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RECONSIDERING RESTITUTION IN COPYRIGHT

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The Copyright Act authorizes courts to compel copyright infringers to destroy all infringing goods and to disgorge any profits attributable to their unlawful appropriation of a copyrighted work. Restitutionary in nature, these gain-based remedies purportedly exist to prevent the unjust enrichment of infringers. However, these remedies are not only practically and conceptually problematic in action, they also lack a sound theoretical footing in either the law of restitution or the law of copyright. This Article reconsiders restitution in copyright. After surveying the role of restitutionary remedies in copyright's remedial scheme, it traces the problems associated with these remedies to fundamental misunderstandings of both restitution law and copyright law. Concluding that copyright's restitutionary remedies should be rectified, this Article proposes a number of alternatives for judicial or legislative reform.

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INTRODUCTION

Federal copyright law provides a wide range of remedial options to the prevailing copyright owner in an infringement action. Among other remedies, the owner may seek an order enjoining the defendant from prospective copyright infringement and an award of damages to compensate him for any losses...
caused by the defendant's infringement. In addition, the Copyright Act includes remedies less traditional than injunctive and compensatory relief. First, the Act permits courts to order the infringer to destroy not only all copies of the infringing work, but also all "other articles by means of which such copies . . . may be reproduced." Second, the Act permits courts to order the infringer to disgorge all net profits that are attributable to the infringement.

These remedies—disgorgement and destruction—differ from more traditional compensatory remedies in that their focus is on the defendant's gain rather than on the plaintiff's loss. As a result of this focus on gains, the disgorgement remedy is as favored among copyright plaintiffs as it is feared among defendants. Consider, for example, an infringement action filed by Stephen Kessler against Michael Crichton, Stephen Spielberg, and others for allegedly copying his screenplay, *Catch the Wind*, in the blockbuster film *Twister*. The principal relief Kessler sought was a share of the $150,000,000 in revenues generated by the film. In a similar action, plaintiff Fred Bouchat, a full-time security guard and part-time artist from Pigtown, Maryland, alleged that NFL Properties, Inc., and other defendants copied his sketch of a logo for the Baltimore Ravens franchise. Bouchat sued for copyright infringement and demanded over $10,000,000 in "profits, gains, and advantages derived through their infringement of [his] copyright."

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1 See Copyright Act, 17 U.S.C. § 502 (1994) (injunctions); see id. § 504(a)-(b) (actual damages). The prevailing copyright owner is also eligible to receive an award to reimburse him for court costs and attorneys' fees associated with the infringement action. See id. § 505 (costs and attorneys' fees).
4 See 17 U.S.C. § 504(c)(1) (1994) ("Except as otherwise provided by this title, an infringer of copyright is liable for . . . the copyright owner's actual damages and any additional profits of the infringer."); 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."). Another unusual remedial provision in the Copyright Act is section 504(c) which permits courts to award "statutory damages" to a copyright owner even though the infringer's conduct caused the owner no harm. See 17 U.S.C. § 504(c) (1994).
6 Michael James, *Pigtown Man Claims Ravens, NFL Stole Sketch for Team's Winged Logo*, Baltimore Sun, May 6, 1997, at B2. In addition to the plaintiffs in these lawsuits, plaintiffs in other recent infringement actions have sought to recover large awards of profits from alleged infringers. See, e.g., Annie Coughlin, Full Monty Lawsuit Could Reap Millions, The Dominion, Mar. 5, 1998, at 3 (plaintiff sought 40%-100% of profits earned by Oscar-nominated film *The Full Monty*); Joseph Curl, "Devil" Tries to Possess His Creation, The Wash. Times, Dec. 14, 1997, at A1 (sculptor of work which appeared in background scene of Time-Warner film *The Devil's Advocate* sought to recover a portion of the film's expected...
Copyright's gain-based disgorgement and destruction remedies exist for the principal purpose of dispossessing the infringer of his ill-gotten gains. In so doing, these remedies aim to prevent the infringer from being unjustly enriched at the copyright owner's expense. Considering this aim, these remedies are distinctly restitutionary in nature.\footnote{7}

Although the avoidance of unjust enrichment is perhaps a laudable goal,\footnote{8} the Copyright Act's current restitutionary means to that end are troublesome. First, the disgorgement remedy is nettlesome to apply in practice. Because the Act requires disgorgement of only the net profits of the infringer that are directly attributable to the infringed work, courts in infringement cases must grapple with the formidable task of deriving net profits from gross revenues and then apportioning those profits among a myriad of revenue-generating factors.\footnote{9} Second, the disgorgement and destruction remedies are conceptually

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problematic. Both remedies appear to be unnecessary to further copyright's principal goal of creating market-based incentives for artistic creation.11 Worse still, both remedies appear to work against that goal by reducing the demand for copyrighted works and by encouraging bypass of the very market that copyright strives to create.12

These practical and conceptual problems stem from confusion surrounding the theoretical underpinnings of the disgorgement and destruction remedies. First, these remedies reflect a fundamental misunderstanding of the law of restitution.13 Particularly, these remedies emanate from a branch of restitution law—restitution-for-subtraction—that exists to rectify losses and nullify gains “achieved by depriving another.”14 Nevertheless, the Copyright Act maintains the disgorgement and destruction remedies with ill-suited doctrine drawn from a distinct branch of restitution law—restitution-for-wrongs—that exists to assure that “no man shall profit from his wrong.”15

Second, these remedies reflect a misunderstanding of the nature of copyright.16 Restitution in copyright is often justified with the following analogy to traditional property law: because property law permits restitution for many proprietary torts, copyright law should permit restitution for infringement. This analogy is flawed. Copyright law, the entitlement that it creates, and the subject matter that it protects differ materially from traditional property law, the entitlement that it creates, and the subject matter that it protects.

This Article reconsiders restitution in copyright. After briefly surveying the role of restitutionary remedies in copyright’s remedial scheme, it evaluates the problems associated with those remedies and traces them to fundamental misunderstandings of both restitution law and copyright law. Concluding that copyright’s restitutionary remedies should be rectified, this Article proposes a number of alternatives for judicial or legislative reform.

11 See infra Part II.B.1.
12 See infra Part II.B.2.
13 See infra Part III.A.
15 See Burrows, supra note 8, at 376. While restitution-for-subtraction is based upon “restoring the status quo for both parties to the extent that the plaintiff’s loss has unjustifiably become the defendant’s gain,” restitution-for-wrongs is based on the principle that “no man shall profit from his own wrong.” Id.; see also infra note 206 and accompanying text.
16 See infra Part III.B.
I. RESTITUTION IN COPYRIGHT’S REMEDIAL FRAMEWORK

The Copyright Act provides a wide range of monetary and nonmonetary remedies to copyright owners whose exclusive rights in works of authorship have been infringed. Any award of such remedies is, of course, conditioned on proof that the defendant is liable for copyright infringement. This Part reviews both the elements of liability for copyright infringement and the remedies for infringement, with particular emphasis on the restitutionary remedies of disgorgement of an infringer’s profits and destruction of infringing goods.

A. Liability for Copyright Infringement

One who violates any of the exclusive rights of a copyright owner is “an infringer of the copyright.” To establish liability for copyright infringement, the copyright owner must prove two elements: ownership (that he owns a valid copyright in the work) and copying (that the alleged infringer copied “constituent elements of the work that are original”). As to the element of ownership, the copyright owner can carry his burden by offering into evidence his copyright registration certificate. That certificate not only constitutes prima facie evidence of ownership, but also of the validity of the copyright in the work. As to the element of copying, the owner must prove not only that

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18 These exclusive rights include the rights to reproduce, adapt, publicly distribute, publicly perform, and publicly display original works of authorship. See id. § 106(1-6). In addition to these exclusive rights, the author of a work of visual art has limited rights of attribution and integrity under the Visual Artists Rights Act of 1990. See id. § 101 (defining “work of visual art”); id. § 106A (providing exclusive rights of attribution and integrity). These so-called “moral rights” (and related remedies) are beyond the scope of this Article.

19 Id. § 501(a).


21 The issuance of a copyright registration certificate is a prerequisite to filing suit. See 17 U.S.C. § 411(a) (1994) (“Except for actions for infringement of copyright in Berne Convention works whose country of origin is not the United States . . . no action for infringement of copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title.”).

22 See 17 U.S.C. § 410(c) (1994) (“In any judicial proceedings the certificate of 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 of the facts stated in the certificate.”); see also Donald Frederick Evans & Assoc. v. Continental Homes, Inc., 785 F.2d 897, 903 (11th Cir. 1986). See generally 4 NIMMER & NIMMER, supra note 20, § 13.01[A], at 13-10. Once the plaintiff has established a prima facie case of
the defendant in fact copied his work, but also that the defendant's copying of original expression went too far.

Once the copyright owner establishes these two elements by a preponderance of the evidence, the prima facie infringer can avoid liability by establishing the applicability of a defense to infringement. For example, the defendant might establish that he copied the work pursuant to a license, that his copying constituted fair use of the work, that the owner abandoned his copyright, or that the owner's own conduct should bar enforcement of the copyright pursuant to the doctrines of estoppel, copyright misuse, or unclean hands.

Conspicuously absent from both the elements of and defenses to civil copyright infringement is a mental component. Hence, an owner can establish liability for copyright infringement without proof that the defendant acted culpably in copying the work. Conversely, an innocent defendant cannot re-
but a prima facie case of liability with proof that his copying was committed unconsciously, unintentionally, or otherwise in good faith. As a result, an infringer is strictly liable for most of copyright's equitable and monetary remedies.


35 Innocence can, under limited circumstances, reduce a defendant's monetary liability. See generally 4 Nimmer & Nimmer, supra note 20, ¶ 13.08, at 13-281 to 13-282; 2 Goldstein, supra note 31, ¶ 9.42, at 167-70. For example, if an infringer proves that he "was not aware and had no reason to believe that his or her acts constituted an infringement of copyright," the court may "reduce an award of statutory damages to a sum of not less than $200," from the standard award of "not less than $500." 17 U.S.C. § 504(e) (1994).

Similarly, certain nonprofit educational institutions and public broadcasting entities can be relieved of all liability for statutory damages if the infringing acts were committed when the "infringer believed and had reasonable grounds for believing that . . . [the] use of the copyrighted work was a fair use under section 107." 17 U.S.C. § 504(c)(2) (1994). Furthermore, innocence may influence a court to reduce the amount of fees and costs for which the defendant would otherwise be liable. See 2 Goldstein, supra note 31, ¶ 9.4, at
B. Remedies for Copyright Infringement

The Copyright Act permits a prevailing copyright owner in an infringement action to obtain both monetary and nonmonetary relief. The available nonmonetary relief includes injunctive relief and affirmative equitable relief, while the monetary remedies include statutory damages, compensatory damages, infringers' profits, and costs and attorneys' fees.

1. Injunctive and Affirmative Equitable Remedies

The Copyright Act authorizes both "temporary" and "final" injunctions to restrain the infringer from engaging in any prospective appropriation of the owner's work. Courts generally grant preliminary injunctive relief in copyright cases when the owner proves the reasonable likelihood that he will succeed on the merits. While proof of irreparable harm is a prerequisite to the granting of preliminary equitable relief in most federal cases, courts in copyright cases typically presume the existence of irreparable harm. Partly for this reason, preliminary injunctions are "quite ordinary, even commonplace" in

164 (observing that innocence "may also incline a court to exercise its discretion" to reduce or deny costs and fees). Notwithstanding these provisions, the amount by which a defendant's liability can be reduced under these provisions is negligible.


The standards applied to applications for preliminary injunctions vary to some extent among federal circuits. Compare Wainwright Svc., Inc. v. Wall Street Transcript Corp., 558 F.2d 91, 94 (2d Cir. 1977) (applying alternative two-prong test of irreparable injury plus either probable success on the merits or fair basis for claim and balance of hardships decidedly in plaintiff's favor), and Apple Computer, Inc. v. Formula Int'l, Inc., 725 F.2d 521, 523 (9th Cir. 1984) (applying similar alternative two-prong test of either irreparable injury plus probable success on the merits or fair basis for claim and balance of hardships in plaintiff's favor), with Atari, Inc. v. North Am. Phillips Consumer Elecs. Corp., 672 F.2d 607, 613 (7th Cir. 1982) (applying four-factor test), and Mason County Med. Ass'n v. Knebel, 563 F.2d 256, 261 (6th Cir. 1977) (same). See generally 4 NIMMER & NIMMER, supra note 20, § 14.05[A], at 14-100 to 14-103.

37 See 4 NIMMER & NIMMER, supra note 21, § 14.05[A], at 14-1-104 ("[I]n most cases ... reasonable likelihood of success... is determinative.").


39 See, e.g., Educational Testing Servs. v. Katzman, 793 F.2d 533, 543-44 (3d Cir. 1986); NFL v. McBee & Bruno's, Inc., 792 F.2d 726, 729-30 (8th Cir. 1986); Hasbro Bradley, Inc. v. Sparkle Toys, Inc., 780 F.2d 189, 192 (2d Cir. 1985). See generally 4 NIMMER & NIMMER, supra note 20, § 14.05[A], at 14-100 to 14-101 ("It is 'the prevailing view that a showing of a prima facie case of copyright infringement, or a reasonable likelihood of success on the merits, raises a presumption of irreparable harm.'") (quoting Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3d Cir. 1983)).
copyright cases even though they are “extraordinary” in others. Likewise, courts readily enter permanent injunctions upon proof of “past infringement and a substantial likelihood of future infringement.” Once issued, injunctions in copyright infringement cases are enforceable nationwide. Through enjoining unauthorized uses of copyrighted works of authorship, the injunctive-relief provisions of the Copyright Act not only contribute to the creation and maintenance of a market for copyrighted works, they also affirm that the entitlement created by copyright law is one protected largely by property-like rules.

The affirmative equitable relief available to a prevailing copyright owner includes preliminary impoundment of goods that contain or that may be used to produce allegedly infringing material, as well as the “destruction or other reasonable disposition” of such things upon final judgment. Impoundment, like preliminary injunctive relief, is a discretionary equitable remedy that is

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43 See 17 U.S.C. § 502(b) (1994) (“Any such injunction may be served anywhere in the United States on the person enjoined; it shall be operative throughout the United States and shall be enforceable, by proceedings in contempt or otherwise, by any United States Court having jurisdiction of that person.”).
45 Copyright law facilitates a market for copyrighted works by forcing those who wish to use such works to bargain with the copyright owner in advance of such use. See Blair & Cotter, supra note 6, at 1614. The existence of such a market, of course, provides the economic incentive for authors to create works of authorship in the first instance. For some of the many discussions concerning the incentives created by copyright law, see William M. Landes & Richard A. Posner, An Economic Analysis of Copyright Law, 18 J. Legal Stud. 325, 326-32 (1989), Glynn S. Lounes, Jr., Reexamining Copyright’s Incentives: Access Paradigm, 49 Vand. L. Rev. 483 (1996), and Stewart E. Sterk, Rhetoric and Reality in Copyright Law, 94 Mich. L. Rev. 1197, 1204 (1996).
46 See Blair & Cotter, supra note 6, at 1614 (arguing entitlement to injuction reflects that copyright rights “are a paradigm example of entitlements protected by property rules”). See generally Guido Calabresi & A. Douglas Melamed, Property Rules, Liability Rules, and Inalienability: One View of the Cathedral, 85 Harv. L. Rev. 1089, 1092 (1972) (“An entitlement is protected by a property rule to the extent that someone who wishes to remove the entitlement from its holders must buy it from him in a voluntary transaction in which the value of the entitlement is agreed upon by the seller.”). For a discussion regarding the mixed nature of copyright-related entitlements, see infra Part III.B.
available when the owner establishes a likelihood of success on the merits. As a preliminary remedy, impoundment serves two goals. First, it complements preliminary injunctive relief by depriving the infringer of the means to commit infringement during the pendency of an action. Second, it complements copyright's destruction remedy by assuring that such infringing articles and means will remain within the power of the court if judgment ultimately is granted in favor of the copyright owner.

