. (15 How.) 546, 560 (1854) (applying “actual

When no established license rate existed—for example, because the patentee had not yet licensed the patent, or was planning to never license it—the patentee could either rely on general “evidence . . . of the utility and advantage of the invention over the old modes or devices,”²¹² or it could seek to prove its lost profits.²¹³ When a plaintiff sought recovery at law based on lost profits, courts required proof of the profits that were actually lost by the patentee.²¹⁴

An 1853 case illustrates this rule of law. In *Seymour v. McCormick*,²¹⁵ the patentee had obtained three separate patents. The first, for a new type of grain-reaping machine, was set to expire in 1848.²¹⁶ The second and third patents, covering improvements to the reaping machine, issued in 1845 and 1847.²¹⁷ After the first patent covering the machine’s design expired, the defendant manufactured and sold three hundred machines embodying both the plaintiffs’ now-expired patented design and the improvements taught by the two later patents.²¹⁸ The plaintiff sued at law and prevailed at trial.²¹⁹

On appeal, the Supreme Court held that the trial court’s erroneous jury instructions on damages had yielded an “enormous and ruinous verdict.”²²⁰ First, the trial court had erred by charging the jury that, as a matter of law, “if the defendants had not interfered with the patentee, all persons who bought the defendants machines would necessarily have been obliged to go to the patentee and purchase his machine.”²²¹ In other words, the jury was instructed to assume that, but for the infringement, the plaintiff would have made every single one of the defendant’s sales of infringing machines—despite the fact the patentee “had given no evidence to show that he could have made and sold a single machine more than he did, or was injured in any way by the competition of the defendants, or hindered from selling all he made or could make.”²²² In addition, the trial court instructed the jury to measure damages using the profit reaped from sales of the entire machine, rather than limiting damages to the portion of profits

gains and profits” standard to patentee plaintiff’s claim).

²¹² *Suffolk Co. v. Hayden*, 70 U.S. 315, 320 (1866).

²¹³ *See Yale Lock Co. v. Sargent*, 117 U.S. 536, 552-53 (1886) (concluding that where plaintiff “availed himself of his exclusive right by keeping his patent a monopoly, and granting no licenses,” his damages were to be measured by profits he would have received “if the infringement had not interfered with such monopoly”).

²¹⁴ *See Seymour v. McCormick*, 57 U.S. (16 How.) 480, 483 (1853) (“In estimating the plaintiff’s damages for an infringement, his ‘actual damages’ alone are to be considered . . .”).

²¹⁵ 57 U.S. (16 How.) 480 (1853).

²¹⁶ *Id.* at 480.

²¹⁷ *Id.*

²¹⁸ *Id.* at 481.

²¹⁹ *Id.*

²²⁰ *Id.* at 491.

²²¹ *Id.* at 486.

²²² *Id.* at 488.

attributable to the patented improvements.²²³ The Supreme Court dismissed these assumptions as legally erroneous:

Actual damages must be actually proved, and cannot be assumed as a legal inference from any facts which amount not to actual proof of the fact. “What a patentee would have made, if the infringer had not interfered with his rights,” is a question of fact and not “a judgment of law.” The question is not what speculatively he may have lost, but what actually he did lose. It is not a “judgment of law” or necessary legal inference, that if all the manufacturers of steam-engines and locomotives, who have built and sold engines with a patented cut-off, or steam whistle, had not made such engines, that therefore all the purchasers of engines would have employed the patentee of the cut-off, or whistle; and that, consequently, such patentee is entitled to all the profits made in the manufacture of such steam engines by those who may have used his improvement without his license. Such a rule of damages would be better entitled to the epithet of “speculative,” “imaginary,” or “fanciful,” than that of “actual.”²²⁴

The evidentiary burden that *Seymour v. McCormick* imposed on patent owners to prove but-for causation and apportionment made it more difficult for patentees to recover damages. In practice, the result was that, in some cases, a patent owner who had proved infringement was unable to recover more than nominal damages.

An equity case provides an illuminating example. In *United States Frumentum Co. v. Lauhoff*,²²⁵ the plaintiff manufacturer did not license its patent to any licensees, so it supplied only a small part of the demand in the relevant market.²²⁶ The majority of the market demand was met by very similar, but non-infringing products—so similar that when the plaintiff’s factory went out of service, the plaintiff then supplied its customers with one of its competitor’s non-infringing products without objection.²²⁷

The plaintiff was able to prove that it had the capacity to manufacture the additional amount of product that it claimed it would have sold, had the defendant not infringed, but it had no proof to back up the losses it claimed.²²⁸ Its small market share and the similarity of its products to those of its competitors rendered that proof difficult.²²⁹ There was, for example, nothing tending to show

²²³ *Id.* at 486.

²²⁴ *Id.* at 490.

²²⁵ 216 F. 610 (6th Cir. 1914).

²²⁶ *Id.* at 614. The product in question was “raw or partially cooked corn flakes . . . used chiefly by maltsters.” *Id.* at 618.

²²⁷ *Id.* at 614.

²²⁸ *Id.* at 621 (stating that plaintiff had factory facilities for manufacturing additional amount but lacked proof of lost sales or injury by competition, so only measure of damages would have been reasonable royalty).

²²⁹ *Id.* at 614 (stating that plaintiff supplied “only a small part” of market demand in market

that defendant's buyers had previously had any former dealings, or even negotiations, with plaintiff.²³⁰ In the absence of proof of actual and specific damages, the trial court had directed an award of only nominal damages.²³¹ Even though plaintiff had a valid patent, and even though defendant infringed its patent "extensively" and made such large sales that "no one can doubt the actual existence of substantial damages,"²³² the *Seymour v. McCormick* rule seemed to foreclose the plaintiff's recovery.²³³

But *Lauhoff* took the analysis in a different direction, following a recalcitrant trend against *Seymour v. McCormick* that had already been percolating through the courts.²³⁴ Judge Denison conceded that an *established* royalty rate, or, alternatively, lost damages or profits, are the preferred measures of damages.²³⁵ But he saw no reason why they should be the only measures.²³⁶ In the same way that real estate without an established market value could be assessed by an expert, and that a jury could compute an award for pain and suffering based on "all the facts and circumstances, [having] the benefit of such testimony from experts as may show the rules and methods in force in the particular field," a jury ought to be able to look at all relevant evidence and award defendant compensation it judges to be adequate.²³⁷ Patent cases, after all, present "no greater difficulty in computing and ascertaining damages than is met by a hundred juries every day" in other realms of the law.²³⁸

The following year, the Supreme Court cited *Lauhoff* with approval in dictum when it accepted the "reasonable royalty" as a permissible method of computing

consisting of several other, apparently similar products).

²³⁰ *Id.* ("There was no testimony that defendants' customers had formerly bought from plaintiff, nor that they were in negotiation with the plaintiff or in a territory in which plaintiff was selling . . .").

²³¹ *Id.* at 612 (noting that lower court entered final decree in favor of plaintiff only for nominal damages).

²³² *Id.* at 614-15.

²³³ *See id.* ("It follows that, upon the basis of the master's findings, the District Court was right in directing nominal damages only; and it would ordinarily follow in this condition of the case that the judgment below would be affirmed. We are not satisfied to have this case take that course.").

²³⁴ *See id.* at 615 (stating that another theory of recovery is available, regardless of plaintiff's inability to prove losses); *see also* *Hunt Bros. Fruit-Packing Co. v. Cassidy*, 64 F. 585, 587 (9th Cir. 1894) (allowing recovery notwithstanding "absence of [an established] royalty, and . . . the absence of proof of lost sales or injury by the competition"); *Lee v. Pillsbury*, 49 F. 747, 750 (C.C.D. Minn. 1892) (charging jury to find "perhaps not an accurate, but a proximate conclusion as to what amount of damage has been suffered by the plaintiff").