2. Statutory Damages

In addition to these injunctive and affirmative equitable remedies, a prevailing copyright owner may be eligible for a monetary award including, among other measures, an award of "statutory damages for all infringements involved in the action." Proof of actual damages is not a prerequisite to the recovery of statutory damages. On the contrary, courts often award statutory damages when the owner's actual damages are uncertain. While statutory damages are available only if the copyright owner so elects, upon such election, the court may grant a single award of statutory damages in an amount of "not less than $500 or more than $20,000" for "all infringements" or "any one work." However, courts may adjust the amount of such awards to account for the infringer's culpability. Thus, courts can order a willful infringer to pay as much as $100,000, or order an innocent infringer to pay as little as $200.

49 See Paramount Pictures Corp. v. DeCee, 821 F. Supp. 82, 89 (E.D.N.Y. 1993); WPOW, Inc. v. MRLJ Enters., 584 F. Supp. 132, 135 (D.D.C. 1984). See generally 4 NIMMER & NIMMER, supra note 20, § 14.07, at 14-127 ("It has been held that the same 'likelihood of success' standard adopted in preliminary injunction cases is equally applicable for impounding purposes.").

50 Although the destruction remedy is a form of affirmative equitable relief, that remedy is addressed below as a restitutary remedy. See infra Part I.B.4.


52 See 4 NIMMER & NIMMER, supra note 20, § 14.04(A), at 14-50 & n.11.

53 A plaintiff may elect statutory damages at any time before final judgment. See Branch v. Ogilivy & Mather, Inc., 772 F. Supp. 1359, 1363-64 (S.D.N.Y. 1991) (allowing election after a jury verdict); Aalentino Ltd. v. Chenzo Enters., Inc., 21 U.S.P.Q.2d (BNA) 1865, 1867 (S.D.N.Y. 1991), rev'd in part, 968 F.2d 250 (2d Cir. 1992) (permitting election on remand); see also Oboler v. Goldin, 714 F.2d 211, 212-13 (2d Cir. 1983) (same). However, a plaintiff is eligible to select statutory damages only if he registered the work prior to the infringement for which he seeks damages. See 17 U.S.C. § 412 (1994).


55 See id. § 504(c)(2). The court "may increase the award of statutory damages to a sum of not more than $100,000" if the copyright owner proves that the "infringement was committed willfully." Id. Conversely, the court may reduce an award of statutory damages to a sum not less than $200, or even remit statutory damages entirely in some cases, when the defendant's infringement was innocent. See id. See generally 4 NIMMER & NIMMER, supra note 20, § 14.04(B), at 14-50 to 14-54.
Given that statutory damages are recoverable even absent proof of actual loss by the plaintiff or actual gain to the defendant, they are somewhat of an anomaly in the law of remedies. Nevertheless, statutory damages have long been available in copyright infringement cases for the purposes of deterring infringement, disgorging the ill-gotten, yet elusive, gains garnered by the defendant, and recompensing the uncertain, yet likely, damages suffered by the plaintiff.\footnote{Statutory damages were available under the 1909 Copyright Act. See, e.g., William S. Strauss, The Damage Provisions of the Copyright Law, in 2 STUDIES ON COPYRIGHT 995, 1003-08 (Copyright Society of the U.S.A. ed., 1965). Interestingly, several courts held that under the 1909 Act, statutory damages were appropriate only when the plaintiff could not prove with certainty either actual damages or infringer’s profits. See id. at 1003-04.}

3. Compensatory Remedies

A copyright owner who does not elect statutory damages is eligible to receive compensatory relief as measured by the “actual damages suffered” due to the infringer’s improper appropriation.\footnote{See, e.g., F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 233 (1952) (“The statutory rule, formulated after long experience, not merely compels restitution of profit and reparation for injury but also is designed to discourage wrongful conduct. The discretion of the court is wide enough to permit a resort to statutory damages for such purposes.”). See generally 4 Nimmer & Nimmer, supra note 20, § 14.04(A), at 14-49 to 14-50; 2 William F. Patry, COPYRIGHT LAW AND PRACTICE 1172-73 (1994).} The rationale for an award of the plaintiff’s actual damages is, perhaps, obvious: “to compensate the copyright owner for losses” resulting from the infringement.\footnote{17 U.S.C. § 304(a)-(b) (1994). Although not traditionally classified as an item of compensatory damages, costs and attorneys’ fees are recoverable by a prevailing plaintiff. Because these remedies compensate the prevailing copyright owner for expenses resulting from the defendant’s infringement, they are, in effect, compensatory. See id. § 505 (1994) (“[T]he court in its discretion may allow the recovery of full costs . . . [and] a reasonable attorney’s fee to the prevailing party.”); see also Fogerty v. Fantasy, Inc., 510 U.S. 517, 538 (1994) (Thomas, J., concurring) (attorneys’ fees). Such awards are discretionary and are generally assessed only against culpable parties. See Original Appalachian Arts, Inc. v. McCall Pattern Co., 825 F.2d 355, 357 n.2 (11th Cir. 1987) (attorneys’ fees); Lieb v. Topstone Indus., Inc., 788 F.2d 151, 156 (3d Cir. 1986) (attorneys’ fees); Data Gen. Corp. v. Grumman Sys. Support Corp., 825 F. Supp. 361, 366 (D. Mass. 1993) (costs of suit), aff’d, 36 F.3d 1147 (1st Cir. 1994); Tracy v. Skate Key, Inc., 14 U.S.P.Q.2d (BNA) 1248, 1250 (S.D.N.Y. 1990) (costs of suit). See 4 Nimmer & Nimmer, supra note 20, § 14.09, at 14-135, § 14.10[D][1]. But see Micromanipulator Co. v. Bough, 779 F.2d 255, 259-60 (5th Cir. 1985) (permitting attorneys’ fees against innocent infringer).} As a result of the law’s traditional focus on restoration of the plaintiff to the status quo ante,\footnote{See H.R. REP. No. 94-1476, at 161 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5777. See generally Dobbs, supra note 7, at 3 (“The damages remedy is a money remedy aimed at making good the plaintiff’s losses.”).} actual
damages are the "cornerstone" of Anglo-American remedies.  The long-
standing predominance of compensation and restoration in the law of remedies
is philosophically rooted in the fundamental corrective-justice notion that one
who wrongfully causes another to suffer a loss has a duty to repair the dam-
age.  

A copyright owner’s “actual damages” in an infringement case comprise
the diminution in the market value of the work as a result of the infringement.  
But as a result of the inherent difficulty of determining the amount of any
diminution in the market value of a copyrighted work, courts have used other
measures of compensatory damages.  For example, some courts have measured
damages by the amount of the copyright owner’s lost profits.  Other courts
have calculated the owner’s damages by determining the “value” of the copy-
righted work to the defendant as measured by “the acquisition cost saved by
infringement instead of purchase.”

4. Restitutionary Remedies

The final monetary remedy available to prevailing copyright owners, and
the principal focus of this Article, is the infringer’s profits remedy.  Section
504(b) of the Copyright Act provides that the copyright owner is entitled to re-
cover “any profits of the infringer that are attributable to the infringement.”

61 Ralph S. Brown Jr. et al., The Operation of the Damage Provisions of the Copyright Law: An Ex-
62 See JULES L. COLEMAN, RISKS AND WRONGS 354 (1992) ("Corrective justice imposes a duty to repair
the wrongful losses for which an injurer is responsible.").
63 See, e.g., In Design v. K-Mart Apparel Corp., 13 F.3d 559, 563 (2d Cir. 1994); Brooktree Corp. v.
Advanced Micro Devices, Inc., 977 F.2d 1555, 1579 (Fed. Cir. 1992); Fitzgerald Pub’g Co. v. Baylor
Publ’g Co., 807 F.2d 1110, 1118 (2d Cir. 1986); Cream Records, Inc. v. Joseph Schlitz Brewing Co., 754
F.2d 826, 827 (9th Cir. 1985); Universal Pictures Co. v. Harold Lloyd Corp., 162 F.2d 354, 368-69 (9th Cir.
64 See, e.g., Big Seven Music Corp. v. Lennon, 554 F.2d 504, 511-12 (2d Cir. 1977); Gross v. Van Dyk
Gravure Co., 230 F. 412, 413 (2d Cir. 1916).  See generally 4 NIMMER & NIMMER, supra note 20,
§ 14.02(A), at 14-9.
65 Delta, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 361 (7th Cir. 1985); see also Rogers v. Koons,
960 F.2d 301, 313 (2d Cir. 1992) (holding “a reasonable license fee . . . best approximates the market injury”
of the plaintiff); Sid & Marty Kroft Television Prods., Inc. v. McDonald’s Corp., 562 F.2d 1157, 1174 (9th
Cir. 1977).  This measure is somewhat similar to a “reasonable royalty rule.”  See 4 NIMMER & NIMMER,
supra note 20, § 14.02(A), at 14-16.  Other courts, however, have declined to employ this measure as in-
consistent with the language of the Copyright Act.  See Business Trends Analysts, Inc. v. Freedonia Group, Inc.,
887 F.2d 399, 404-05 (2d Cir. 1989).
66 17 U.S.C. § 504(b) (1994) (“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 in-
fringement . . . . “).
In establishing his entitlement to such profits, the copyright owner needs "present proof only of the infringer’s gross revenue," after which the "infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work."67

Despite this seemingly broad language, an infringer’s liability for "profits" is, at least in principle,68 subject to significant limitations. First, the term "profits" denotes the infringer’s net profits after deduction of all relevant expenses. Indeed, section 504(b) excludes the infringer's "deductible expenses" from the computation of "profits."69 Second, the infringer need not account for that portion of his net profits that are "attributable to factors other than the copyrighted work."70 Thus, the infringer need not disgorge profits attributable to his individual efforts, to his personal reputation, to the efforts of third parties, or presumably, to market factors. Finally, the copyright owner cannot recover both his actual damages and the infringer's profits; he may recover only "any profits of the infringer that . . . are not taken into account in computing [his] actual damages."71

The infringer’s profits remedy has a long history in copyright law. Indeed, courts have awarded infringer’s profits in copyright infringement actions in America and elsewhere since at least the early nineteenth century.72 Originally

67 Id.
68 For a discussion of the problems associated with applying these "limitations" in practice, see infra Part III.A.
70 Id.
71 Id. This provision cleared up the substantial uncertainty that existed under the 1909 Act regarding whether the plaintiff was permitted to recover both actual damages and infringer’s profits. See Strauss, supra note 56, at 1000-01.
72 See 1 PALMER, supra note 8, § 2:7, at 87-88 (The Supreme Court during nineteenth century “established that in a suit in equity for infringement of . . . copyright, the . . . copyright holder was entitled to recover the profits made through the infringement.”); Ralph S. Brown, Civil Remedies for Intellectual Property Invasions: Themes and Variations, 55 LAW & CONTEMP. PROBS., (Spring 1992), at 59, 66; see also Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390, 399 (1940) (Prior to 1909 Copyright Act "there had been no statutory provision for the recovery of profits, but that recovery had been allowed in equity both in copyright and patent cases as appropriate equitable relief incident to a decree for an injunction."); Callaghan v. Myers, 128 U.S. 617, 665-66 (1888) (permitting recovery of infringer’s profits in pre-1909 copyright case); Stevens v. Gładjing, 58 U.S. (17 How.) 447, 455 (1854) (same). Interestingly, in all copyright statutes prior to the 1909 Copyright Act, infringers were obligated to forfeit some portion of their proceeds to the United States government. See Strauss, supra note 56, at 999.


For a discussion of the history of the accounting remedy in Anglo-American law, see Edmund O.
an equitable remedy without statutory foundation, an infringer’s profits provision first appeared in statutory copyright law as part of section 101(b) of the Copyright Act of 1909. 73 When Congress replaced the Copyright Act of 1909 with the Copyright Act of 1976, it retained the infringer’s profits remedy with remarkably little elaboration. 74

The principal rationale for permitting a copyright owner to recover an infringer’s profits is the prevention of unjust enrichment. 75 Indeed, the House Report to the 1976 Act notes that “profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act.” 76 Considering this goal and the means that Congress has chosen to attain it (disgorgement of ill-gotten gains to the copyright owner), the infringer’s profits remedy is distinctly restitutory in nature. 77 Nevertheless, preventing unjust enrichment is not the only purpose of profit disgorgement. Because an infringer must make restitution directly to the prevailing copyright owner, the remedy also furthers the compensatory goal of repairing the losses suffered by the copyright owner, albeit indirectly. 78

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73 See Birks, supra note 72, at 66; see Copyright Act of 1909, 17 U.S.C. § 101(b) (repealed) (stating copyright owner entitled to “the profits which the infringer shall have made from such infringement”).


75 See, e.g., Sheldon, 309 U.S. at 399 (stating that recovery of profits is “not to inflict punishment but to prevent an unjust enrichment”). See generally Andrew W. Coleman, Copyright Damages and the Value of the Infringing Use: Restitutionary Recovery in Copyright Infringement Actions, 21 AIPLA Q.J. 91, 101 (1993) (“The category of profits in the 1976 Act is premised, in part, on restitutionary principles, that is, preventing unjust enrichment to infringers.”); Kull, supra note 8, at 1192-93; Laycock, supra note 44, at 1289 (“The core rationale for allowing plaintiff to recover the greater of his own loss or the defendant’s gain is that no person should profit by his own wrong.”); Paul H. Hubbard, Comment, Monetary Recovery Under the Copyright, Patent, and Trademark Acts, 45 Tex. L. Rev. 953, 955 (1967) (arguing purpose of allowing recovery of infringer’s profits is to “prevent the infringer’s unjust enrichment”); Wade R. Keenon, Comment, Monetary Recovery under the Copyright Act: Calculation of Damages, 65 Or. L. Rev. 809, 818 (1986) (“The primary purpose of profit recovery is to prevent the defendant from becoming unjustly enriched.”).


77 See supra notes 7-8 and accompanying text.

78 See, e.g., STAFF OF HOUSE COMM. ON THE JUDICIARY, 87TH CONG., 1ST SESS., REPORT OF THE REGISTRAR OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 101 (Comm. Print 1961) (“The wrongdoer’s profits may sometimes be a measure of damages suffered by the injured person . . . .”); Wendy J. Gordon, An Inquiry into the Merits of Copyright: The Challenges of Consistency, Consent and Encouragement Theory, 41 Stan. L. Rev. 1343, 1384 (1989) (explaining that when infringer’s profits represent lost revenues, award reflects “a right against “harm”’); Laycock, supra note 44, at 1287 (“[R]estitution of defendant’s profits has sometimes been thought of as a proxy for plaintiff’s losses.”); cf. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 37 cmt. b (1955) (“[A]n award of the defendant’s profits [in trademark infringement actions] was traditionally justified as compensation to the plaintiff . . . .”)