²³⁵ *Lauhoff*, 216 F. at 615-16 (stating that proof of market value, via established royalties, and proof of lost sales are primary criterion of damages).

²³⁶ *See id.* (stating that proof of market value, via established royalties, and proof of lost sales are ways to show loss, but in the absence of such, other methods are permitted).

²³⁷ *Id.* at 616-17.

²³⁸ *Id.* at 617.

damages: “[I]t was permissible to show the value by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the extent of the use involved.”²³⁹

2. Congressional Action

Several years later, Congress codified that result. Its 1922 enactment provided that when “damages or profits are not susceptible of calculation and determination with reasonable certainty,” the court may rely on expert and opinion testimony to “adjudge . . . the payment by the defendant to the complainant of *a reasonable sum as profits or general damages* for the infringement.”²⁴⁰

Congress’s formulation omitted the phrase “reasonable royalty,” that had been present in an earlier version of the bill.²⁴¹ However, records from the committee hearings indicate that the phrase “general damage[s]”²⁴² was understood to encompass a reasonable royalty.²⁴³ In a discussion of the House Committee on Patents, Edwin Prindle explained the proposed language as follows:

Say that men in the trade would testify that a royalty of 5 per cent would be fair, or a lump sum of so much would be customary or fair, the judge, not by merely guessing, but guided by opinion evidence, would then arrive at an amount which he deemed to be just, just as he would in any other form of injury case.²⁴⁴

²³⁹ *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915).

²⁴⁰ Act of Feb. 18, 1922, Pub. L. No. 67-147, ch. 58, § 8, 42 Stat. 389, 392 (emphasis added).

²⁴¹ See *The “Profits and Damages” Section of the Nolan Bill*, 2 J. PAT. OFF. SOC’Y 546, 546 (1920) (quoting from H.R. 11984, passed by the House on March 5, 1920, which provided for “payment by the defendant to the complainant of a reasonable sum as a royalty or general damages for the infringement”). It is not clear why the “reasonable royalty” phrasing was ultimately dropped by Congress in the 1922 Patent Act, nor is it clear when the change took place. A conference committee report on February 9, 1921, recommends “[t]hat the House recede from its disagreement to the amendment of the Senate” and agree to language that omitted any mention of royalties. See S. DOC. NO. 66-379, at 1-2 (1922) (recommending language precisely identical to that adopted by 1922 Patent Act).

²⁴² See *Lauhoff*, 216 F. at 617.

²⁴³ For example, an earlier version of the provision provided for the recovery of “a reasonable royalty or other form of general damages.” *The “Profits and Damages” Section of the Nolan Bill*, *supra* note 241, at 552-53.

²⁴⁴ *Id.* at 551. The legislative history attending the 1922 Patent Act’s change to the damages provision is scant. Frederick P. Fish characterized the amendment to the damages provision as “[h]idden away somewhere in one of these bills . . .” *Id.* at 546. A brief in opposition to the amendment complained that “this attempt to alter the law as to recoveries for infringements . . . has received . . . practically no attention at all from the patent bar and the public.” *Id.* at 563.

The House debate reveals that Congress was reforming the statutory language to address the same issues that had led the courts to develop the reasonable royalty measure.²⁴⁵ Legislators devoted particular focus to the increasing complexity of discerning what fraction of profits from the sale of a product could be attributable to some patented component of the product, a problem encountered by courts as far back as *Seymour v. McCormick*.²⁴⁶ For example, the main witness before the House Committee on Patents, Frederick P. Fish, characterized the problem that the bill sought to tackle as follows:

In almost all the patent cases the invention is not for the entire structure or article, but for a part of it only; and when you come to try to figure out mathematically the damages that are due . . . you get into an inextricable snarl from which you can not get out. In most cases the profits and damages due to the invention can not possibly be figured out.²⁴⁷

In the years following that 1922 amendment, however, a significant logistical deficiency in its language defeated its purpose. In particular, although the 1922 damages provision allowed expert testimony to establish a reasonable amount of general damages, the court could resort to that measure only if actual profits and damages were “not susceptible of calculation and determination with reasonable certainty.”²⁴⁸ In other words, although a plaintiff was not foreclosed from relief if apportionment of profits or determination of damages was impossible, the apportionment still had to be attempted.

Congress realized that it needed to further reform the statutory measure of infringement damages. It solved the problem in 1946, by removing the requirement that plaintiffs demonstrate that damages and profits were not provable, thus eliminating the procedural complexity created by Congress’s

²⁴⁵ See generally S. DOC. NO. 66-379 (1922) (discussing issue of injured plaintiff not receiving damages because established royalty or lost profits cannot be ascertained).

²⁴⁶ See *The “Profits and Damages” Section of the Nolan Bill*, *supra* note 241, at 551-53 (discussing difficulty of determining what portion of profits were attributable to patentable feature).

²⁴⁷ *Id.* at 552-53.

²⁴⁸ Act of Feb. 18, 1922, Pub. L. No. 67-147, ch. 58, § 8, 42 Stat. 389, 392. The full text of the damages provision read as follows:

If on the proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement: *Provided*, That this provision shall not affect pending litigation.

Id.

attempt to reform the law in 1922.²⁴⁹ The legislative history accompanying the 1946 Patent Act, reveals that Congress viewed the reasonable royalty as particularly suited to patent law damages because of its fairness to innocent infringers.²⁵⁰ With minor revisions, the 1946-vintage damage provisions continue to govern through the present.²⁵¹

Patent law has historically grappled with the appropriate treatment of innocent infringers. Between 1793 and 1800, the statute allowed a patentee to recover from an infringer three times his customary license fee. In 1800, Congress amended the statute to require that the infringer “forfeit and pay to the patentee a sum equal to three times the actual damage sustained by such patentee.”²⁵² *Seymour v. McCormick* condemned the inequity of that blanket provision as to certain defendants:

Experience had shown the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits. The defendant who acted in ignorance or good faith, claiming under a junior patent, was made liable to the same penalty with the wanton and malicious pirate. This rule was manifestly unjust.²⁵³

In passing the 1946 amendment, Congress reverted to the plight of the innocent patent infringer when modifying the damages provision.²⁵⁴ It expressed the desire to give courts the discretion to deal fairly with innocent infringers and

²⁴⁹ See H.R. REP. NO. 82-1923, at 53 (1952) (stating that if damages or profits are not susceptible of calculation, court may award reasonable sum as profits or general damages).

²⁵⁰ See *Recovery in Patent Infringement Suits: Hearing on H.R. 5231 Before the H. Comm. on Patents*, 79th Cong. 17 (1946) (statement of John Stedman, Department of Justice) [hereinafter *1946 Patent Hearing*] (stating that reasonable royalty would be fair damages measure for patent infringement because it achieves “fair compromise” between patent owner and patent infringer).

²⁵¹ In 1952, Congress stylistically modified the language of the 1946 Act, and then codified it to 35 U.S.C. § 284, where it has remained unchanged. See 35 U.S.C. § 284 (2012) (“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.”); H.R. REP. NO. 82-1923, at 29 (1952) (discussing removal of requirement that plaintiffs demonstrate damages and profits were not provable and noting that court may award reasonable sum as profits or general damages).

²⁵² *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1853).

²⁵³ *Id.* Another Supreme Court case that same year refused to authorize an equitable monetary damages award that was greater than the sum of the actual profits realized by the infringers, because the infringers believed that they had been authorized to use the infringing technology and thus were not “wanton,” but innocent. *Livingston v. Woodworth*, 56 U.S. (15 How.) 546, 560 (1853) (noting that party believed it was using patented item under impression their right to use it was derived from regular and legitimate source and, therefore, court stated they were not wanton infringers).