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Additionally, because the remedy creates a looming threat to those contemplating infringement—the threat that they may have to disgorge the fruits of their contemplated wrongdoing—it prophylactically deters infringement.\(^{79}\) In so doing, the infringer’s profits remedy helps to preserve the market for copyrighted works and hence the economic incentives for authors to create works of authorship.\(^{80}\)

While the disgorgement remedy is copyright’s most common restitutionary remedy, it is not copyright’s only such remedy. The destruction remedy set forth in section 503 of the Copyright Act\(^{81}\) permits courts, in their discretion,\(^ {82}\)

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\(^{79}\) See, e.g., Coleman, supra note 75, at 104 ("[A] theme underlying the restitution cases...is that of deterrence."); Peter IAFFEY, RESTITUTIONARY DAMAGES AND DISGORGEMENT, 3 RESTITUTION L. REV. 30, 31 (1995) (justifying restitution as "a punitive response designed to prevent further commissions of the wrong"); id. at 37 ("Allowing the defendant to keep his profit creates a perverse incentive to offend."); cf. Dennis S. Corgill, Measuring the Gains of Trademark Infringement, 65 FORDHAM L. REV. 1909, 1914 (1997) ("Recovery of the infringer’s gain in trademark infringement cases is...consistent with the rationale[s] of deterring infringement."); Daniel Friedman, Restitution of Benefits Obtained Through the Appropriation of Property or the Commission of a Wrong, 80 COLUM. L. REV. 504, 553 (1980) (arguing award of profits in breach-of-trust cases "is justified as a means of eliminating any economic incentive to violate the trust relationship").

\(^{80}\) See DOUGLAS LAYCOCK, MODERN AMERICAN REMEDIES 556 (2d ed. 1994) ("The economic justification for restitution of profits is that it forces defendants to buy what they want in voluntary transactions."); Richard A. Posner, Economic Analysis of Law 227 (5th ed. 1998) (asserting restitution makes wrong "worthless" thus channeling resource allocation to the market); Gordon, supra note 78, at 1389 ("[T]he Copyright Act facilitates the use and development of copyrighted works through markets."); Wendy J. Gordon, On the Economics of Copyright, Restitution, and "Fair Use": Systemic Versus Case-by-Case Responses to Market Failure, 8 J. LAW & INFO. SCI. 7, 11 (1997) (arguing private market for copyrighted works generates incentives for the production of artwork).


\(^{82}\) See Harcourt, Brace & World, Inc. v. Graphic Controls Corp., 329 F. Supp. 517, 521 (S.D.N.Y. 1971). See generally 4 NIMMER & NIMMER, supra note 20, § 14.08, at 14-131 ("The remedy of destruction is thus discretionary with the court, not mandatory, even if the plaintiff prevails on the merits."). Courts have refused to order destruction of infringing materials in the possession of innocent third parties. See id. § 14.08, at 14-132 ("[I]t seems clear that the remedy of forfeiture and destruction is not available as against an innocent third party who acquires infringing copies or articles, but does not himself engage in any act of infringement."); see also Applied Innovations, Inc. v. Regents of the Univ. of Minn., 876 F.2d 626, 637-38 (8th Cir. 1989); Foreign & Domestic Music Corp. v. Licht, 196 F.2d 627, 629 (2d Cir. 1952); Jeweler’s Circular Pub’l’g Co. v. Keystone Pub’l’g Co., 274 F. 932, 936-37 (S.D.N.Y. 1921), aff’d, 281 F. 83 (2d Cir. 1922).
to compel infringers to disgorge themselves of infringing articles and other materials.\textsuperscript{83} Destruction, like preliminary impoundment,\textsuperscript{84} serves to complement injunctive relief by removing from the infringer any previously created infringing goods and the means to commit further infringement.\textsuperscript{85} Unlike impoundment, however, destruction serves a restitutionary goal. Namely, this remedy permits courts to force an infringer to disgorge the ill-gotten fruits of his improper conduct. In ordering such destruction, courts can prevent the infringer from being unjustly enriched at the copyright owner's expense. While destruction differs somewhat from more traditional restitutionary remedies in that it does not involve the restoration of something to the plaintiff,\textsuperscript{86} its focus on avoiding unjust enrichment is characteristically restitutionary.\textsuperscript{87}

\section*{II. Problems with Copyright's Restitutionary Remedies}

Copyright's restitutionary remedies are fraught with practical and conceptual problems. In practice, the infringer's profits remedy is difficult to apply, costly to administer and arbitrary in effect. In concept, both the infringer's profits remedy and the destruction remedy antagonize the goals of American copyright law which they instead should promote. This Part explores these and related problems associated with copyright's restitutionary remedies.

\subsection*{A. Practical Problems}

The infringer's profits remedy set forth in section 504 of the Copyright Act appears straightforward enough. The prevailing copyright owner seeking to recover an infringer's profits simply establishes the amount of "the infringer's

\footnotesize{\textsuperscript{83} No court or commentator has characterized the destruction/reasonable-disposition remedy as restitutionary, but given its nature and effect, it reflects a disgorgement rationale. See infra Part I.B.A.}

\footnotesize{\textsuperscript{84} See supra Part I.B.1.}

\footnotesize{\textsuperscript{85} While impoundment complements preliminary injunctive relief, destruction complements permanent injunctive relief.}

\footnotesize{\textsuperscript{86} See Dobbs, supra note 7, at 365 ("The word restitution means restoration. Restitution is a return or restoration of what the defendant has gained in a transaction."); id. at 4; see also Sovey & Scott, supra note 7, at 29.}

\footnotesize{\textsuperscript{87} Section 503 of the Copyright Act permits courts to award as an alternative to destruction "other reasonable disposition" of infringing articles and means. 17 U.S.C. § 503(b) (1994). Thus, courts conceivably could order the infringer to turn over such materials directly to the plaintiff. Such an award would be more consistent with traditional restorative restitution.}
Thereafter, the infringer proves his "deductible expenses and the elements of profit attributable to factors other than the copyrighted work."88 The end product of this seemingly elementary calculation is the amount of profits to which the owner is entitled to recover from the infringer.

Unfortunately, it is not that easy. The seeming simplicity of section 504 "masks fiendish difficulties."90 These difficulties stem not only from "the numerosity of variables"91 affecting the amount of the infringer's gain, but also from the inconsistent approaches taken by courts (1) to derive the infringer's net profits from his gross revenues and (2) to apportion those net profits to the infringing use.

1. Deriving Net Profits from Gross Revenues

To recover an infringer's profits award, the copyright owner first must quantify the infringer's gross revenues.92 However, it is uncertain to what extent the copyright owner must differentiate the infringer's gross revenues from that portion of those revenues garnered directly from the use of the infringed work.93 On the one hand, the owner certainly must do more than prove the infringer's gross revenues from all sources.94 On the other hand, to force the owner to causally link each dollar of the infringer's gross revenues to the infringed work would effectively shift the statutory burden of proof on apportionment of profits from infringer to owner.95 Faced with this dilemma, courts have responded inconsistently. Some have allowed owners to calculate profits liberally from the infringer's unapportioned gross revenues; others, however, have required owners to allocate gross revenues exactly to the

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88 Id.
89 Id.
91 Id.
93 This step (the differentiation of gross revenues) is distinct from the subsequent step of allocating profits derived from such revenues to the infringing use.
94 See Taylor v. Meirick, 712 F.2d 1112, 1122 (7th Cir. 1983) ("If General Motors were to steal your copyright and put it in a sales brochure, you could not just put a copy of General Motors' corporate income tax return in the record and rest your case for an award of infringer's profits."); see also Roulo v. Russ Berrie & Co., 886 F.2d 931, 941 (7th Cir. 1989); Estate of Vane v. The Fair, Inc., 849 F.2d 186, 190 (5th Cir. 1988). See generally Alan J. Haus, What Does GM's Tax Return Have to Do With Multimedia?: Calculating Profits from Copyright Infringement, 12 ENT. & SPORTS L. 112, 112 (Summer 1994), at 12.
95 Under the Copyright Act, the infringer—not the owner—presently has the burden of distinguishing profits attributable to the copyrighted work and the profits attributable other factors. See 17 U.S.C. § 504(b) (1994)("[T]he infringer is required to prove . . . the elements of profit attributable to factors other than the copyrighted work.").
particular infringing use.\textsuperscript{96} While the Copyright Act does not even address the issue of apportioning gross revenues, the issue arises in practice with some frequency and, when it does arise, courts resolve it inconsistently.

Once the aggrieved owner proves the amount of the infringer’s gross revenues, the burden then shifts to the infringer to “prove his or her deductible expenses.”\textsuperscript{97} Proving deductible expenses is not only “factually detailed and frustrating work,”\textsuperscript{98} but it is also work plagued with uncertainty regarding which expenses are deductible and which infringers are eligible to take such deductions. Inconsistent results abound: some courts have disallowed deductions that others have allowed in virtually indistinguishable cases.\textsuperscript{99} Some courts, for example, have allowed the deduction of administrative and bookkeeping costs; others have not.\textsuperscript{100} Some courts have allowed the deduction of uncollectible debts; others have not.\textsuperscript{101} Some courts have allowed the deduction of design expenses; others have not.\textsuperscript{102} Some courts have allowed the deduction of depreciation expenses; others have not.\textsuperscript{103} Some courts have allowed the deduction of insurance expenses; others have not.\textsuperscript{104} Some courts have allowed the deduction of interest expenses; others have not.

\textsuperscript{97} See 17 U.S.C. § 504(b) (1994).
\textsuperscript{98} Andrew H. Bart, Assessing Copyright Damages, 12 Ent. Law & Fin. 1, 4 (March 1997); see also Brown, supra note 72, at 66 (“Establishing the expenses that are properly deductible from the infringer’s gross revenue is a recurring problem.”).
\textsuperscript{99} See generally Haus, supra note 94, at 16 (“There is a split of authority as to whether fixed costs can be deducted from the infringer’s revenue.”); Keenon, supra note 75, at 819 (“Courts differ on whether costs associated with unsold infringing products should be allowed.”); Groos, supra note 96, §§ 37-71.
\textsuperscript{101} Compare Fitzgerald Publ’g Co. v. Baylor Publ’g Co., 670 F. Supp. 1133, 1139 (E.D.N.Y. 1987) (allowing deduction), with Sammons, 126 F.2d at 341 (disallowing deduction).
\textsuperscript{102} Compare Design Resources, 229 U.S.P.Q. (BNA) at 425 (allowing deduction), with Kamar Int’l, Inc. v. Russ Berrie & Co., 752 F.2d 1326, 1333 (9th Cir. 1984) (disallowing deduction).
\textsuperscript{104} Compare Aitken, 542 F. Supp. at 252 (allowing deduction), with Sammons, 126 F.2d at 341 (disallowing deduction).
not.\footnote{See Arthur Rutenberg Corp. v. Dawney, 647 F. Supp. 1214, 1215 (M.D. Fla. 1986) (allowing deduction); Aiken, 542 F. Supp. at 252 (same); Sheldon, 29 F. Supp. at 729 (same).} Some courts have allowed the deduction of legal and other professional services; others have not.\footnote{Compare Aiken, 542 F. Supp. at 252 (allowing deduction), with Sygma Photo, 778 F.2d at 89 (disallowing deduction), and ABKCO Music, Inc. v. Harrisons Music, Ltd., 508 F. Supp. at 798 (S.D.N.Y. 1981) (same).} Some courts have allowed the deduction of taxes; others have not.\footnote{Compare Sheldon, 29 F. Supp. at 729 (allowing deduction), Aiken, 542 F. Supp. at 252 (same), and Arthur Rutenberg, 647 F. Supp. at 1214 (same), with Alfred Bell, 191 F.2d 99, 106 (disallowing deduction), Harris v. Miller, 57 U.S.P.Q. (BNA) 103 (S.D.N.Y. 1943) (same), ABKCO Music, 508 F. Supp. at 798 (same), Design Resources, 229 U.S.P.Q. (BNA) at 418 (same), and JBI Fabrics, Inc. v. Mark Indus., Inc., 5 U.S.P.Q.2d (BNA) 1414 (C.D. Cal. 1987) (same). See generally Note, Monetary Recovery for Copyright Infringement, 67 Harv. L. Rev. 1044, 1049-50 (1954) (discussing inconsistent approaches to deductibility of taxes).} And, some courts have allowed the deduction of rent and utility expenses; others have not.\footnote{Compare Sammons, 38 F. Supp. at 649 (allowing rent and utilities deductions), Alfred Bell, 86 F. Supp. at 399 (allowing rent deduction), Taylor United v. Meirick, 712 F.2d 1112 (7th Cir. 188) (allowing rent and utilities deductions), and Aiken, 542 F. Supp. at 252 (same), with Sygma Photo, 778 F.2d at 89 (disallowing rent deduction), JBI Fabrics, 5 U.S.P.Q.2d (BNA) at 1418 (disallowing rent and utilities deductions), ABKCO Music, 508 F. Supp. at 798 (disallowing utilities deduction), and Design Resources, 229 U.S.P.Q. (BNA) at 418 (same).} With similar inconsistency, courts have allowed certain types of infringers to take deductions while denying the same to other types of infringers. For example, some courts are more permissive than others in allowing innocent infringers to deduct expenses.\footnote{See Sinclair, supra note 31, at 968-70 (arguing courts are more liberal in allowing innocent infringers to prove deductible expenses).} Some are more restrictive than others in allowing willful infringers to deduct fixed costs\footnote{See Jarvis v. A&M Records, 827 F. Supp. 282, 294 (D.N.J. 1993). See generally Haus, supra note 94, at 16.} and income taxes.\footnote{See Note, Monetary Recovery, supra note 107, at 1050 (stating some courts have "disallowed a credit for income taxes paid when infringement was deliberate").} These occasional culpability-based distinctions combine with other inconsistent case law on the propriety of particular deductions to produce significant uncertainty regarding the role of deductions in deriving the infringer’s net profits.

2. Apportioning Net Profits

Although deriving net profits from gross revenues is difficult, apportioning those profits to the infringer’s use of the owner’s work is even more troublesome. Section 504(b) of the present Copyright Act explicitly permits a defendant to prove “the elements of profit attributable to factors other than the copy-
righted work in an effort to reduce his disgorgement liability. As a result of this provision, an infringer need disgorge only that portion of his net profits attributable to his use of the copyrighted work—not that portion attributable to other factors, such as his own labor or his "position in the art world," among a myriad of other factors.

In theory, apportionment exists to assure that the infringer is permitted to retain "that which is his own," to preclude the copyright owner from reaping a windfall through restitution, and to prevent the defendant from being unfairly penalized. Thus, in theory, apportionment should prevent a movie producer from being forced to disgorge all of the profits earned by a blockbuster movie if he innocently infringed the copyright in a work that merely appears in the background of a minor scene. After all, nearly all of the profits earned by such a film would be attributable to the script, acting, music, special effects, advertising, reputations of contributors, and a myriad of additional factors, other than the infringing work. There is no compelling reason why such an innocent infringer should be denied the fruits of his efforts. Nor is there a compelling reason why the copyright owner should be permitted to recover a monetary windfall far in excess of his greatest expectations.

In practice, however, problems abound in apportioning profits. While factors other than the copyrighted work nearly always serve as "engines of . . .

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115 Dobbs, supra note 7, at 435.
116 See Dobbs, supra note 7, at 437; Brown et al., supra note 61, at 1078.
117 See LAYCOCK, supra note 80, at 567 ("Denying credit for the value of the [infringer's] labor looks like a penalty and not an effort to take away the profit.").
118 For example, a film starring Arnold Schwarzenegger is likely to generate a significant amount of revenue simply as a result of his participation.
119 See, e.g., Dobbs, supra note 7, at 435; 4 Nimmer & Nimmer, supra note 20, § 14.03[C], at 14-41, 14-42 ("One of the most difficult problems in the computation of profits for which the defendant is liable under Section 504(b) arises when the infringing work inextricably intermingles noninfringing material with
profit," the Copyright Act provides no guidance whatsoever regarding how to apportion profits among such "engines." Under the "proportional profits" approach to apportionment set forth in section 504(b), the infringer must disgorge some percentage of his profits to the owner but he may keep the rest. However, the indeterminate language of that provision effectively permits courts to choose from among several rational approaches to apportionment, each of which can produce results dissimilar to those produced by other approaches.

For example, some courts have apportioned profits using a ratio of the fair market value of the infringed work to the cost of the entire product. Under this approach, if the value of a license to use the infringed work is $1.00 and the overall cost of the product is $5.00, then the infringer must disgorge one-fifth of his net profits.

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120 Walker v. Forbes, Inc., 28 F.2d 409, 413 (4th Cir. 1924) (citing Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390 (1940); Rogers v. Koons, 960 F.2d 301 (2d Cir. 1992)).
123 See DUGAN, supra note 121, at 19.
124 See, e.g., Estate of Vane v. The Fair, Inc., 849 F.2d 186, 189-190 (5th Cir. 1988) (It was not error for the district court to permit testimony regarding "calculation based on a mathematical formula involving the ratio of fair cost of infringing material to entire cost of commercial."); Schroeder v. William Morrow & Co., 566 F.2d 5, 6 (7th Cir. 1977) (For infringement of a gardening directory, damages need not be measured by the entire profit earned by the copyright infringers but rather by "an amount commensurate with the value of the infringing material in relation to the book as a whole.").
125 While some commentators apparently favor this approach, see HURST, supra note 94, at 18, others have observed that a simplistic ratio based on the costs of the components of an infringing article, although "tempting," is "rarely accurate" because it fails to account for the elements of risk associated with each component. See GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTELLECTUAL ASSETS 329-30 (1989) ("A tempting, but rarely accurate, method to accomplish the allocation of . . . income among the assets would be to spread the total income based upon a fair market value weighting." But in "allocating the income that is generated by the enterprise, the relative risk of each portfolio component must be considered.").
Other courts, however, have considered apportioning profits using a ratio of the volume of infringing material to the volume of the expression comprising the entire product. Under this approach, if the infringing material comprises one-fourth of the overall product, then the infringer must discharge one-fourth of his net profits.

Under yet another reasonable approach to apportionment, the infringer must discharge only the fair market value of a license to use the copyrighted work. Arguably, the "profits attributable" to a single component of a multiplex product are no more than the market value of that component. After all, any revenues that exceed the market value of that component are attributable either to subsequent value added by independent capital, materials, entrepreneurship or other labor, or to subsequent fluctuations in the market price of the end product. Although no court has discussed the convergence of the fair

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126 See Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 886 F.2d 1545, 1549 (9th Cir. 1989); Estate of Vane, 849 F.2d at 190; Gaste v. Kaiserman, 853 F.2d 1061, 1069 (2d Cir. 1988) (finding infringement of musical composition by the infringing song, the jury awarded the amount of profits allocable to the infringing portions of the defendant's work as opposed to the noninfringing portions of the work); MCA, Inc. v. Wilson, 677 F.2d 180, 186 (2d Cir. 1981) (finding that trial judge did not err in allocating one-twentieth of gross receipts from erotic nudity to infringing song that was performed during show); Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc., 367 F.2d 236, 241 (9th Cir. 1966); Love v. Kvitny, 772 F. Supp. 1367, 1370 (S.D.N.Y. 1991) (infringing material amounted to no more than 2.6% of infringers' book which percentage was used by court to calculate percentage of profits attributable to infringing work); Schuchart & Assoc., Profi Engrs., Inc. v. Solo Serve Corp., 220 U.S.P.Q. (BNA) 170, 186 (W.D. Tex. 1983) (awarding apportioned profits based on 53.3% of volume of the work as a whole for infringement of architectural and engineering drawings and specifications).

127 The fair market value of use of the copyrighted work is "what a willing buyer would have been reasonably required to pay to a willing seller" for a license to use the plaintiff's work. Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 362 (7th Cir. 1985); Sid & Marty Kroft Television Prods., Inc. v. McDonald's Corp., 562 F.2d 1157, 1174 (9th Cir. 1977). This amount is similar, if not identical to, a "reasonable royalty" rate. See 4 Nimmer, supra note 20, § 14.02[A], at 14-16 ("The similarities between the patent law's reasonable royalty rule and Deltek's value of use theory are apparent."); see also Deltek, 767 F.2d at 362 n.3 ("Professor Nimmer notes the similarity between value of use in terms of saved acquisition costs and reasonable royalties . . . . "). When an infringer chooses infringement rather than licensing, the "acquisition cost saved by infringement" is the "value of use" of the copyrighted work to the infringer. See Deltek, 767 F.2d at 361; see also Rosellin v. District of Columbia, 921 F. Supp. 793, 799-800 (D.D.C. 1995) ("Costs that the defendant did not incur because it infringed a copyright are considered profits . . . . ").

Fair market value must be measured at the time that the infringer realizes revenue to assure that the copyright owner captures all of the "profits attributable" to the infringer's use of his work. Otherwise, any increase in the value of a component that in turn causes an increase in the market price of a multiplex product would be captured by, and hence would unjustly enrich, the infringer.

128 See, e.g., Laycock, supra note 80, at 567 ("In theory, the difference between the market value of the play and the profits attributable to the play should be small."); Smith & Parr, supra note 125, at 252 ("Quite often, analysts estimate the contribution margin that is attributable to intellectual property by using a market-negotiated royalty rate . . . . The amount saved in licensing fees is considered to represent the profit contribution of the intellectual property."); see also Blair & Cotter, supra note 6, at 1617 n.141 ("The
market value of a work and the "profits attributable" to the use of that work, 129 this concept, with appropriate expert testimony, should be economically and legally defensible. In comparison to the manifold difficulties in apportioning profits under a "proportional profits" approach, a fair-market-value approach may promise greater simplicity, consistency, and reduced administrative costs. 130 In any event, this reasonable alternative would certainly produce an apportionment different from other variants of the "proportional profits" approach.

Perhaps because of this wide range of rational approaches to apportionment, the case law on apportionment reflects arbitrary approximations, 131 inconsistent outcomes, 132 and general confusion. 133 The combination of these

129 See LAYCOCK, supra note 80, at 567 ("It is difficult to predict consumer reaction to [copyrighted works], and it is difficult to isolate their contribution to the finished [product]. Because market participants do not have good information at any point in the process, the market can be expected to work inefficiently."); SMITH & PARR, supra note 125, at 253; Farnsworth, supra, at 1350 ("Practical problems also inher in measuring gain in terms of saving the cost of modification."). Thanks to Professors James E. Viator and William Barnett for their insight on this issue.

130 See Farnsworth, supra note 128, at 1350 (Problems in measuring gain by costs saved "are less serious than those of proving profits.").

131 See GOFF & JONES, supra note 8, at 34 (explaining courts can only approximate profits attributable to factors other than copyrighted work); LAYCOCK, supra note 80, at 576 (arguing courts engage in "impressionistic apportionment among intangible factors"); Bart, supra note 98, at 5; Blair & Cotter, supra note 6, at 1652; Brown, supra note 72, at 67 ("Only approximations are possible in most cases."); Keenon, supra note 75, at 822 (The contributions of "noninftyng elements are often inherently and necessarily speculative.").

132 For example, some courts deny apportionment entirely to deliberate infringers. See Kaitwaves, Inc. v. Lollytogs, Ltd., 71 F.3d 996, 1010 (2d Cir. 1995); ABKCO Music, Inc. v. Harrisons Music, Ltd., 508 F. Supp. 798, 801 n.10 (S.D.N.Y. 1981), aff'd, 722 F.2d 988 (2d Cir. 1983). Others have denied apportionment when the copyrighted work was finely intertwined in the final product. See Harris v. Miller, 57 U.S.P.Q. (BNA) 103 (S.D.N.Y. 1943); see also Business Trends Analysts, Inc. v. Freedom Group, Inc., 887 F.2d 399, 407 (2d Cir. 1989).
unfortunate consequences with similar problems in deriving net profits from gross revenues has left adrift the litigants, lawyers, and judges who regularly must deal with restitutionary issues in copyright cases. Worse still, these practical difficulties are merely symptomatic of the deeper conceptual problems plaguing copyright's restitutionary remedies.

B. Conceptual Problems

Copyright's disgorgement and destruction remedies are conceptually disturbing. Although these restitutionary remedies presumably exist as a means to promote the purposes of copyright law, they are, at best, unnecessary in this regard, and at worst, counterproductive.

The Constitution succinctly sets forth copyright's utilitarian goal: "[t]o promote the Progress of Science." Enacted by Congress pursuant to the power conferred by this clause, the Copyright Act is merely a "means by which an important public purpose"—the production of new works of authorship—is furthered. To encourage such production, the Act grants authors certain exclusive rights in their creations, including the rights to reproduce, adapt, distribute, publicly perform, and publicly display copyrighted works of authorship. These exclusive rights force would-be users to bargain ex ante with authors for permission to use copyrighted works, thus creating the economic market for copyrighted works that promotes artistic creation.

133 See Keenon, supra note 75, at 821 ("Serious distortions occur when courts are called upon to allocate profits between infringing and noninfringing elements.").


137 See, e.g., Blair & Cotter, supra note 6, at 1606; Landes & Posner, supra note 45, at 328-29; Sterk, supra note 45, at 1204.

138 See Gordon, supra note 78, at 1389 ("The copyright statute . . . facilitates the use and development of copyrighted works through markets."); Gordon, On the Economics of Copyright, supra note 80, at 11 ("A private market for copyrighted works generates incentives for production.").
While copyright’s exclusive rights establish economic incentives to create, they simultaneously antagonize the public-access goal which justifies their very existence. This fundamental dilemma pervades copyright legislation,\(^{139}\) case law,\(^{140}\) and scholarship.\(^{141}\) Indeed, “[s]triking the correct balance between access and incentives is the central problem in copyright law.”\(^{142}\) Given the need to strike this balance properly, copyright law, including the law of copyright remedies, must be no more expansive than is necessary to provide the incentive to create.\(^{143}\) Rights and remedies more extensive than necessary to achieve this goal are undesirable. Indeed, overprotection of copyrighted works, including overprotection through the application of unduly harsh remedies, threatens public access to copyrighted works. Moreover, overprotection threatens to raise the costs of creating and using copyrighted works and, hence, threatens to reduce the number of works ultimately created and disseminated to the public.\(^{144}\) For these reasons, any analysis of copyright’s restitutionary remedies must weigh the extent to which those remedies promote a satisfactory balance between access and incentives.

1. The Disgorgement and Destruction Remedies as Unnecessary

Copyright’s disgorgement and destruction remedies are unnecessary to provide authors with incentives to create copyrighted works. Several

\(^{139}\) See H.R. REP. NO. 94-1476, at 134 (1976) (balancing incentives and access in setting term of copyright protection); H.R. REP. NO. 60-2222, at 7 (1909) (Congress must consider both incentives to “stimulate the producer” and extent to which exclusive rights will be “detrimental to the public.”).

\(^{140}\) See, e.g., Sony, 464 U.S. at 429 (Courts must “balance the interests of authors . . . and society’s competing interest in the free flow of ideas.”); see also Kern River Gas Transmission Co. v. Coastal Corp., 899 F.2d 1458, 1463 (9th Cir. 1990) (explaining copyright balances “competing concerns of providing incentive to authors to create and of fostering competition in such creativity”).


\(^{142}\) Landes & Posner, supra note 45, at 326. But see Lunney, supra note 45.

\(^{143}\) See, e.g., Dobbs, supra note 7, at 382 (“Remedy should follow the right and reflect it . . . .”); Blair & Cotter, supra note 6, at 1605 (“Too strong a system of copyright protection may deter the creation of new works that build upon earlier ones.”); Coleman, supra note 75, at 104 (Copyright remedies must be evaluated with goal of striking balance between incentives and access.); Landes & Posner, supra note 45, at 332; Steck, supra note 45, at 1204-05; Sinclair, supra note 31, at 943 (Copyright law must “protect authors only to the extent necessary to encourage continued production of works of merit. To extend protection beyond this point would be to lose sight of the very purpose of copyright law.”).

\(^{144}\) See, e.g., Landes & Posner, supra note 45, at 332 (Overprotection would “raise the cost of creating new works . . . and thus, paradoxically, perhaps lower the number of works created.”); Lunney, supra note 45, at 498 (As copyright protection broadens, “both the cost of creating new works and the deadweight loss associated with existing works . . . increase.”).
commentators have argued that copyright law itself is unnecessary to promote
the creation of copyrighted works because, with or without copyright, authors
would create just as they did before Anglo-American law protected works of
authorship.\textsuperscript{145} However, given the long-established history of protecting works
of authorship through copyright law, the more relevant debate focuses not on
whether a copyright entitlement should exist at all, but rather on what the
nature and extent of that entitlement should be. As significant components of
copyright's entitlement package, disgorgement and destruction presumably
exist because they contribute to the incentives to create. Notwithstanding this
presumption, these restitutionary remedies contribute little or nothing to
copyright's economic incentives.

The availability of disgorgement and destruction likely weighs little, if at
all, into a prospective author's decision whether to create and to distribute a
work of authorship. Authors create for many reasons unrelated to the expected
monetary profits that their works will produce. For example, authors create to
generate prestige and related indirect financial benefits (such as academic
promotions and raises).\textsuperscript{146} And even to the extent that authors are driven to
create by the expectation of receiving financial rewards from the exploitation
of their works, disgorgement and destruction provide no additional protection
for this expectation than is now provided by copyright's existing injunctive
and compensatory remedies. Injunctive relief\textsuperscript{147} protects the prospective
creators' expectation that only he and those to whom he may grant permission
will reap the benefits of exploiting any work that he may produce. Compensatory relief\textsuperscript{148}
protects the prospective creator's expectation that the market value of his work will not be harmed by unauthorized uses, thereby
preserving any plan to exploit his work to the fullest extent that the market
may allow.\textsuperscript{149} Thus, from the standpoint of an individual who is deciding
whether to create a work of authorship, the availability of restitutionary relief
likely does not tip the balance in favor of creation.\textsuperscript{150} Put simply, prospective

\textsuperscript{145} See, e.g., ARNOLD PLANT, THE NEW COMMERCE IN IDEAS AND INTELLECTUAL PROPERTY (1953);
Breyer, supra note 141, at 281; Landes & Posner, supra note 45, at 331-32.