²⁵⁴ See *1946 Patent Hearing*, *supra* note 250, at 9 (statement of Conder C. Henry, Assistant Comm’r of Patents) (discussing recovery against willful and innocent patent infringers).

harshly with willful ones.²⁵⁵ A reasonable royalty award seemed to be a fair measure of damages against innocent infringers, because it would by definition, take from the infringer only the amount that the patentee would have received from a bona fide licensing negotiation.²⁵⁶ On the other hand, Congress did not want to implement a compulsory licensing system, and it recognized that mandating a reasonable royalty measure in all cases would accomplish precisely that.²⁵⁷ Accordingly, Congress vested courts with discretion to multiply the reasonable royalty by a factor of up to three, and therefore to a certain extent provided for the assessment of exemplary damages against willful infringers, while also including a safeguard for innocent ones.²⁵⁸

The reasonable royalty language introduced in the 1946 Act thus balanced two concerns. First, it simplified the task of computing damages awards for infringement of increasingly specialized patents, in increasingly complicated devices, in an increasingly complicated market. Second, it safeguarded innocent infringers from crushing infringement penalties.

B. *Distinctions from Copyright Law*

We have now seen the twin motivations that prompted Congress to add a recovery for reasonable royalties in the patent context—the historic intractability of otherwise proving damages and the need to show solicitude to innocent infringers.²⁵⁹ Those features are pointedly absent from the copyright realm.

²⁵⁵ *Id.* at 18 (statement of Rep. Frank W. Boykin, Chairman, H. Comm. on Patents) (responding to statement that willful infringers will be punished and indicating innocent infringers will be treated fairly).

²⁵⁶ *See id.* at 9 (statement of Conder C. Henry, Assistant Comm'r of Patents) (answering representative's understanding that "innocent infringer would be duly protected" by court's discretion with "doubt [that] any court would adopt [exemplary damages] in case there is any serious doubt about the validity of the patent or of the right to infringe"); 92 CONG. REC. 1857 (1946) (statement of Rep. Fritz Lanham) ("I would say that in the case of an innocent infringer who had infringed without notice and without knowledge that it would be unreasonable to collect from him more than the reasonable royalty.").

²⁵⁷ *See 1946 Patent Hearing, supra* note 250, at 9 (statement of Conder C. Henry, Assistant Comm'r of Patents) ("[I]f this committee recommends, which I do not believe it will, and Congress adopts any bill that provides for the payment of only a reasonable royalty for an infringement of a patent, whether the infringement is innocent or willful, it would amount to nothing more than a compulsory licensing system. This bill does not do that."); *id.* at 10 (statement of Rep. Frank W. Boykin, Chairman, H. Comm. on Patents) ("It is a terrible thing for a man to go to all of that expense to make a man pay him only general damages, not less than a reasonable royalty. He ought to have his royalty and all kinds of damages.").

²⁵⁸ Rep. Boykin excoriated another witness's suggestion at the hearing—that the committee limit the statutory damages provision to an amount based on the reasonable royalty, with no account of general damages: "Let us give [the infringer] the mischief and put him in jail and hang him like they used to do for stealing horses. I do not agree with you at all. You are trying to help a crook. We want to help the honest man." *Id.* at 18 (statement of Rep. Frank W. Boykin, Chairman, H. Comm. on Patents).

²⁵⁹ *See supra* Section IV.A (disussing structure of damage provisions).

In terms of the first point, Congress was motivated to act in 1946 to redress the general damages feature of the 1922 patent law, which typically resulted in “a very intricate prolonged and expensive investigation,”²⁶⁰ and which, moreover, had to be “conducted in accordance with highly technical rules.”²⁶¹ As a consequence, patent litigation had devolved into cases that went on “for decades and in many cases result[ed] in a complete failure of justice.”²⁶² The provision for recovery of reasonable royalties solved those festering problems. In the copyright realm, by contrast, the historic availability of “in lieu” damages²⁶³ solved all parallel concerns.²⁶⁴ There was no need to conduct prolonged investigation into accounting niceties in order to obtain monetary

²⁶⁰ 1946 Patent Hearing, *supra* note 250, at 4 (statement of Rep. Robert K. Henry, H. Comm. on Patents).

²⁶¹ *Id.* at 7 (statement of Conder C. Henry, Assistant Comm’r of Patents).

²⁶² *Id.*; *see also id.* at 11 (statement of George E. Folk, Patent Advisor to the National Association of Manufacturers) (lamenting “delay and cost of accounting proceedings”); *id.* at 12-13 (statement of Edwin B. H. Tower, Jr., Milwaukee Patent Bar Association) (noting that some cases requiring accountings of profits “now are running that have been running 20 years and all the people that started in the accounting are dead,” and referring to profits calculation as “[t]he great evil that has grown up in the the patent system”); *id.* at 14 (statement of Casper W. Ooms, Patent Comm’r) (“[The problem of protracted accountings] is one of the sores spots in the enforcement of the law in the United States. It should be rectified and this bill will do a great deal toward eliminating, I think, one of the most notorious cases of the denial of justice because of the delay of justice.”); 92 CONG. REC. 9188 (1946) (statement of Sen. Pepper) (“Experience has proven that it is such a difficult accounting matter to determine what the profit of the alleged infringer has been that there is almost always an interminable delay in connection with the recovery sought.”).

²⁶³ As has been often observed already, those damages were the precursor to statutory damages under the current Act. But they were not subject to the registration requirement of statutory damages, meaning that “in lieu” damages were categorically available to prevailing plaintiffs.

²⁶⁴ Several years ago, one court drew attention to this history:

Indeed, in a highly influential 1961 report that served as the foundation for the Copyright Act of 1976, the Copyright Office noted that one of the reasons that statutory damages remedies are appropriate in copyright cases is because “[t]he value of a copyright is, by its nature, difficult to establish, and the loss caused by an infringement is equally hard to determine. As a result, actual damages are often conjectural, and may be impossible or prohibitively expensive to prove.”

Sony BMG Music Entm’t v. Tenenbaum, 721 F. Supp. 2d 85, 102-03 (D. Mass. 2010). In the copyright realm, the antidote to excessive cost to prove damages came about through statutory damages, not through a reasonable royalty. *See id.*

damages, as the statute set specific amounts for automatic recovery,²⁶⁵ even in the absence of proof of harm to the plaintiff or profit to the defendant.²⁶⁶

Moving to the second point, in the patent realm, Congress wished to establish a flexible standard, such that there could be minimal recovery against innocent infringers while also flexibility to hammer wanton and willful defendants.²⁶⁷ The vehicle it chose for that device was the reasonable royalty, as an automatic standard that would apply against innocent patent infringers.²⁶⁸ Of crucial importance here is that the structure of intellectual property protection places innocent patent infringers, as a class, at far greater risk than innocent copyright infringers.²⁶⁹ Someone who labors strictly in her own laboratory, with no access

²⁶⁵ The prior statute itself set forth some of the pertinent amounts:

First. In the case of a painting, statue, or sculpture, \$10 for every infringing copy made or sold by or found in the possession of the infringer or his agents or employees;

Second. In the case of any work enumerated in section 5 of this title, except a painting, statue, or sculpture, \$1 for every infringing copy made or sold by or found in the possession of the infringer or his agents or employees;

Third. In the case of a lecture, sermon, or address, \$50 for every infringing delivery;

Fourth. In the case of a dramatic or dramatico-musical or a choral or orchestral composition, \$100 for the first and \$50 for every subsequent infringing performance; in the case of other musical compositions, \$10 for every infringing performance.