\textsuperscript{146} See Landes & Posner, supra note 45, at 331 ("Many authors derive substantial benefits from publica-
tion that are over and beyond any royalties.").

\textsuperscript{147} See 17 U.S.C. § 503(a) (1994) (providing court may "grant temporary and final injunctions on such
terms as it may deem reasonable to prevent or restrain infringement of a copyright").

\textsuperscript{148} See id. § 504(b) ("The copyright owner is entitled to recover the actual damages suffered by him or
her as a result of the infringement . . . .").

\textsuperscript{149} The availability of costs and attorneys' fees assures that a copyright owner can obtain, in theory,
fully compensatory relief. See id. § 505.

\textsuperscript{150} Granted, the availability of a supercompensatory relief in the form of infringer's profits might en-
authors do not decide to create today in hopes of receiving an uncertain restitutionary award tomorrow.

Similarly, disgorgement and destruction are unnecessary to facilitate a market for copyrighted works of authorship. Granted, these remedies play an important role in the creation of such a market: they deter infringement by sending the message to potential infringers that forfeiture of gains and destruction of infringing articles await those who are caught.151 This deterrent channels potential users into the market to bargain with the copyright owner.152 Nevertheless, disgorgement and destruction are not the only means of achieving deterrence and market channelling. Other means exist, including criminal sanctions and punitive damages.153 Indeed, threats of criminal imprisonment or fines, civil treble damages, or other exemplary awards could readily provide the deterrence now provided by disgorgement and destruction.154 Thus, while copyright's restitutionary remedies play a role in market creation, other remedies could play that role as well or better.

2. The Disgorgement and Destruction Remedies as Malignant

The disgorgement and destruction remedies not only are unnecessary, but also affirmatively harmful to the market that copyright exists to facilitate. Indeed, disgorgement and destruction both reduce the market demand for copyrighted works and encourage users and owners to bypass the market for such works.

151 See, e.g., Coleman, supra note 75, at 104 ("A theme underlying the restitution cases . . . is that of deterrence."); Peter K. Huber, Miutaken Transfers and Profitable Infringement on Property Rights: An Economic Analysis, 49 I.A. L. REV. 71, 100-02, 104-06 (1988); Jaffey, supra note 79, at 37 (allowing the defendant to keep his profit "creates a perverse incentive to offend"); cf. Corick, supra note 79, at 1914 (arguing that, in trademark cases, "[r]ecovery of the infringer's gain is . . . consistent with the rationale[] of deterring infringement"); Henry Mutter, Restitution as a Remedy for Breach of Contract: The Case of the Partially Performing Seller, 92 YALE L.J. 14, 31 (1982) (asserting that, in breach of contract cases, "[d]eterrence provides the only legitimate reason for making the breaching party's liability exceed the amount needed to compensate plaintiff for the harm done").

152 See Posner, supra note 80, at 227 ("[B]ecause we want to channel resource allocation through the market as much as possible, we want to make sure that I am not allowed to be indifferent between stealing and buying my neighbor's car.").

153 See Posner, supra note 80, at 227 (arguing "punitive damages are one way" of channeling resource allocation through the market); id. at 240-42.

154 See infra Part IV.B.2.
a. Reduction of Demand for Copyrighted Works

Copyright's disgorgement and destruction remedies reduce the market demand for copyrighted works. This demand reduction is a direct result of the harsh and indiscriminate nature in which those remedies currently function. The harshness of these remedies is manifold. Because they are part of a strict-liability regime, infringers, whether innocent or culpable, are potentially liable for restitution of all profits attributable to the copyrighted work. Because infringers bear the difficult burdens of proving deductible expenses and allocating profits to factors other than the copyrighted work, courts often "err on the side of generosity to the prevailing plaintiff" and order infringers, whether innocent or culpable, to pay restitution in an amount approaching their total gross revenues. Finally, because courts can enjoin all future sales of infringing articles and order the destruction of such articles, all infringers, whether innocent or culpable, stand to lose the value of the materials, capital, and labor invested in the creation of infringing articles, irrespective of the proportion of infringing to noninfringing elements. These harsh effects may simply be fallout from restitution's laudable effort to deter infringement and to prevent unjust enrichment. But "[t]he very efficacy of the restitutionary remedy is a reason for caution." Such caution is particularly appropriate in

155 See supra Part I.A.
156 See, e.g., 17 U.S.C. § 501(a) (1994) ("Anyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright ... ") (emphasis added); id. § 504(a)(1) ("[A]n infringer of copyright is liable for ... profits of the infringer ... "); 1 PALMER, supra note 8, § 2.7(a), at 89 ("Profits are recoverable from an innocent infringer ... ").
158 Brown, supra note 72, at 67; see also Keenan, supra note 75, at 821 ("Almost all courts hold that doubts regarding the proof of allocation are to be resolved against the infringer ... ").
161 See id. § 503.
162 See Wendy J. Gordon, Toward a Jurisprudence of Benefits: The Norms of Copyright and the Problem of Private Censorship, 57 U. Chi. L. Rev. 1009, 1029 (1990) ("[T]he owner] may obtain an injunction against the new project, blocking not only the dissemination of copied elements but any newly-created ones that are intermixed as well.").
163 BiRKS, supra note 8, at 88.
light of the potential adverse effects that disgorgement and destruction may have on the demand for copyrighted works.

Disgorgement and destruction overdeter lawful and beneficial uses of copyrighted works. Because liability for restitution in copyright is not based on fault, innocent infringers face a risk of suffering disgorgement and destruction even in the absence of wrongdoing. Innocent infringers have many faces.164 Some reasonably, but mistakenly, believe that the infringed work is not protected by copyright. Such a belief can arise from a misunderstanding that the infringed work is in the public domain,165 that the infringed work is not copyrightable, or that they have appropriated only noncopyrightable elements of the infringed work. Some innocent infringers reasonably, but mistakenly, believe that their own work does not infringe; some mistakenly predict how courts will evaluate their conduct.166 Such miscalculations can arise from the mistaken assumption that the infringing work is not, or will not be adjudged, "substantially similar" to the infringed work, that the use of the infringed work is a "fair use," or that the use of the infringed work is authorized.167 Finally, other innocent infringers copy the infringed work unconsciously.168


Given that innocent users face a real risk of supercompensatory restitutionary liability, some potential users likely curtail or even forego entirely their contemplated uses of copyrighted works. Such a risk is particularly acute when, as in copyright law, substantial uncertainty exists as to the rights and obligations of those threatened with strict liability for severe penalties. The effect of such a decline in demand for copyrighted works cascades down as follows: the depressed demand lowers the market price for copyrighted works in general, thereby reducing authors’ economic incentive to create, in turn diminishing the volume of works available for public consumption, and thus countermaintaining the purpose for which copyright exists.

In addition to turning away risk-averse potential users, disgorgement and destruction depress the demand for copyrighted works in yet another way—by increasing the costs to those who nevertheless proceed to use such works.

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169 See, e.g., Posner, supra note 80, at 194 (arguing strict liability encourages “activity-level changes by potential injurers”); id. at 243-44 (“If there is a risk of . . . accidental violation of the criminal law . . . a very savage penalty will induce people to forgo socially desirable activities at the borderline of criminal activity.”); Birks, supra note 8, at 88 (asserting restitutionary awards “will tend strongly to the sterilization of economic activity in the relevant situation”); Blair & Cotter, supra note 6, at 1640, 1682 (“The policymaker must be careful not to overdeter marginally lawful conduct through the imposition of draconian penalties.”); Jaffee, supra note 79, at 45-46 (postulating disgorgement can “have the effect of deterring the defendant or others from carrying on the activity altogether”); see also William M. Landes, Optimal Sanctions for Antitrust Violations, 50 U. CHI. L. REV. 652, 655 n.4 (1983) (asserting harsh penalties can “deter socially valuable business behavior”).

170 For example, what constitutes “fair use” has long troubled courts and commentators. See, e.g., Dellar v. Samuel Goldwyn, Inc., 104 F.2d 661, 662 (2d Cir. 1939) (per curiam). See generally Pierre N. Leval, Commentary: Toward a Fair Use Standard, 103 HARV. L. REV. 1105, 1106-07 (1990); Lloyd L. Weinreb, Fair’s Fair: A Comment on the Fair Use Doctrine, 103 HARV. L. REV. 1137, 1137 (1990) (“It is de rigueur to begin a scholarly discussion of fair use by quoting one of the judicial laments that fair use defies definition . . . .”).

171 See, e.g., Richard Craswell & John E. Calfee, Deterrence and Uncertain Legal Standards, 2 J.L. ECON. & ORG. 279, 298-99 (1986) (“[U]ncertainty can change the incentives created by the legal rules in unexpected ways.”).

Posner suggests that an uncertain law will deter some legitimate activities . . . , an effect particularly significant when the legitimate activity deterred by the vague prohibition is more valuable socially than privately. Then even a slight increase in costs (due to the threat of punishment) may greatly reduce the private demand for the activity, and in doing so may impose substantial social costs.

Posner, supra note 80, at 591; id. at 244 (“When there exists a risk of legal error, a savage penalty will induce people to forego socially desirable activities at the borderline . . . .”). For a view that uncertainty in standards may actually promote infringement, see John W. Schlicher, Patent Law: Legal and Economic Principles § 9.05[3], at 9-102 (1993) (“[Patent infringement] actions also involve a significant amount of uncertainty. Therefore, infringers may engage in too much infringement because they discount the potential damage award by the probability that it will in fact be imposed, a probability of less than one hundred percent.”).
Those who bargain either for a license to use or ownership of a copyrighted work do so under the specter of strict liability for innocent infringement. For this reason, potential users must carefully investigate their grantor’s or transferor’s entitlement to the work. This task is inherently difficult, particularly considering the absence of systematic recordation of copyright ownership. Because the swords of disgorgement and destruction hang over any such investigation, rational users will conduct more extensive, and hence more costly, investigations than they otherwise would in the face of less severe consequences. The detrimental results of such extensive investigations are perhaps obvious: such investigations increase the costs associated with using copyrighted works, thus diminishing the demand for such works, lowering their market price, reducing the financial incentive for authors to create, diminishing the number of works to which the public has access, ultimately countermrining the purpose for which copyright exists.

b. Encouragement of Market Bypass

In addition to harming the market for copyrighted works by diminishing the demand for such works, copyright’s severe disgorgement and destruction remedies may channel both owners and users away from the market that copyright strives to create. Such market bypass not only undermines the market-facilitating goals of copyright law, but also causes a less efficient allocation of resources than would occur through voluntary market exchanges.

Disgorgement potentially diverts copyright owners from the market with the alluring prospect of monetary windfalls. In allowing the disgorgement of profits, the Copyright Act potentially permits owners to recover amounts far in excess of their actual losses. Take for example a songwriter whose copyright in a previously-distributed musical work has been infringed, albeit innocently,
by a recording artist. Although the songwriter may have suffered only the loss of a statutory royalty,\textsuperscript{174} he nonetheless may recover all profits of the recording artist attributable to the musical work—without regard to the fact that such profits may far exceed the amount that the songwriter would have received had the infringer obtained a license \textit{ex ante}.\textsuperscript{175} But the songwriter’s potential recovery does not end there. He is also eligible to recover profits from downstream infringers who unwittingly infringed the copyright in the work,\textsuperscript{176} including any producers, manufacturers, distributors, wholesalers, and retailers of infringing phonorecords. The potential windfall from all of these sources is further enhanced by the difficulties routinely encountered by defendants in proving deductible expenses and in allocating profits to sources other than the copyrighted work.\textsuperscript{177}

Although the copyright owner may be the “accidental beneficiary”\textsuperscript{178} of a disgorgement order intended to deter infringement and to prevent unjust

\textsuperscript{175} See BURROWS, supra note 8, at 418-19 (“[C]ourts need a good reason to overcome the objection to restitution of giving the plaintiff a windfall.”); Kit Barker, \textit{Unjust Enrichment: Containing the Beast}, 15 OXFORD J. LEG. STUD. 457, 467, 473 (1995) (“[I]t is difficult to justify leaving [the plaintiff] in a better position than she was in before the wrong was committed.”); Barks, supra note 72, at 94 (arguing restitutionary damages “involve a windfall to the plaintiff”); Blair & Cotter, supra note 6, at 1617 n.141 (asserting that awarding restitution may cause “the plaintiff to be rendered better off as a result of the infringement”); Gordon, supra note 8, at 241 (“The restitutionary principle condemns reaping without sowing; therefore, allowing the plaintiff to collect such windfalls may be inconsistent with that principle.”); Christopher T. Wonnell, \textit{Replacing the Unitary Principle of Unjust Enrichment}, 45 EMORY L.J. 153, 189-91 (1996) (arguing when a victim with minimal loss reaps large gains, it results in “pure windfall” to victim who is “given an incentive” to provoke the wrong in the first place); Sinclair, supra note 31, at 974 (“The excess of recovery above the plaintiff’s damages represents a windfall . . . .”)

\textsuperscript{176} See Singer v. Cribbank, N.A., No. 91 Civ. 4453 (JFK), 1993 WL 177801, at *1 (S.D.N.Y. May 21, 1993) (illustrator sued for infringement resulting from use of her design in a calendar which was then widely distributed by upstream seller); David Hricik, \textit{Remedies of the Infringer: The Use by the Infringer of Implied and Common Law Federal Rights, State Law Claims, and Contract to Shift Liability for Infringement of Patents, Copyrights, and Trademarks}, 28 TEX. TECH. L. REV. 1027, 1030 (1997); see also Jerry R. Selinger & Jessica W. Young, \textit{Suing an Infringing Competitor’s Customers: Or, Life Under the Single Recovery Rule}, 31 J. MARSHALL L. REV. 19, 19 (1997) (“As a product moves along the distribution chain, each actor along that chain may be liable for [patent] infringement.”). Disturbingly, innocent downstream parties may have no right to noncontractual indemnity or contribution from culpable parties upstream. See Hricik, supra, at 1030 (“Downstream parties . . . may have almost no recourse against the upstream party, even one who knowingly led to the downstream parties’ later ‘innocent’ infringement.”).

\textsuperscript{177} See supra Part II.A; see also Brown, supra note 72, at 66 (“When the defendant cannot or will not prove expenses, extraordinary windfalls can occur.”); Keenon, supra note 75, at 810 (“The allocation of the burden of proof between plaintiff and defendant and the court’s conscious protection of a copyright owner’s interest occasionally provide those owners with windfall awards, particularly in the case of innocent infringement. Yet, these windfall awards are arguably antithetical to the avowed purpose of copyright legislation.”).

\textsuperscript{178} McCarey v. Assoc. News, Ltd. (No. 2) [1965] 2 QB 86, 107 (Diplock, L.J.); see Jaffey, supra note
enrichment, the moral hazard which that remedy creates is undeniable: the lucrative windfalls associated with disgorgement of infringers' profits in copyright cases should make owners prefer infringement to bargaining. If so, then the infringer's profits remedy channels transactions away from the market which copyright strives to facilitate. 180

Finally, disgorgement and destruction may play a role in the diversion of users from the market. The severity of those remedies may cause some courts to contort liability principles to avoid finding infringement. 181 If so, then the harshness of restitution in copyright may have the practical, though unintended, effect of weakening copyright protection 182 and encouraging users to bypass the market for copyrighted works.

III. THE MISUNDERSTOOD THEORETICAL FOUNDATIONS OF COPYRIGHT'S RESTITUTIONARY REMEDIES

Given the serious problems associated with the restitutionary disgorgement and destruction remedies, copyright law should, for instrumental reasons alone, abandon or reform those remedies. The need for abandonment or re-

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79. at 37 ("The plaintiff is merely the 'accidental beneficiary' of a remedy whose purpose is to deprive the defendant of his gain.").

179 See Saul Levmore, Probabilistic Recoveries, Restitution, and Recurring Wrongs, 19 J. LEG. STUD. 691, 712 (1990) (arguing availability of multiple restitutionary recoveries creates "the moral hazard that it will be quite profitable to be a victim"); see also Gareth Jones, The Recovery of Benefits Gained from a Breach of Contract, 99 LAW Q. REV. 443, 454 (1983) (asserting a claim to profits in a breach of contract case "would give a promisee a 'windfall' for which he has not bargained; and it would dissuade the promisee from mitigating his loss"). The moral hazard created by the infringer's profits remedy is compounded by section 505 of the Copyright Act which permits the successful owner to recover, in addition, all costs and attorneys' fees incurred to seek windfall profits. See 17 U.S.C. § 505 (1994).

180 In addition to this adverse effect on the market created by copyright, the infringer's profits remedy may itself cause unjust enrichment, something that the remedy exists to prevent. That is, if the plaintiff reaps a windfall, he arguably has been unjustly enriched at the expense of the innocent user. See Nicholas J. McBride & Paul McGrath, The Nature of Restitution, 15 OXFORD J. LEG. STUD. 33, 38 (1995).

181 See Dobb's supra note 7, at 382 ([W]hen the only possible measure of restitution is a radical one that captures the defendant's profits, courts might be reluctant to recognize any substantive right at all if recovery of the profits would be likely to capture the gains from the defendant's own legitimate efforts . . . ."); Sinclair, supra note 31, at 963 (positing that courts sometimes bend the "rules for establishing and measuring liability" to protect innocent infringers); Sinclair, supra note 31, at 980 ("Many of the rules governing liability for copyright infringement have developed under the pressure of a sense of justice rebelling at the harshness of absolute liability imposed for innocent violations of a monopoly right."); see also Brown et al., supra note 61, at 1078 (arguing harsh apportionment rule "may have resulted in a denial of relief in cases where the courts were unwilling to bestow a huge windfall on the plaintiff").

182 To the extent that this is so, it would mitigate some of the potentially harsh effects of disgorgement and destruction discussed earlier. See infra Part II.B.2.a.
form, however, is further suggested by noninstrumental considerations. Namely, the disgorgement and destruction remedies lack a sound theoretical footing in either the law of restitution or the law of copyright. These remedies entered and remain in the present law as the result of fundamental misunderstandings regarding the nature of restitution and the nature of copyright. This Part explores these misunderstandings.

A. Restitution Misunderstood

Copyright’s disgorgement and destruction remedies exist in their current form partly as a result of a fundamental misunderstanding of the law of restitution. Assuming restitution to be a uniform body of law, courts, commentators, and presumably, Congress have justified disgorgement and destruction by mistakenly relying on principles from one strand of restitution law without realizing that those remedies emanate from a very different strand. The unfortunate result of this misunderstanding has been the unprincipled transplantation of restitutionary remedies long bound up with culpability into a copyright system long established as a strict-liability regime.

Restitution is often misunderstood. “To put it bluntly, American lawyers today (judges and law professors included) do not know what restitution is.”183 This lack of understanding likely is attributable to several factors. First, there has been little academic interest in the topic of restitution in this country, particularly in the latter half of the twentieth century.184 Indeed, with a few notable exceptions,185 most modern restitution scholarship has originated abroad.186 Second, the law of restitution is more an assemblage of loosely

183 Kull, supra note 8, at 1195; id. at 1191 (“Few American lawyers, judges, or law professors are familiar with even the standard propositions of the doctrine . . . .”); see Wangerin, supra note 8, at 343 (arguing the “restitutionary function” of money remedies “seems to be unknown to most practicing lawyers”).

184 See, e.g., Andrew Burbows, Essays on the Law of Restitution 1 (1991) (observing that subject of restitution “attracts relatively little academic interest” in the United States); DAGAN, supra note 121, at 1 (”The law of unjust enrichment (or restitution) is a fundamental part of our law which has been neglected by legal scholars.”); Farnsworth, supra note 128, at 1343 (observing few scholars have carefully considered causation issues in restitution); Huber, supra note 151, at 72 (asserting there exists only a “small amount of [economics] literature explicitly dealing with restitutional issues”); see also Brown, supra note 72, at 45 (stating practitioners and academics “do not pay enough attention to remedies”).

185 See John Dawson, Unjust Enrichment—A Comparative Analysis (1951); PALMER, supra note 8; RESTATEMENT OF RESTITUTION (1936) (Seavey and Scott, reporters); see also Dawson, supra note 14; Friedman, supra note 79; Gordon, supra note 8; Gordon, supra note 135; Kull, supra note 8; Laycock, supra note 44; Levmore, supra note 179.

186 See, e.g., Birks, supra note 8; Burbows, supra note 8; DAGAN, supra note 121; Goff & Jones, supra note 8; Peter D. Maddaugh & John D. McCamus, The Law of Restitution (1990); Tettenborn,
related concepts than a unified doctrine. According to renowned restitution scholar John Dawson: "The most obvious comment about the American law of restitution is that it lacks any kind of system."\textsuperscript{187} This lack of doctrinal consistency exists largely because restitution law developed on a case-by-case basis to prevent the unjust enrichment that would have resulted from gaps in tort, property, and contract law.\textsuperscript{188} Third, the indefinable nature of "unjust enrichment"—a concept inextricably intertwined with restitution—has caused indeterminacy to imbue restitution law.\textsuperscript{189}

Notwithstanding the uncertainty that "shrouds the modern law of restitution,"\textsuperscript{190} those who have thoughtfully considered its framework have recognized a fundamental distinction between two divergent strands of restitution law: "restitution-for-subtraction" and "restitution-for-wrongdoing."\textsuperscript{191} Restitution-for-subtraction presents the most traditional and compelling claim for restitution.\textsuperscript{192} Suppose A takes B's umbrella from a restaurant while B eats lunch. In so doing, A has gained by subtracting something—an umbrella—from B. Such a zero-sum transaction causes A to gain in an amount equal to B's loss and thus, gives rise to a restitution-for-subtraction claim by B against A. Significantly, B's restitution claim does not turn on A being at fault. Irrespective of A's lack of culpability, his "gain has been achieved by depriving another; it

\textsuperscript{187} Dawson, supra note 185, at 111-12.

\textsuperscript{188} See Laycock, supra note 44, at 1278 ("Restitution arose to avoid unjust results in specific cases—as a series of innovations to fill gaps in the rest of the law.").

\textsuperscript{189} See 1 Palmer, supra note 8, § 1.1, at 5 ("Unjust enrichment is an indefinable idea in the same way that justice is indefinable.").

\textsuperscript{190} Kull, supra note 8, at 1191.

\textsuperscript{191} See, e.g., Barker, supra note 175, at 468 (distinguishing between restitution of benefits subtracted from plaintiff and disgorgement of wrongfully obtained profits).

The principal part of the law of restitution concerns restitution for unjust enrichment by subtraction, where a restitutionary cause of action arises independently of any wrong or breach of duty . . . . A distinct part of the law of restitution concerns restitutary damages as a remedy for a wrong or breach of duty.

\textsuperscript{192} See Burbrows, supra note 8, at 6 ("Restitutionary claims are most appealing when it can be demonstrated that the plaintiff's loss is the measure of the defendant's enrichment.").
is an enrichment through another’s loss.”193 Therefore, even though A takes the umbrella honestly and reasonably believing it to be his own, A nonetheless must return the umbrella to B.

Restitution-for-subtraction traces its philosophical roots at least as far back as the fourth century B.C. in Aristotle’s *Nicomachean Ethics*.194 Such claims in principle serve the ends of both corrective and restitutioonary justice. From the viewpoint of B, the injured party, A must return the umbrella in order to make B whole.195 On this view, a claim for restitution-for-subtraction exists to facilitate the repair of B’s loss in pursuit of corrective justice.196 From the viewpoint of A, however, A must surrender the umbrella to nullify the gain he has made at B’s expense. To whom A must surrender the umbrella is irrelevant. On this view, restitution-for-subtraction exists to disgorge A’s wrongful gains in pursuit of restitutioonary justice.197 When gains equal losses, “satisfying the demands of corrective justice suffices to satisfy the demands of restitutioonary justice as well, and vice versa.”198 Restitution-for-subtraction claims are so compelling and so uncontroversial because they not only disgorge gains, but also compensate losses.

In contrast to restitution-for-subtraction, restitution-for-wrongdoing is significantly more problematic.199 Suppose A takes B’s umbrella without


[1] It makes no difference whether a good man has defrauded a bad man or a bad man a good one . . . ; the law looks only to the distinctive character of the injury, and treats the parties as equal, . . . if one inflicted injury and the other received it. Therefore, this kind of injustice being an inequality, the judge tries to equalize it . . . by . . . taking away from the gain of the assailant.

See also Jaffey, supra note 79, at 37 (“[T]he culpability of the defendant, and in that sense the fact that he has committed a wrong, would not be relevant to a true restitutionary remedy . . . .”).

194 See Aristotle, supra note 193, at 379; see also Wonnell, supra note 175, at 156 (“[T]he idea of wrongful gains can be traced back to Aristotle . . . .”).

195 Jaffey explains that:

[T]he imposition of a liability on the defendant despite his not having committed a wrong or breach of duty is justified by the fact that the defendant has received an enrichment to which he has no entitlement, as a direct consequence of the plaintiff’s loss; but the rationale for the remedy is compensatory.

Jaffey, supra note 79, at 32.

196 See Coleman, supra note 62, at 370 (“Wrongful loss is the concern of corrective justice; the relevant claim is for repair of a loss.”).

197 See id. at 371.

198 Id.

199 See Barker, supra note 175, at 465 (“The disarray [in the law of restitution-for-wrongs] is both aca-
permission and escorts a lady to her car during a driving rainstorm. After receiving a twenty-five-cent tip from the lady, A returns the umbrella to the umbrella stand before B finishes lunch. If B never misses the umbrella and the umbrella is no worse for the wear, B suffers little or no harm as a result of A’s brief unauthorized use of the umbrella. Because A reaps a twenty-five-cent gain while B suffers little or no loss, A’s taking of the umbrella is a positive-sum, rather than a zero-sum, transaction. If A’s taking was wrongful, it may give rise to a restitution-for-wrongdoing claim. Through such a claim, B could seek to have A disgorge all or part of the profits that A obtained through his wrongful use of B’s umbrella.

Restitution-for-wrongdoing claims lack any compensatory rationale and are unsupported by notions of corrective justice. Rather, restitution-for-wrongdoing exists to assure that “no man shall profit from his wrong,” and in so doing, to prevent unjust enrichment and deter future wrongdoing. In the umbrella hypothetical, restitution-for-wrongdoing prevents A from being

demic and judicial . . . . “); Laycock, supra note 44, at 1287 (“The most controversial cases arise when the property produces gains to defendant that clearly exceed the plaintiff’s losses.”).

Grant, B lost the opportunity to bargain ex ante with A and, as a result, lost whatever amount B would have paid him for permission to use the umbrella. The loss of the opportunity to bargain is undoubtedly worth something.

Of course, to the extent that B did suffer any loss, he would have a restitution-for-subtraction claim against A for that amount.

Aristotle did not address the extent of restitution in the context of positive-sum transactions. See Richard A. Epstein, The Ubiquity of the Benefit Principle, 67 S. CAL. L. REV. 1369, 1379 (1994) (“Aristotle tries to make it appear as though every case falls into the easy category where the gain to the wrongdoer equals the loss to the victim, so that restoration is easy.”); Wonnell, supra note 175, at 185 (“If the transaction was a positive-sum exchange, the status quo ante could only be restored by destroying the surplus created, and there is no reason to believe Aristotle would have supported this result.”).

See TETTENBORN, supra note 8, at 214 (arguing “corrective justice” is aim of restitution-for-subtraction; “[n]o such justification exists in the case of restitution for wrongs”); Barker, supra note 175, at 471-72; McBride & McGrath, supra note 180, at 34 (arguing restitution-for-wrongdoing claims do not arise from enrichments “gained by subtraction from the plaintiff’s wealth”).

See COLEMAN, supra note 62, at 370; Barker, supra note 175, at 473-74.

BURROWS, supra note 8, at 376 (positing while unjust enrichment by subtraction is based upon “restoring the status quo for both parties to the extent that the plaintiff’s loss has unjustifiably become the defendant’s gain,” restitution-for-wrongs is based on the principle that “no man shall profit from his own wrong”); see also GOF & JONES, supra note 8, at 639-41, 703-13; TETTENBORN, supra note 8, at 214 (“One strand of thinking lying behind recovery for wrongs is the idea that one should not be allowed to profit from one’s wrong . . . .”); Barker, supra note 175, at 465-66 (surveying grounds articulated for restitution-for-wrongs).

See TETTENBORN, supra note 8, at 214 (“Deliberate infringement of others’ rights ought to be discouraged.”); Barker, supra note 175, at 465 (arguing “prophylaxis” is one justification of restitution-for-wrongdoing); Wonnell, supra note 175, at 209 (“At part of the disgorgement remedy can be thought of as motivated by deterrence . . . .”).
unjustly enriched through his willful, unauthorized use of B’s umbrella, and thereby deters A and others like him from bypassing the market for umbrellas. To the extent that this form of restitution happens to compensate B for any minimal losses, it does so fortuitously and merely as a byproduct of pursuing other ends.

Given these justifications, restitution-for-wrongdoing claims are dependent upon proof of the defendant’s culpability. Hence, if A used B’s umbrella because he honestly and reasonably believed it to be his own, B’s restitution-for-wrongdoing claim would fail. Because A did not act culpably, he did not commit a “wrong.” Moreover, because innocent actors are undeterrible, disgorgement of A’s profits would serve no useful purpose. Restitution-for-wrongdoing, therefore, does not call for disgorgement of profits from innocent actors who cause no harm.

While the law of restitution recognizes these doctrinal and conceptual differences between restitution-for-subtraction and restitution-for-wrongdoing, the law of copyright remedies does not. One of this century’s leading copyright commentators, Benjamin Kaplan, unwittingly observed that, “on reasoning as old as Aristotle,” an infringer should disgorge any profits attributable to

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207 See Wonnell, supra note 175, at 204.
208 See, e.g., RESTATEMENT OF RESTITUTION, supra note 185, § 157 cmt. a. According to the Restatement:

[An innocent converter must return converted property or its value, but is] entitled to incidental profits made from the use . . . where the converter is a conscious wrongdoer, he can be compelled to surrender any profit which he makes by a disposition of the claimant’s property, and not merely to restore to the claimant the value of his property, since if he were permitted to keep the profit there would be an incentive to wrongdoing, and compelling him to surrender the profit operates as a deterrent upon the wrongful disposition of the property of others.