17 U.S.C. § 101(b) (Supp. I 1947-48).

²⁶⁶ Conversely, even given the *presence* of such proof, a prevailing plaintiff may still choose to elect statutory damages. *See* Seoul Broad. Sys. Int'l, Inc. v. Sang, 754 F. Supp. 2d 562, 566 (E.D.N.Y. 2010) (allowing plaintiff to elect statutory damages even though actual damages were easily ascertainable). For instance, in one case brought for infringement of Korean-language serialized television dramas, defendant argued “that because actual damages may be easily ascertained on the basis of his own admissions as to both the actual number of infringing copies sold as well as the number of months across which the infringing activity persisted, an award of statutory damages would be inappropriate.” *Id.* The court properly rejected that argument. *See id.* It also rejected the plaintiff’s overreaching argument that, just because defendant admitted 1,440 instances of copyright infringement, he had to pay that many measures of statutory damages. *See id.* at 567 (noting that awards are not made *per individual act of infringement*, but rather *per infringed work*).

²⁶⁷ Congress paid heed, in the patent context, to the plaintiff—“You are trying to help a crook.” 1946 Patent Hearings, *supra* note 250, at 18 (statement of Rep. Frank W. Boykin, Chairman, H. Comm. on Patents) (responding to proposed denial of flexible standard allowing discretion based on whether infringer is innocent or wanton). By contrast, in the copyright context, Congress rebuffed the lament that limiting statutory damages to registered works creates “a crook’s paradise.” STAFF OF H. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: PART 4, at 99 (Comm. Print 1964) (statement of Julian T. Abeles, Music Publishers’ Protective Association) (denying flexible standard allowing discretion whether infringer is innocent or wanton).

²⁶⁸ *See* 1946 Patent Hearings, *supra* note 250, at 9 (statement of Conder C. Henry, Assistant Comm’r of Patents).

²⁶⁹ At present, both are “strict liability” offenses, inasmuch as knowledge forms no part of the *prima facie* case for either copyright infringement or patent infringement. *See* R. Anthony Reese, *Innocent Infringement in U.S. Copyright Law: A History*, 30 COLUM. J.L. & ARTS 133,

to a plaintiff’s invention, may nonetheless be culpable for patent infringement. By contrast, someone who composes in his own atelier, with no access to a plaintiff’s expression, is categorically immune from a charge of copyright infringement.²⁷⁰ In that manner, patent protection creates a categorical right against the world, whereas copyright protection is always contingent—it reaches only those who “copy”²⁷¹ from the protected work, not those who independently alight on the same formulation. Those differences moved one judge to affirm that patent infringement “may be entirely inadvertent and unintentional and without knowledge of the patent. In this respect the law of patents is entirely different from the law of copyright.”²⁷²

Thus, the considerations that moved Congress to create reasonable royalties as a minimal recovery against innocent infringers, with provisions for a multiple to be levied against more culpable actors, was particularly well suited to the patent environment. After all, the most scrupulous care in the world cannot

176 (2007) (acknowledging that current law does not contain knowledge requirement). But the practical divergences, nonetheless, operate systematically to the disadvantage of innocent patent infringers, as discussed below. Historically, moreover, the divergence was even more striking. As of 1790, Congress imposed infringement liability on a seller of unauthorized copies *only when the seller knew the copies were unauthorized*, a pattern that continued unbroken in all U.S. copyright legislation until 1909. *Id.* at 156 (noting early copyright law imposed infringement liability on an infringer only when seller knew copies were unauthorized). “During this period, each time that Congress extended copyright protection to additional categories of subject matter, it took care to preserve the distinction between types of infringement and to require knowledge on the part of a seller of unauthorized copies in order for such sales to constitute infringement.” *Id.* That status set copyright law fundamentally at odds with patent law. *See Blair v. Westinghouse Elec. Corp.*, 291 F. Supp. 664, 670 (D.D.C. 1968) (stating that patent infringer may be held liable even if infringement is inadvertent and unintentional and, therefore, law of patents is different from law of copyrights).

The decision to limit infringement actions based on sales to situations in which a seller knew of the infringing nature of the material appears to have been quite conscious. The same Congress that enacted the 1790 Copyright Act had, some weeks earlier enacted the first U.S. Patent Act. That statute made anyone who “shall devise, make, construct use, employ, or vend” any patented invention liable to pay damages to the patent owner, and did not require that a vendor know of the infringing nature of the patented invention sold. Had Congress wished to impose liability even on an unknowing seller of unauthorized copies, it could have done so, as it did in the 1790 Patent Act.

Reese, supra, at 156 (footnotes omitted).

²⁷⁰ The assumption, of course, is that the factfinder credits that state of affairs. To the extent that an author claims to have labored in isolation but a jury rejects his testimony and determines that he actually copied, then he may be held culpable for infringement.

²⁷¹ That word is a term of art, encompassing reproduction (its literal sense) as well as adaptation, public distribution, public performance, and public display. *See Papa John’s Int’l, Inc. v. Rezko*, 446 F. Supp. 2d 801, 809 (N.D. Ill. 2006) (“Courts have generally read the ‘copying’ requirement broadly—as ‘shorthand for the infringing of any of the copyright owner’s [six] exclusive rights’ set forth in Section 106 of the Copyright Act.”).

²⁷² *Blair*, 291 F. Supp. at 670.

safeguard against a suit for patent infringement, even if the defendant acted with complete innocence. On the other hand, those who act with comparable circumspection can avoid falling prey to an adverse judgment for copyright infringement.²⁷³ Even more pertinently, the analog to patent law's trebling of reasonable royalty rates comes in the form of copyright law's statutory damages—Congress provided, in that context, that willful infringement would be subject to quintupling.²⁷⁴ Given that Congress has made statutory damages the focus of its enhancement to damages, the courts should not divert that focus onto a judicially created award of reasonable royalties in the copyright sphere.

In sum, the unique history of patent law, in reaction to overly strict judicial constructions, gave rise to recovery of reasonable royalties being incorporated in the statute.²⁷⁵ Those royalties were crafted with specific reference to the feature of patent law that its net casts widely, ensnaring even innocent parties who took every possible caution to avoid infringement. Moreover, they were calibrated with multiples, to take cognizance of the need to punish willful defendants much more harshly.

When one examines the history of copyright law, all those circumstances are lacking—it did not give rise to overly harsh judicial constructions, and its incorporation of the defense of independent creation already assures that absolutely innocent parties²⁷⁶ will not be held liable for copyright

²⁷³ The salient difference is that those who independently create expression are categorically immune from being held copyright infringers, whereas those who independently create an invention may still fall afoul of a subsisting patent.

²⁷⁴ At enactment of the current Act, Congress set the maximum amount of non-willful statutory damages at ten thousand dollars. *See* Act of Oct. 19, 1976, Pub. L. No. 94-553, § 504(c)(2), 90 Stat. 2541, 2585 (codified as amended at 17 U.S.C. § 504(c)(1) (2012)). For willful infractions, the amount rose to fifty thousand dollars. *Id.* (codified as amended at § 504(c)(2)). After successive augmentation of damage amounts, the current figures stand respectively at \$30,000 and \$150,000. *See* 17 U.S.C. §§ 504(c)(1)-(2).

²⁷⁵ The experience there has been anything but easy. *See* Stuart Graham et al., *Final Report of the Berkeley Center for Law & Technology Patent Damages Workshop*, 25 TEX. INTELL. PROP. L.J. 115, 116 (2017) (“The determination of patent damages lies at the heart of patent law and policy, yet it remains one of the most contentious topics in this field, particularly as regards the calculation of a reasonable royalty.”).