See also 1 PALMER, supra note 8, § 2.12, at 165-66 (“For an unintended wrong, restitution of profits is often too harsh a remedy although it is permitted in some circumstances.”); TETTENBORN, supra note 8, at 214 (“One should not be allowed to profit from one’s wrong, at least where this is deliberate.”); Jaffee, supra note 79, at 46 (“In the case of strict liability, the defendant cannot be said to have committed a wrong at all, and there can be no question of disgorgement.”); id. at 42 (“[Disgorgement] arguably depends ... on the moral culpability of the defendant, and this requires that the remedy should be subject to a requirement of intention or knowledge, maybe including recklessness, on the part of the defendant.”); McBride & McGrath, supra note 180, at 34-38. It may be that Aristotle believed that even restitution-for-subtraction required “deliberate or intentional wrongdoing.” See Jules Coleman, Corrective Justice and Wrongful Gain, 11 J. LEG. STUD. 421, 436 (1982); see also Barker, supra note 175, at 469 (“Aristotle himself appears to have contemplated a... duty of rectification only where the defendant was guilty of a deliberate wrong.”).

209 Of course, B would theoretically have a restitution-for-subtraction claim for any minimal losses. See RESTATEMENT OF RESTITUTION, supra note 185, §154 cmt. a (Despite an innocent converter’s “good faith he is under a duty to restore the chattel to the other or, if he cannot do this, to pay its value”.


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infringement, irrespective of his culpability. Likewise, one of the century’s leading copyright jurists, Judge Learned Hand, observed that “to allow even an innocent publisher to retain whatever can be traced as the fruit of an author’s work, would unjustly enrich him at that author’s expense.” Moreover, neither section 504 of the Copyright Act nor the courts which have awarded infringer’s profits under that section require culpability as a prerequisite to an award of infringer’s profits. By brushing aside the importance of wrongdoing, commentators, courts, and Congress have swept the infringer’s profits remedy into the category of restitution-for-subtraction.

This de facto misclassification of disgorgement as restitution-for-subtraction overlooks that it is a classic instance of restitution-for-wrongdoing, and thus, a remedy traditionally reserved for culpable defendants. Pulled from its roots in restitution-for-wrongdoing and implanted in a strict-liability regime, the infringer’s profits remedy is a weed in the Copyright Act. As such, it adds nothing and takes much. Unlike a remedy truly based in restitution-for-subtraction, the disgorgement remedy contributes nothing to the pursuit of corrective justice. Nor should it, because that mantle is now carried by the actual-damages provision of section 504. Moreover, because its application is not constrained by traditional principles of restitution-for-wrongdoing, namely the requirement of culpability, the infringer’s profits remedy chokes off potentially beneficial uses of copyrighted works. Thus, although disgorgement is traditionally rooted in restitution, copyright’s hybrid finds no progenitor in that venerable body of law.

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210 BENJAMIN KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT 72 (1967) (discussing Learned Hand’s reasoning in De Acosta v. Brown, 146 F.2d 408, 414 (2d Cir. 1944) (Hand, J., dissenting)).

211 De Acosta, 146 F.2d at 414 (Hand, J., dissenting). See generally Sinclair, supra note 31, at 947-49 (“[Judge Hand] accepted the court’s Aristotelian view that the innocent infringer should disgorge his profits . . . .”).

212 See Peter Birks, RESTITUTION: THE FUTURE 23, 24 (1992) (stating a claim for “an account of profits” is an instance of “restitutionary damages for wrongs”); Burrows, supra note 8, at 384 (“An account of profits is necessarily a restitutionary remedy . . . by which the defendant is required to draw up an account of, and then to pay over, the net profit he has acquired by a wrong.”); Dobbs, supra note 7, at 441 (“[T]he typical basis for a recovery of . . . the defendant’s investment gains or profit is not title but serious or conscious wrongdoing.”); Goff & Jones, supra note 8, at 31 (“[T]he honest defendant may be required to make restitution, but not necessarily to account for profits.”); Eichengrun, supra note 72, at 464 (“[R]ecovery of profits” exists to disgorge profits derived “from the wrongful use of any property . . . .”). But see Dawson, supra note 14, at 619-20. One exception to the general rule that only culpable defendants can be held to account for profits is in the case of disloyal fiduciaries. See, e.g., Goff & Jones, supra note 8, at 32.

213 See supra Part III.A.
B. Copyright Misunderstood

In addition to this misunderstanding of restitution, the disgorgement and destruction remedies exist in their present form partly as the result of a fundamental misunderstanding of the nature of copyright. Restitution is an anomaly in the law of remedies. Because most aggrieved parties seek compensation rather than restitution, the remedial focus of most lawsuits is on the victim’s harm rather than on the wrongdoer’s gain. For example, in typical tort and contract disputes, the remedy is harm-based rather than gain-based. However, there are limited exceptions to this rule. For example, unfaithful fiduciaries who breach their duty of loyalty must disgorge to their principals any profits obtained through the breach. Hence, a trustee who secretly invests money held in trust must disgorge all of his profits, notwithstanding that the beneficiary has suffered no compensable injury. Likewise, restitution is a remedial alternative in “proprietary torts” (as opposed to “personal torts”). Thus, while courts have historically denied disgorgement of profits in cases of libel, slander, assault, and negligence, they have permitted it in

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214 See Tettenborn, supra note 8, at 226 (“[T]he duty to account for profits wrongly made” is generally an “anomaly . . . .”); Wonnell, supra note 175, at 154 (“[T]he law of restitution appears to represent a major exception to the focus on harm caused rather than benefits received . . . . [T]he interesting feature is that restitution’s focus on the benefit side of the equation is an anomaly in the overall scheme of civil law.”).

215 See RESTATEMENT (SECOND) OF CONTRACTS § 347 (1961) (“The injured party has a right to damages based on his expectation interest . . . .”). See generally Burrows, supra note 8, at 401 (arguing that it is more efficient to permit breach of contract and compel payment of compensation than to deter breach through restitution); id. at 418 (“[C]ompensation is a more natural measure of recovery for a wrong than restitution . . . .”); Epstein, supra note 202, at 1379 (“When gain does not equal loss, the tort impulse makes the measure of damage equal to the loss . . . .”); Polinsky & Shavell, supra note 60, at 427-28.

216 See RESTATEMENT (SECOND) OF AGENCY § 407(1) (1958) (“If an agent has received a benefit as a result of violating his duty of loyalty, the principal is entitled to recover from him what he has so received, its value, or its proceeds, and also the amount of damage thereby caused . . . .”). See generally Burrows, supra note 8, at 404-05 (“[R]estitution is the standard response to breach of fiduciary duty and breach of confidence through the remedy of accounting for profits.”); Goff & Jones, supra note 8, at 643 (reporting that for “some 250 years” fiduciaries have not been permitted to retain profits made by means of their office); Tettenborn, supra note 8, at 226 (observing duty to account for profits made through “breach of trust and other cases of infringement of fiduciary duty” is “the norm”); Graham Douthwaits, The Torrison’s Profits-A Brief Survey, 19 Hastings L.J. 1071, 1073 (1968). Interestingly, the breach of a fiduciary duty will give rise to disgorgement of profits despite the innocence of the fiduciary. See, e.g., Goff & Jones, supra note 8, at 645 (“[I]t is said to be irrelevant that the fiduciary has acted honestly . . . .”); Tettenborn, supra note 8, at 227 (explaining liability to account for profits does not depend on “whether the trustee acted honestly or otherwise”).

217 Burrows, supra note 8, at 393-94; Tettenborn, supra note 8, at 215-16; Jaffey, supra note 79, at 34; McBride & McGrath, supra note 180, at 44-45.
cases of conversion, trespass, and other such torts involving harm to property interests.  

Copyright’s historic kinship with property law and, thus, copyright infringement’s kinship with proprietary torts, purport to justify restitution in copyright. However, analogizing copyright law to traditional property law is problematic: the profound differences between copyright law and traditional property law call into question the soundness of analogizing one to the other in an effort to justify the application of similar restitutionary remedies. Indeed, the copyright entitlement and the things that it protects are markedly different from the traditional property entitlement and the things that it protects.

Undermining the analogy to property as a justification for restitution in copyright is the distinct nature of the things protected by each body of law. Unlike most tangible property, copyrighted works of authorship are “public goods.”  

Public goods have two defining characteristics: they are nonexcludable and inexhaustible. As “nonexcludable” goods, copyrighted works can be enjoyed simultaneously by an infinite number of users.  

Among those who can enjoy nonexcludable works are free riders—who can do so without paying. Because free riding on protected expression presumably would cause the underproduction of works of authorship,

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218 See BURROWS, supra note 8, at 393-94.

219 See, e.g., William W. Fischer, III, Reconstructing the Fair Use Doctrine, 101 HARV. L. REV. 1661, 1700 (1988) (“Unlike most goods and services, [works of intellect] can be used and enjoyed by unlimited numbers of persons without being ‘used up.’”); Wendy J. Gordon, Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and its Predecessors, 82 COLUM. L. REV. 1600, 1610-11 (1982) (discussing public-good characteristics of intellectual property and copyrighted works); Linda J. Lacey, Of Bread and Roses and Copyrights, 1989 DUKE L.J. 1532, 1554 (observing intellectual property is a “public good”); Landes & Posner, supra note 45, at 326 (“A distinguishing characteristic of intellectual property is its ‘public good’ aspect.”); see also Tom G. Palmer, Are Patents and Copyrights Morally Justified? The Philosophy of Property Rights and Ideal Objects, 13 HARV. J.L. & PUB. POL’Y 817, 818 n.3 (1990). In contrast, the material object in which the copyrighted work is embodied is distinct from the copyrighted work, see 17 U.S.C. § 202 (1994), and is a “private” rather than a “public” good.


[Public goods are “non-excludable,” in the sense that once they are brought forth from the mind, they can generally be taken by a second user at a cost close to zero, and they are subject to non-rivalrous consumption, in the sense that one user’s use of the idea does not reduce the value of the idea to another who wishes to use it.”

Gordon, supra note 219, at 1611; Lacey, supra note 219, at 1554.
copyright law permits authors to exclude potential free riders from certain uses, and in so doing, it facilitates a market that prompts production.\textsuperscript{221} Moreover, as "inexhaustible" goods that are not consumed by use, copyrighted works can be used without diminishing the author’s, and others', abilities to do so.\textsuperscript{222}

Partly because copyrighted works are nonexcludable and inexhaustible public goods, copyright law permits the public to use copyrighted works for free\textsuperscript{223} or upon the payment of a statutory royalty\textsuperscript{224} to an extent unrivaled in property law relating to private goods. Considering these unusual take-for-free and take-and-pay provisions of copyright law, the entitlement to the public goods protected by copyright is significantly different from the entitlement to the private goods protected by traditional property law. As discussed more fully below, the remedial law applicable in the context of each entitlement should reflect these differences.

Further undermining the analogy to property as a justification for restitution in copyright is the disparity in demarcation in copyright law and traditional property law. In any legal system, it is critical that those who are subject to the law have notice of the legal consequences of their actions.\textsuperscript{225} In property law, boundaries demarcating the limits of property entitlements assure that people understand in advance when their actions will give rise to obligations established by property law.\textsuperscript{226} For example, barbed-wire fences and recorded

\textsuperscript{221} See, e.g., Cooter & Ulen, supra note 220, at 108-110; Gordon, supra note 219, at 1611.

\textsuperscript{222} See, e.g., Carter, supra note 220, at 102.


\textsuperscript{224} See 17 U.S.C. § 104A(d)(3) (1994) (permitting owners of certain "restored works" to continue using them upon payment of compensation); id. § 116(b)(2) (providing for arbitration of jukebox disputes); id. § 118 (providing for licensing by public broadcasters); id. § 405(b) (permitting certain innocent infringers to continue using work upon payment of fees); id. § 111(c) (providing for compulsory licensing by cable operators); id. § 114(d)(2) (providing for compulsory licensing of sound recordings in certain digital transmissions); id. § 114(b) (same); id. § 115 (providing for compulsory licensing of musical compositions on phonorecords); id. § 119 (providing for compulsory licensing of satellite transmissions).

\textsuperscript{225} On the importance of notice in constitutional law, see LAURENCE H. TRIBE, AMERICAN CONSTITUTIONAL LAW § 12-31, at 1033 (2d ed. 1988) ("Due process concepts ... require that persons be given fair notice of what to avoid ..."). On the importance of demarcation in intellectual property, see Gordon, supra note 135, at 469 ("Things that trigger obligations of payment must be identifiable in advance and marked as such.").

\textsuperscript{226} See, e.g., Gordon, supra note 78, at 1381 n.181 ("Boundaries and demarcation ... help keep property rights from imposing unanticipated obligations of payment on recipients of benefits."); Gordon, supra
deeds unmistakably and publicly delimit real property, while physical edges delimit personal property. Such boundaries place the world on notice where trespass begins and, in so doing, preserve individual autonomy by assuring that obligations relating to property are incurred only voluntarily.

Copyright law and that which it protects lack clear boundaries. Abundant uncertainty attends even the threshold issue of what falls within the subject matter of copyright. For example, copyright protects only "original works of authorship fixed in any tangible medium of expression"; it does not protect ideas, concepts, principles, facts, and the like. But where an unprotectable idea, concept, principle, or fact ends and where protectable expression begins remains elusive. Furthermore, even works that

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note 135, at 469 ("There must be demarcation; things that trigger obligations of payment must be identifiable in advance and marked as such. The legislature must define the covered subject matters . . . , and producers must provide a way to indicate which of the potentially covered subject matters . . . are owned and by whom."); see also Gordon, On the Economics of Copyright, supra note 80, at 16-17.


228 See Gordon, supra note 78, at 1383 (arguing the "edges on personal property" function as "boundaries").

229 See ROBERT NOZICK, ANARCHY, STATE, AND UTOPIA 160, 174-75 (1974). Gordon explains:

So long as demarcation is practicable and practiced, intellectual property can avoid some of the most obvious dangers to autonomy: users will know in advance if they are using something that imposes an obligation of payment and can decide whether the benefit to them is likely to exceed the price.

Gordon, Of Harms and Benefits, supra note 135, at 470-71

230 See Gordon, supra note 78, at 1383 ("Inevitably, the boundaries of intangibles will be less precise than the metes and bounds of reality . . . . ").


232 Id. § 102(b) ("In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.").

233 See, e.g., Nichols v. Universal Pictures Corp., 45 F.2d 119, 121 (2d Cir. 1930) (Hand, J.) ("Nobody has ever been able to fix [the] boundary [between idea and expression], and nobody ever can."); Chuck Blore & Don Richman, Inc. v. 20/20 Adver. Inc., 674 F. Supp. 671, 676 (D. Minn. 1987) ("The first axiom of copyright is that copyright protection covers only the expression of ideas and not ideas themselves . . . .