²⁷⁶ Nonetheless, it must be conceded that, even though “absolutely innocent parties” are immune, “conditionally innocent parties,” such as those who engage in “subconscious copying” (as opposed to independent creation), namely copying about which they were not consciously aware, may still be swept up in the net of liability. *See* *Three Boys Music Corp. v. Bolton*, 212 F.3d 477, 484 (9th Cir. 2000) (holding Michael Bolton to have subconsciously copied from Isley Brothers); *Abkco Music, Inc. v. Harrison Music, Ltd.*, 722 F.2d 988, 998 (2d Cir. 1983) (stating that ex-Beatle George Harrison subconsciously copied from The Chiffons). “Subconscious copying,” however, has only arisen in a few scattered cases. *See* Robin Feldman, *The Role of the Subconscious in Intellectual Property Law*, 2 HASTINGS SCI. & TECH. L.J. 1, 7 (2009) (“The subconscious copying doctrine appears in a scattering of additional cases.”).

infringement.²⁷⁷ Moreover, there is no provision within the law of copyright to award one measure of reasonable royalties at one end of the spectrum, and three times that amount at the other end.²⁷⁸ The completely separate trajectories of these two bodies of law make the distinctly patent-centric doctrine of recovery of reasonable royalties inapplicable to copyright law.

VI. BOLSTERING FROM ADDITIONAL ANGLES

A. *A Textualist Reading*

Given that *Deltak* explicitly crafted its ruling based on the legislative materials composing the 1976 Act, the above exposition has mined those materials extensively.²⁷⁹ As already noted, however, the school of textualism disdains that reliance.²⁸⁰ It looks instead solely to the enactments of Congress.

This Section therefore focuses the microscope on the Copyright Act itself. As passed in 1976, it consisted of eight chapters. Chapters 1 through 5 set forth the standards for copyright protection and infringement litigation, culminating in the damage provisions in Chapter 5 that have been painstakingly analyzed above. When courts have adopted a “reasonable royalty” interpretation, its basis within the Act has been in that Chapter.²⁸¹ Accordingly, they have had to posit that the language of “actual damages suffered”²⁸² and of “infringer’s profits”

²⁷⁷ See *Three Boys Music Corp.*, 212 F.3d at 479 (noting that if copyright defendants can establish independent creation, they will not be liable for infringement). The Patent Act emphasizes protection of inventions whereas the Copyright Act emphasizes artistic creation. In the former context, Congress wished to hold liable for patent infringement even those who replicate an invention out of their own original thought processes. See *Blair*, 291 F. Supp. at 670 (stating that patent infringer may be held liable even if infringement is inadvertent and unintentional and, therefore, law of patents is different from law of copyrights). The statute so reflects—concomitantly, it relieves those innocent patent infringers from crushing damages. See *1946 Patent Hearings*, *supra* note 250, at 18 (statement of Rep. Frank W. Boykin, Chairman, H. Comm. on Patents) (stating that innocent patent infringers will be treated fairly). In the latter context, Congress wished to immunize from liability for copyright infringement those who replicate the content of protected expression out of their own original thought processes. The statute so reflects. Having given that latter category a pass from liability, there was no further need to grant them dispensation from the Copyright Act’s remedial sanctions. See Act of Oct. 19, 1976, Pub. L. No. 94-553, § 504(c)(2), 90 Stat. 2541, 2585 (codified as amended at 17 U.S.C. § 504(c)(2) (2012)) (allowing reduction of minimum statutory damages to one hundred dollars in case of innocent infringer).

²⁷⁸ Nonetheless, in the circumscribed domain of the Fairness in Music Licensing Act described above, there is the possibility of doubling damages. See *supra* note 83.

²⁷⁹ See *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 360-64 (1985).

²⁸⁰ See *supra* Part IV.

²⁸¹ See 17 U.S.C. § 504 (1976) (setting forth damages provisions for copyright infringement).

²⁸² *Id.* § 504(b).

encompasses *the reasonable royalty rate that would have been paid by a willing buyer to a willing seller*.

A valuable window into the fit of that interpretation emerges from the language of the Act as a whole. Besides the first five chapters, the additional three chapters included in the 1976 Act regulated features outside of copyright infringement litigation, such as customs enforcement at the border,²⁸³ operation of the Copyright Office,²⁸⁴ and the CRT's administration of the law's compulsory licenses.²⁸⁵ In addition, Congress has added to the 1976 Act in subsequent decades an additional five chapters, each of which has a focus separate from copyright infringement. As an example, the final chapter sets up *sui generis* standards for vessel hulls.²⁸⁶

We have already encountered numerous aspects of the statutory language that impact on the current study, all drawn from the non-infringement features of the statute. As we have seen,²⁸⁷ Congress chartered the CRT "to make determinations concerning the adjustment of reasonable copyright royalty rates."²⁸⁸

The same body was charged "to make determinations and adjustments of reasonable terms and rates of royalty payments"²⁸⁹ as well as "to make determinations concerning the adjustment of the copyright royalty rates."²⁹⁰

In 1984, Congress passed the Semiconductor Chip Protection Act,²⁹¹ a portion of which confers immunity on innocent purchasers, except that a party "shall be liable only for a reasonable royalty on each unit of the infringing semiconductor chip product that the innocent purchaser imports or distributes after having

²⁸³ *See id.* §§ 601-603 (addressing enforcement for importation of unauthorized copies or phonorecords and unauthorized importation of copies or phonorecords that were lawfully made).

²⁸⁴ *See id.* §§ 701-10 (providing Copyright Office's responsibilities, organization, powers, and duties).

²⁸⁵ *See id.* §§ 801-05 (defining appointment, functions, and qualifications of Copyright Royalty Judges and procedures and regulations governing their action).

²⁸⁶ *See id.* §§ 1301-32 (stating standards, regulations, terms, and procedures applicable to certain protected designs including vessel hulls). The text below will cite to other examples, as well.

²⁸⁷ *See supra* Section IV.C (explaining that Copyright Act contains multiple references to "reasonable royalties" but only in context of administrative component of Act that sets rates for its various compulsory licenses and not in connection with Article III judges).

²⁸⁸ *See* 17 U.S.C. § 801(b)(1).

²⁸⁹ *Id.*

²⁹⁰ *Id.* § 801(b)(2).

²⁹¹ 17 U.S.C. §§ 901-14 (2012) (providing protection to semiconductor chip products); *see* NIMMER & NIMMER, *supra* note 12, § 8A.02 (explaining congressional interest in passing Semiconductor Chip Protection Act was to promote economic prosperity and protect technology at heart of computer revolution).

notice of protection.”²⁹² The semiconductor amendments are self-contained, and exert no effect at all on the balance of the Copyright Act.²⁹³

A decade later, when regulating webcasting via the Digital Performance Right in Sound Recordings Act of 1995,²⁹⁴ Congress directed the Copyright Royalty Judges (successors to the CRT) to “establish rates and terms that most clearly represent the rates and terms that would have been negotiated in the marketplace between a willing buyer and a willing seller.”²⁹⁵ Like the feature of the 1976 Act considered above, those features are strictly administrative; they play no role in copyright infringement litigation.²⁹⁶

Several years later, Congress passed the Fairness in Music Licensing Act,²⁹⁷ which included the following provision:

In any case in which the court finds that a defendant proprietor of an establishment who claims as a defense that its activities were exempt under [that safe harbor] did not have reasonable grounds to believe that its use of a copyrighted work was exempt under such section, the plaintiff shall be entitled to, in addition to any award of damages under this section, an additional award of two times the amount of the license fee that the proprietor of the establishment concerned should have paid the plaintiff for such use during the preceding period of up to 3 years.²⁹⁸

That provision operates only with respect to the transmission of musical performances governed by that particular amendment.²⁹⁹ It has no application to general infringement claims.

Abstracting from all those provisions, we see that Congress has incorporated into the Copyright Act itself the following language, in each instance solely for contexts other than run of the mill copyright infringement suits, such as *Deltak* or *Davis*:

²⁹² 17 U.S.C. § 907(a)(2).

²⁹³ *Id.* § 912(a) (“Nothing in this chapter shall affect any right or remedy held by any person under chapters 1 through 8 or 10 of this title.”).

²⁹⁴ Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336; *see* NIMMER & NIMMER, *supra* note 12, § 8.22 (noting Congress passed Act to make distinction between webcasting and traditional broadcasting).

²⁹⁵ 17 U.S.C. § 114(f)(2)(B).

²⁹⁶ *Id.* (granting ability to set such rates applicable only to Copyright Royalty Judges and not to Article III judges).

²⁹⁷ Fairness in Music Licensing Act of 1998, Pub. L. No. 105-298, 112 Stat. 2827; *see* NIMMER & NIMMER, *supra* note 12, § 8.18[C][2][b] (explaining background, scope, and application of Fairness in Music Licensing Act).

²⁹⁸ 17 U.S.C. § 504(d).

²⁹⁹ *See id.* § 110(5) (establishing that Act is limited to realm of music and specifying that only works exempted under provision are “nondramatic musical works”).

“to make determinations concerning . . . *reasonable copyright royalty rates*”;³⁰⁰

“to make determinations as to *reasonable terms and rates of royalty payments*”;³⁰¹

“to make determinations concerning *the adjustment of the copyright royalty rates*”;³⁰²

limiting liability “only for *a reasonable royalty* on each unit . . . that the innocent purchaser imports or distributes”;³⁰³

to “establish rates and terms that most clearly represent the *rates and terms that would have been negotiated in the marketplace between a willing buyer and a willing seller*”;³⁰⁴ and

making “an additional award of *two times the amount of the license fee that the proprietor of the establishment concerned should have paid* the plaintiff.”³⁰⁵

In short, every one of the buzzwords invoked by courts who have cobbled together the reasonable royalty rate is a term that Congress itself has employed in the Copyright Act—but each of them in a posture totally removed from Chapter 5’s statutory references to “actual damages suffered” and “infringer’s profits.”³⁰⁶ In other words, *Deltak* and successor opinions have ignored that Congress actually employed such terms as *reasonable copyright royalty rates*³⁰⁷ and *rates that would have been negotiated in the marketplace between a willing buyer and a willing seller*,³⁰⁸ limited to contexts other than computing general awards for copyright infringement; they have pretended that this language is part of some judicial toolbox, as it were, to interpret “actual damages suffered” and “infringer’s profits”—even though those specialized terms are used nowhere in proximity to that quoted language.³⁰⁹

These considerations should move a textualist to reject the judicial construct of a hypothetical “reasonable royalty” rate. Congress knew how to formulate all the terms in question—in fact, it employed each of them when it wished to rely on them—pointedly in a context removed from the determination of damages

³⁰⁰ Act of Oct. 19, 1976, Pub. L. No. 94-553, § 801(b)(1), 90 Stat. 2541, 2594 (codified as amended at 17 U.S.C. § 801(b)(1)) (emphasis added).

³⁰¹ *Id.* (emphasis added).

³⁰² *Id.* § 801(b)(2) (emphasis added).

³⁰³ 17 U.S.C. § 907(a)(2) (emphasis added).

³⁰⁴ *Id.* § 114(f)(1)(B) (emphasis added).

³⁰⁵ *Id.* § 504(d) (emphasis added).

³⁰⁶ *Id.*

³⁰⁷ Act of Oct. 19, 1976, Pub. L. No. 94-553, § 801(b)(1), 90 Stat. 2541, 2594 (codified as amended at 17 U.S.C. § 801(b)(1)) (emphasis added).

³⁰⁸ 17 U.S.C. § 114(f)(2)(B) (emphasis added).

³⁰⁹ *See id.* § 504(b).

and profits accruing from copyright infringement. Courts should not rewrite the Act with language that Congress deliberately refrained from using.

B. *Policy Considerations*

It should be recalled that the motivation of *Deltak* and *Davis* for adopting the reasonable royalty recovery was their objection, on policy grounds, to a successful copyright infringement plaintiff lacking any recovery.³¹⁰ That consideration makes some sense, insofar as it goes.

Nonetheless, the opposite policy consideration is itself not without force—the law should not incentivize plaintiffs to litigate their entitlements when no appreciable recovery hinges on the case. In other words, plaintiffs who have effectively suffered no damage should be encouraged not to clog the courts with litigation that merely seeks to vindicate the abstract point of infringement, rather than providing for meaningful relief.

Given that our study began with Judge Posner, it is fascinating to note that this eminent jurist has occupied both sides of the policy debate. The locus here has to do with awards of attorney’s fees. When a prevailing plaintiff in a copyright infringement case failed to win fees from the trial court, the Seventh Circuit reversed.³¹¹ Judge Posner noted in that context:

No one can prosecute a copyright suit for \$3,000. The effect of the district court’s decision if universalized would be to allow minor infringements, though willful, to be committed with impunity, to be in effect privileged, immune from legal redress. The smaller the damages, provided there is a real, and especially a willful, infringement, the stronger the case for an award of attorneys’ fees.³¹²

He concluded that case with the observation that “the prevailing party in a copyright case in which the monetary stakes are small should have a presumptive entitlement to an award of attorneys’ fees.”³¹³

That policy judgment seems to incline towards raising attorney’s fees as other recoveries decline, in order to incentivize successful copyright claims of liability even when the amount actually awarded is small. But, a scant two years after, Judge Posner denied that proposition in another copyright case: “We of course were not saying that the smaller the damages, the larger the fee.”³¹⁴ Indeed, several years later, Judge Posner addressed yet another copyright case, in which

³¹⁰ See *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 361 (7th Cir. 1985) (noting that value of use to *Deltak* of infringing copies was zero, but nevertheless copies had value as marketing tool similar to how architectural plans are of value to construction of building).

³¹¹ *Gonzales v. Transfer Techs., Inc.*, 301 F.3d 608, 609-10 (7th Cir. 2002) (holding that fact that infringer did not persist in its willful infringing activities after being sued was not sufficient basis to deny award of attorney’s fees).

³¹² *Id.* at 610.

³¹³ *Id.*

³¹⁴ *Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 361 F.3d 434, 437 (7th Cir. 2004).

there were neither profits nor actual damages and statutory damages were likewise unavailable—the very posture for which the “reasonable royalty” steps into the breach.³¹⁵ Yet, instead of cobbling together an alternative remedy to render the case remunerative, Judge Posner noted that “the suit was frivolous even if there was a copyright violation. When a plaintiff is just suing for money and he has no ground at all for obtaining a money judgment, the fact that his rights may have been violated does not save his suit from being adjudged frivolous.”³¹⁶

Given all these gyrations, the only point to emerge is that good policy comes in many flavors. The policy behind *Deltak* and *Davis* was to incentivize valid but otherwise unremunerative claims—in consonance with Judge Posner’s early stance on the related issue of attorney’s fees (“the prevailing party in a copyright case in which the monetary stakes are small should have a presumptive entitlement to an award of attorneys’ fees”).³¹⁷ Yet an equally cogent policy is to penalize a plaintiff who insists on bringing a cause of action for an admitted copyright infringement, when it fails to warrant monetary recovery—in consonance with Judge Posner’s later stance on attorney’s fees (“the suit was frivolous even if there was a copyright violation”).³¹⁸

The lesson from how the actual *Deltak* and *Davis* cases ultimately settled actually resonates more with the latter point of view, even though the judges who authored the opinions expressed the former. In *Deltak*, after the Seventh Circuit’s pro-plaintiff reversal, the parties negotiated a settlement in the amount of thirty thousand dollars. Although ASI paid that full amount, *Deltak*’s counsel retained half for its fees—meaning that the client ultimately received fifteen thousand dollars, an amount that was admittedly not inconsiderable in 1987 currency. So it looked, at the outset, as if this device would afford real relief to plaintiffs of belatedly-registered works. But that first instance also proved to be the only appellate opinion in which there was any meaningful recovery for a case in this posture. The only successor case was *Davis*,³¹⁹ in which the Second Circuit pegged a royalty, based on past usage, in the fifty-dollar range.³²⁰ Consonant with that characterization, the parties on remand settled for a small amount.

How do these policy considerations align? We can now appreciate that, in a vanishingly small number of cases, prevailing plaintiffs have recovered small amounts based on the promulgation of the theory of hypothetical reasonable

³¹⁵ *Eagle Servs. Corp. v. H2O Indus. Servs.*, 532 F.3d 620, 622-23 (7th Cir. 2008).

³¹⁶ *Id.* at 623.

³¹⁷ *Gonzales*, 301 F.3d at 610.

³¹⁸ *Eagle Servs. Corp.*, 532 F.3d at 623.

³¹⁹ We have already seen that only a handful of reported decisions actually made an award of truly hypothetical royalties. See *supra* note 104 and accompanying text (noting that there were only two district court cases in which such award eventuated).

³²⁰ See *supra* note 44 and accompanying text (noting that *Davis* had testified that “on one occasion he was paid a royalty of \$50 for the publication by Vibe magazine of a photo of the deceased musician Sun Ra wearing *Davis*’s eyewear”).

royalties. At the same time, the distension of the fabric of the law from the introduction of that theory has been massive.³²¹ These circumstances render the policy justification for the doctrine contested at best.

VII. REJECTION OF THE HYPOTHETICAL LICENSE FEE

The considerations elucidated above lead to a rejection of both *Deltak*'s and *Davis*'s adoption of a hypothetical license fee as a measure of monetary relief under the Copyright Act of 1976.

A. *The Problem with Deltak*

It will be recalled that the Seventh Circuit finished its *Deltak* justification by quoting the Supreme Court's 1952 construction of then extant copyright law:

A rule of liability which merely takes away the profits from an infringement would offer little discouragement to infringers Even for uninjurious and unprofitable invasions of copyright the court may, if it deems just, impose a liability within statutory limits to sanction and vindicate the statutory policy.³²²

Although *Deltak*'s value-of-use standard serves the Supreme Court's goal of “discourag[ing] wrongful conduct,” it falls outside the Court's requirement of being “within statutory limits.”³²³ In the context of the 1909 Act, for which the Court enunciated that language, the value-of-use theory would have been neither needed nor approved.³²⁴ For, under the 1909 Act, precisely for those instances such as *Deltak* where “proof of damages or discovery of profits” was “difficult or impossible,”³²⁵ Congress provided for “in lieu” damages, an automatic measure of recovery to plaintiffs regardless of injury or profits.³²⁶ Those “in

³²¹ We need only recall the abortive award of \$1.3 billion in *Oracle Corp. v. SAP AG*, 765 F.3d 1081, 1086 (9th Cir. 2014). See *supra* note 103 and accompanying text (noting district court's and appellate court's rejection of \$1.3 billion award).

³²² *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952); see also *supra* Section I.A (explaining policy and legislative history prompting court's novel decision in *Deltak*).

³²³ See *id.*

³²⁴ See *supra* Section II.A (emphasizing distinction between copyright and patent litigation damages because of “in lieu” clause in Copyright Act of 1909); *supra* Section IV.B (demonstrating that historical congressional testimony never contemplated such hypothetical award calculations).

³²⁵ *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935) (stating that “in lieu” damages section was adopted to give copyright owner some recompense for injury).

³²⁶ See *Advertisers Exch., Inc. v. Hinkley*, 199 F.2d 313 (8th Cir. 1952) (noting that statutory damages impose duty on court just to award damages based on prescribed minimum and maximum amounts contained in section and not penalty). Indeed, under the 1909 Act, when injury is proved, but neither actual damages nor profits can be ascertained, an award of statutory damages was mandatory. See *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 520 (9th Cir. 1985) (“Statutory damages are intended as a substitute for profits

lieu” damages were available in all infringement actions, even if the copyright had not been registered prior to the infringement. Moreover, given the availability of “in lieu” damages, courts under the 1909 Act rejected the “reasonable royalty” standard, a patent measure of damages that looks to the royalties customarily paid for the type of use to which the defendant has put the infringing material.³²⁷

B. *The Problem with Davis*

On investigation, as we have just seen, the sole case on which *Davis* relied that actually arose under the 1909 Act is the First Circuit’s ruling in *Widenski*.³²⁸ That 1945 decision rejected a construction of the 1909 Act that would have allowed a court to award a reasonable royalty as copyright damages.³²⁹ The Second Circuit rejected its logic as follows:

[E]ven if under the 1909 Act *Widenski*’s ruling had been universally accepted, it would not necessarily follow that courts should similarly decline to award such damages under the 1976 Act. Nimmer does not argue that the *Widenski* ruling was required by the definitional terms of the 1909 Act. To the contrary, the treatise explains that the reason underlying reluctance to award such damages under the 1909 Act was that courts could more easily accomplish the same result, avoiding problems of speculative proof, by making a discretionary award of statutory damages which were then freely available. But when the 1976 Act made statutory damages less widely available, explicitly denying them to copyright owners who had not registered their copyright at the time of the infringement, the reason supporting the *Widenski* court’s ruling disappeared.³³⁰

That argument’s working assumption is that, as of its adoption, the 1909 Act was susceptible of either interpretation regarding reasonable royalties. The result is that, as of 1940, a court could have determined that reasonable royalties were a permissible form of copyright damages or, to the contrary, were not. Even granting that highly debatable point, in fact, *Widenski* reached the latter conclusion in 1945—a construction of which Congress took note when enacting

or actual damage.”).

³²⁷ See *supra* Section IV.B (asserting that legislative and case history is devoid of acceptance of hypothetical reasonable royalty standard but instead courts award actual or statutory damages); cf. *Childress v. Taylor*, 798 F. Supp. 981, 990 (S.D.N.Y. 1992) (affirming award of defendant’s profits but rejecting district court’s award based upon market advantage or value of use).

³²⁸ See *supra* Part III (dismissing contention that *Szekely* or *Nucor* arose under 1909 Act).

³²⁹ See *supra* Section II.A (discussing *Widenski* and emphasizing court’s distinction between patent and copyright law and registration differences between 1909 and 1976 Acts).

³³⁰ *Davis v. The Gap*, 246 F.3d 152, 171 (2d Cir. 2001) (citation omitted).

the 1976 Act. As set forth at length above, Congress intended for *Widenski*'s governing interpretation of the 1909 Act to be carried forward.³³¹

At the same time, though, Congress did purposefully alter one aspect of permissible damage awards for copyright infringement. It restricted the availability of statutory damages to create an incentive for copyright owners to register their works in the records of the United States Copyright Office on a timely basis. Whereas “in lieu” damages would have been available against all infringers before 1978, after that date, statutory damages may only be imposed on infringers of timely registered works.³³² But Congress intended no difference with respect to the award of actual damages. To the contrary, not only did the legislative record cite *Widenski*,³³³ but the unbroken thrust of countless interventions before Congress (as summarized above) was that awards of damages must reflect actual loss, not an after-the-fact view of what would have been the reasonable royalty that a willing seller hypothetically would have charged a willing buyer.³³⁴

Against that background, it is perverse to conclude that passage of the 1976 Act caused the rationale for *Widenski* under the 1909 Act to evaporate. When passing the 1976 Act, Congress did not expand the ambit of (or, more technically, undermine the basis for limiting) actual damages under the 1909 Act. Rather, it kept those awards as is. At the same time, Congress deliberately altered the scope of permissible statutory damages by limiting them. In effect, *Davis* reasons that, by purposely limiting statutory damages, Congress must have intended to loosen the floodgates for awards of actual damages.

Two problems attend that conclusion. First, its interpretation relies on policy considerations to conclude that courts simply *must* award some damages to prevailing plaintiffs³³⁵—an interpretation that flies in the face of copyright

³³¹ See *supra* Section IV.B (reviewing congressional testimony history and noting that Congress never contemplated such hypothetical award calculations).

³³² See 17 U.S.C. § 412 (2012) (requiring registration as prerequisite for award of statutory remedies provided for by § 504 and § 505).

³³³ See STAFF OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: THE DAMAGE PROVISIONS OF THE COPYRIGHT LAW (Comm. Print 1960) (study prepared by William S. Strauss) (noting that *Widenski* court held that “in lieu” clause was substitute for established or reasonable royalty rule and that damages need not be based on copyright proprietor’s indicated willingness to sell).

³³⁴ See *supra* Part IV (discussing legislative history focusing on actual damages to determine awards for copyright infringements).

³³⁵ *Davis* took note of the fact that timely registration had not occurred on the facts before it, thus creating a dilemma of how to proceed. *Davis*, 246 F.3d at 156. The court observed that “[n]either answer is entirely satisfactory. If the court dismisses the claim by reason of the owner’s failure to prove that the act of infringement causes economic harm, the infringer will get his illegal taking for free, and the owner will be left uncompensated for the illegal taking of something of value.” *Id.* at 164. Based on that policy consideration, the court decided to award damages, notwithstanding the lack of timely registration. “If *Davis* were not compensated for the market value of the use taken, he would receive no compensation

decisions, at both the circuit and district court level, that render take-nothing judgments to prevailing plaintiffs.³³⁶ Illustrative is a recent case brought to vindicate the copyright in an old drawing of a restaurant against the establishment's new proprietor, who used it for promotional purposes.³³⁷ The defendants conceded that their use infringed the plaintiff's copyright.³³⁸ Nonetheless, the plaintiff could not show that use of the drawing resulted in any lost sales or reduced the value in his copyright.³³⁹ He also could not tie any profits that the defendant earned to the alleged infringement.³⁴⁰ Given, once again, the familiar fact pattern of belated registration, statutory damages were equally unavailing.³⁴¹ Finally, the defendant stopped using the drawing as soon as the plaintiff made his identity known, so no "real and immediate threat of future infringements" warranted entry of a permanent injunction.³⁴² Under all the circumstances therefore, the court entered summary judgment in the defendant's favor, notwithstanding the admitted infringement.³⁴³ The court expressed no misgivings at all about any injustice in that state of affairs.

Second, the more fundamental problem with *Davis's* logic is that it turns statutory interpretation on its head, by reasoning that Congress's deliberate

whatsoever." *Id.* at 172.

³³⁶ See *MGE UPS Sys., Inc. v. GE Consumer and Indus., Inc.*, 622 F.3d 361, 371 (5th Cir. 2010) (awarding no damages because plaintiff did not prove damages from copyright infringement); *Bouchat v. Balt. Ravens Football Club, Inc.*, 346 F.3d 514, 525-26 (4th Cir. 2003) (holding that district court properly awarded summary judgment to defendants because plaintiff did not prove actual damages beyond "unsupported speculation"); *Atlanta Allergy & Asthma Clinic, P.A. v. Allergy & Asthma of Atlanta, LLC*, 685 F. Supp. 2d 1360, 1379 (N.D. Ga. 2010) (holding that because plaintiff did not timely register its copyright, statutory damages were not available, and that plaintiffs failed to offer any evidence of actual damages or of any profits attributable to infringement); *Par Microsystems, Inc. v. Pinnacle Dev. Corp.*, 995 F. Supp. 658, 661-63 (N.D. Tex. 1998) (holding that plaintiff failed to prove actual damages and could not recover statutory damages because copyright was not timely registered).

³³⁷ See *Fey v. Panacea Mgmt. Grp. LLC*, 261 F. Supp. 3d 1297, 1301-02 (N.D. Ga. 2017) (stating that new proprietor had no knowledge of who had executed drawing decade earlier).

³³⁸ *Id.* at 1310 ("Defendants do not challenge Plaintiff's assertion that their use of the Drawing infringed Plaintiff's copyright.").

³³⁹ *Id.* at 1310-11 (finding that since work was originally created on commission by restaurant's prior owner, its depiction of that restaurant was of no value to third party establishments).

³⁴⁰ *Id.* at 1311 (declaring that plaintiff failed to show any evidence of causal relationship between infringement and profits).

³⁴¹ See *id.* at 1310 (finding statutory damages unavailable because infringements commenced approximately one year before registration of copyright).

³⁴² *Id.* at 1314 (granting defendants summary judgment because party only has standing for injunction if party can show "real and immediate" threat of future injury).

³⁴³ *Id.* at 1311 ("Defendants are entitled to summary judgment . . . because Plaintiff has not presented evidence of his actual damages, is not entitled to statutory damages or profits, and . . . is not entitled to injunctive relief.").

choice to limit one form of damages (statutory) in order to motivate timely registration means that Congress must have simultaneously opened an alternative channel for another form of damages (actual), with no requirement at all for timely registration. Because *Davis* negates the incentive that Congress deliberately adopted, its interpretation must be rejected.

CONCLUSION

In sum, the construction and historical claims undergirding *Deltak* and *Davis* do not stand up to scrutiny. Future cases decided under the 1976 Act should no longer follow those precedents. Although those cases have been on the books for some time, the resulting dislocation and undermining of precedent will be minimal.³⁴⁴

Rather than courts inventing their own policy rationales to obtain what they view as optimal results in the copyright arena, courts should defer to Congress’s decisions defining the permissible remedies that, in its view, will lead to the optimal copyright results. Those who consider the judicial scheme superior to the actual congressional enactment are welcome to lobby Congress to effectuate any necessary change.³⁴⁵ Pending any such amendment, however, the obligation of judges is to follow the law as it currently stands on the books. That law does not permit courts to award the plaintiff in a copyright infringement case a royalty based on what a willing seller in its shoes would have charged a willing buyer. The hypothetical license fee adopted by past cases should no longer be followed.

³⁴⁴ See *supra* note 104 (noting that only handful of reported decisions have actually granted award on that basis).

³⁴⁵ To quote Judge Gertner, when she felt that Congress’s previous policy choices in defining statutory damages were out of date in a world of file-sharing:

[The court is] very, very concerned that there is a deep potential for injustice in the Copyright Act as it is currently written. It urges—no implores—Congress to amend the statute to reflect the realities of file sharing. There is something wrong with a law that routinely threatens teenagers and students with astronomical penalties for an activity whose implications they may not have fully understood.

Sony BMG Music Entm’t v. Tenenbaum, 672 F. Supp. 2d 217, 237 (D. Mass. 2009), *aff’d in part*, 660 F.3d 487 (1st Cir. 2011). The Chief Judge of the District of Minnesota, hearing a parallel case, likewise implored Congress to take action. Capitol Records, Inc. v. Thomas, 579 F. Supp. 2d 1210, 1227 (D. Minn. 2008) (emphasizing that Congress needs to amend Copyright Act to address liability and damages in peer-to-peer network cases).