The second axiom of copyright is that the first axiom is more of an amorphous characterization than it is a principled guideline."). See generally MARSHALL LEAPFORT, UNDERSTANDING COPYRIGHT LAW § 2.12[A], at 58 (2d ed. 1995) ("The idea-expression dichotomy, which cuts across all copyrightable subject matter, is easy to state but is more difficult and elusive to apply in practice."); AMY B. COHEN, COPYRIGHT LAW AND THE MYTH OF OBJECTIVITY: THE IDEA-EXPRESSION DICHOTOMY AND THE INERVITABILITY OF ARTISTIC VALUE JUDGMENTS, 66 IND. L. J. 175 (1990); LESLIE A. KURTZ, SPEAKING TO THE GHOST: IDEA AND EXPRESSION IN COPYRIGHT, 47 U. MIAMI L. REV. 1221 (1993); EDWARD SAMUELS, THE IDEA-EXPRESSION DICHOTOMY IN COPYRIGHT LAW, 56 TENN. L. REV. 321 (1989).
unquestionably are within the subject matter of copyright are not necessarily protected. For example, some works, although copyrightable, are not protected because they are in the public domain due to the passage of time or due to copyright abandonment. Because the law no longer mandates copyright notice, a work need not bear any mark indicating whether its author claims copyright protection. Third, even as to protected works, it is often difficult to ascertain who owns the copyright in such works. Because notice, registration, and recordation of transfers are merely permissive, ascertaining a transferor’s or licensor’s entitlement can be difficult and expensive. Hence, even the most careful of users can unwittingly obtain an invalid copyright license or assignment and, thereafter, face strict liability for infringement. Finally, even when the copyright owner is known, it is often unclear whether a particular use of a work is infringement. For example, a user may mistakenly believe that his work is not “substantially similar” to another. Or a user may mistakenly believe that his use is a “fair use,” or is a use otherwise authorized by law. Therefore, although the scope of copyright protection has expanded dramatically in recent times, the

234 See 17 U.S.C. § 401(a) (1994) (providing “a notice of copyright . . . may be placed on publicly distributed copies”) (emphasis added); see id. § 402(a) (optional notice on phonorecords).

235 That the law provides for copyright notice has been cited as an example of demarcation in copyright law. See, e.g., Gordon, supra note 135, at 470 (discussing the o-in-a-circle as an example of demarcation in copyright); Gordon, supra note 78, at 1583 (“The fixation and marking requirements, and the limits on protectable intellectual products and copyright owners’ rights function as boundaries in the same way as the edges on personal property or physical boundaries around realty do.”). Judge Learned Hand held that because of the notice requirement set forth in the 1909 Copyright Act, claims of innocence are irrelevant in copyright cases. See Kaplan, supra note 210, at 72. The problem with these arguments is obvious: under the 1976 Copyright Act one can be liable for infringement (and thus disgorgement) even when the copyright owner has never affixed notice to any copies of the infringed work. See 17 U.S.C. §§ 401(a), 402(a) (1994).


237 See 17 U.S.C. § 408(a) (providing owner “may obtain registration of the copyright claim”; “registration is not a condition of copyright protection”) (emphasis added).

238 See 17 U.S.C. § 205(a) (“Any transfer of copyright ownership or other document pertaining to a copyright may be recorded in the Copyright Office . . . .”) (emphasis added).

239 On the difficulties associated with determining whether two works are substantially similar, see Leafer, supra note 233, § 9.5.


241 See generally Leafer, supra note 233, §§ 8.6-8.11 (limitations on reproduction and adaptation rights); id. § 8.13 (limitations on distribution right); id. §§ 8.17-8.24 (limitations on performance right); id. § 8.26 (limitations on display right).

242 See, e.g., Fred H. Cate, The Technological Transformation of Copyright Law, 81 IOWA L. REV. 1395, 1399-1400 (1996) (“The 1976 Act substantially broadened and extended federal copyright protection . . . . As a result, copyright law now protects every letter, memo, note, home video, answering machine message, e-mail, and doodle.”).
boundaries delimiting protected from unprotected subject matter, and permissable from impermissible uses, have become more difficult to discern.

Because copyright's boundaries are more evanescent than those delimiting traditional property, those who cross copyright's often blurry lines arguably should be treated less severely than those who jump fences. Yet, by adopting property's disgorgement remedy, copyright treats unwitting line-crossers with equal or greater severity than fence-jumpers. Irrespective of the doubtful fairness of treating infringers and trespassers similarly, the marked disparity in demarcation in copyright law and traditional property law calls into question the analogy to property as a justification for disgorgement in copyright.

Further undermining the analogy to property as a justification for restitution in copyright is the nature of the copyright entitlement as one protected to a great extent by liability rules. The law protects entitlements through either "property rules" or "liability rules." An entitlement is protected by a property rule to the extent that "someone who wishes to remove the entitlement from its holder must buy it from him in a voluntary transaction in which the value of the entitlement is agreed upon by the seller," these are "absolute permission rules" because no one can take these entitlements without prior authorization. In contrast, an entitlement is protected by a liability rule when "someone may destroy the initial entitlement if he is willing to pay an objectively determined value for it," these are "take now, pay later" rules because anyone can take these entitlements without prior permission as long as they "adequately compensate the owner later."

Like most entitlements, the copyright entitlement is mixed, being protected partly by property rules and partly by liability rules. The property-

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243 One instrumental effect of this lack of demarcation may be a decreased demand for copyrighted works in general. The combination of copyright's demarcation problem and its severe disgorgement remedy may cause potential users to "be chilled by the fear of disgorgement remedies" into declining to pursue "valuable opportunities too close to the forbidden conduct to seem safe." See Womell, supra note 175, at 205.


245 Calabresi & Melamed, supra note 46, at 1092.


247 Calabresi & Melamed, supra note 46, at 1092.

248 Merges, supra note 246, at 1302.

249 See Calabresi & Melamed, supra note 46, at 1093 ("It should be clear that most entitlements to most goods are mixed.").

like provisions of the Copyright Act include those permitting injunctive relief and the supercompensatory disgorgement and destruction remedies.\textsuperscript{234} However, unlike more traditional property entitlements, the copyright entitlement is protected to an unusual extent by liability rules. Indeed, there are numerous provisions of current copyright law that authorize the use of copyrighted works without prior bargaining with the entitlement holder. For example, any recording artist may cover a previously released song by obtaining a compulsory license and paying the copyright owner a royalty prescribed by statute.\textsuperscript{252} This and other compulsory licensing provisions "cover a substantial portion of the copyrighted works in circulation."\textsuperscript{253} These "take now" provisions at least require the user to "pay later" in the tradition of liability rules.\textsuperscript{254} But other "take now" provisions do not even require later payment. For example, a number of provisions of the Copyright Act,

\begin{itemize}
\item 2655, 2668 (1994); see also Gordon, \textit{On the Economics of Copyright}, supra note 80, at 16 ("American copyright law follows an uneasy middle course between the rule-bound 'formal' model and the principle-based 'reasonableness' model.")\textsuperscript{231}
\item 252 See \textit{Laner & Posner}, supra note 244, at 30 (explaining that property rules are distinguished by the right of the entitlement holder to seek an injunction and supercompensatory punitive damages); Blair & Cotter, supra note 6, at 1589 (describing that in a property-rule regime, "injunctive relief should be the principal remedy available against those who infringe" the protected right). Technically, the Calabresi-Melamed framework did not consider where disgorgement fits along the liability-property remedial spectrum. See Saul Levmore, \textit{Unifying Remedies: Property Rules, Liability Rules, and Antitrust Rules}, 106 \textit{Yale L.J.} 2149, 2156-57 (1997) ("Missing [from the Calabresi-Melamed framework], therefore is Rule 2E, where A pays over its wrongful enrichment to B, as well as Rule 1E, where A is enjoined as to the future and also expected to disgorge from the past."). \textsuperscript{252}
\item 253 See 17 \textit{U.S.C.} § 115 (1994) (providing compulsory license for making and distributing phonorecords). This right, however, is not unlimited. The cover artist may not "change the basic melody or fundamental character of the work." \textit{Id.} § 115(a)(2). Thus, a rap artist who wished to fundamentally change Roy Orbison's hit song \textit{Pretty Woman} in his version, could not obtain a compulsory license. See \textit{Campbell v. Auff-Rose Music, Inc.}, 510 \textit{U.S.} 569, 575 n.4 (1994) ("2 Live Crew concedes that it is not entitled to a compulsory license under § 115 because its arrangement changes the "basic melody or fundamental character" of the original. § 115(a)(2).")
\item 252 Merges, supra note 250, at 2669. Moreover, even as to exclusive rights that are not subject to compulsory licensing (including certain performance rights), many copyright owners have established de facto liability-rule regimes through the formation of collective-rights organizations. See Merges, supra note 246, at 1293-94. Notwithstanding this compelling evidence, some commentators have brushed aside the extent to which copyright is a liability-rule regime. See Blair & Cotter, supra note 6, at 1614 ("[T]here are only a handful of situations in which the would-be infringer is entitled, as under a liability-rule system, simply to 'breach and pay damages' whenever he wishes to use another's intellectual property."). While these commentators may be correct with regard to other areas of intellectual property, compulsory licensing provisions are abundant in copyright law. See supra note 224.
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including the fair-use provision, give users the right to use copyrighted works for free.\textsuperscript{255} While such provisions are not "liability" rules,\textsuperscript{256} they are unlike traditional property rules.\textsuperscript{257} Thus, irrespective of the normative issue of what type of rules should protect the copyright entitlement, the fact remains that copyright is in significant measure a liability-rule, rather than property-rule, regime. For this additional reason, disgorgement—a remedy intended to deter violations of property rules—is less at home in copyright than it is in the context of more traditional property-like entitlements.

That the copyright entitlement differs from the traditional property entitlement is not surprising. Property law and copyright law exist for different purposes. Serving merely as a means to a larger end,\textsuperscript{258} the copyright entitlement is, at least in theory, no broader than necessary to provide the incentive to create. For this reason, copyright's exclusive rights, unlike traditional property rights, are constitutionally and statutorily limited in time.\textsuperscript{259} Also for this reason, copyright's exclusive rights, unlike traditional property rights, are riddled with statutory exceptions permitting public access to certain works without the owner's prior permission.\textsuperscript{260} Thus, to the extent that copyright is a property entitlement, it is one of a lesser constitutional and statutory order.

For these reasons, copyright law, its entitlement, its subject matter, and its rationale differ markedly from traditional property law, its entitlement, its subject matter, and its rationale. Unfortunately, these fundamental differences often have been overlooked by those analogizing copyright to property.\textsuperscript{261}

\textsuperscript{256} Perhaps they are better termed "gratuity" rules rather than property or liability ones.
\textsuperscript{257} Granted, traditional property law includes a limited number of doctrines under which the property rights of one must yield to the rights of another. See Cunningham et al., supra note 227, § 7.2 (nuisance law); id. § 11.7 (adverse possession); id. § 7.1 (privileges to enter land of another).
\textsuperscript{258} The utilitarian purpose of copyright law is to promote the creation of publicly-accessible works of authorship. See, e.g., U.S. Const. art. I, § 8; Patterson & Lindberg, supra note 135, at 138 ("[C]opyright is not a right so much as it is a monopoly privilege that is granted in return for a quid pro quo—the creation of a work of authorship to benefit the public"); Sinclair, supra note 31, at 942 ("[C]opyright's purpose is to promote societal development—and thus improvement of all persons—by encouraging the production and dissemination of creative works.").
\textsuperscript{259} See U.S. Const. art. I, § 8 ("securing for limited Times") (emphasis added); 17 U.S.C. § 302(a) (1994) ("Copyright in a work created on or after January 1, 1978, subsists from its creation and, except as provided by the following subsections, endures for a term consisting of the life of the author and fifty years after the author's death.").
\textsuperscript{260} See supra Part III.B.
\textsuperscript{261} See, e.g., Kaplan, supra note 210, at 73 (warning there is a "danger of assimilating too easily the case of a man unknowingly taking a gold watch with that of a bookseller selling a book which, unknown to him, contains a plagiarism"); Patterson & Lindberg, supra note 135, at 141 ("[T]he fallacy that copyright
including those analogizing copyright to property in a flawed effort to justify the application of restitutionary remedies in copyright law.

IV. REFORMING COPYRIGHT’S RESTITUTIONARY REMEDIES

Given the serious problems associated with copyright’s restitutionary remedies, it is evident that those remedies should be reformed. The means and substance of such reform is less evident, however. This Part considers both judicial and legislative reform options and evaluates the substantive alternatives available through each.

A. Judicial Reform

Although copyright’s restitutionary remedies are statutory, room may exist for meaningful judicial reform. Disgorgement is a remedy rooted in equity. Courts of equity have always exercised great discretion in fashioning equitable remedies. Despite the merger of law and equity, and the ascen-

is the author’s private property constitutes the greatest threat to copyright policies.”); see also Sinclair, supra note 31, at 950 (“It is not at all clear that copyrights should be viewed as property in the sense in which conversion would be an applicable concept.”); Recent Case, 58 Harv. L. Rev. 615, 615-16 (1945) (criticizing mechanical application of “the law applicable to successive conversions of a chattel” to “literary property”).

262 When the “positive resemblances (similarities)” are few, and the “negative resemblances (dissimilarities)” are many, an argument by analogy is logically flawed. See RUGGERO J. ALDISERT, LOGIC FOR LAWYERS: A GUIDE TO CLEAR LEGAL THINKING 93-102 (3d ed. 1997); see also United States v. Grey, 56 F.3d 1219, 1225 (10th Cir. 1995) (“We find no proper analogy between these cases and the one at bar. In the language of logicians, the positive resemblances in the facts do not outweigh the negative resemblances in the compared factual scenarios.”); Dole v. Local 427, 894 F.2d 607, 612 n.11 (3d Cir. 1990) (“The degree of similarity is always the crucial inquiry in analogies.”) (quoting RUGGERO J. ALDISERT, LOGIC FOR LAWYERS: A GUIDE TO CLEAR LEGAL THINKING 91 (1989)); JOHN STUART MILL, A SYSTEM OF LOGIC RATIOCINATIVE AND INDUCTIVE 98-142 (8th ed. 1916).

263 See 17 U.S.C. § 503(b) (1994) (destruction); id. § 504 (infringer’s profits).

264 Under pre-1909 copyright statutes, the copyright owner was permitted to bring an “ordinary equity action for an accounting of profits as an incident to an injunction.” TETTENBORN supra note 8, at 229 (“[O]riginally, a purely equitable creation, [an account of profits] is now available by statute for breach of copyright . . . .”); Julian Culpin, The Measure of Recovery in Actions for the Infringement of Copyright, 37 Mich. L. Rev. 564, 565 (1939) (citing Belford v. Scilmer, 144 U.S. 488 (1893); Stevens v. Gladding, 58 U.S. (17 How.) 447 (1854)).


266 “Law and equity have been merged for half a century in federal courts and for well over a century in many states.” DOUGLAS LAYCOCK, THE DEATH OF THE IRREPARABLE INJURY RULE 12 (1991).
dency of codification, modern courts retain much of their ability to exercise discretion in traditionally equitable matters.\textsuperscript{267} Indeed, courts in noncopyright cases routinely exercise equitable discretion in deciding whether to grant or deny injunctions\textsuperscript{268} and restitution.

While section 503(b) of the Copyright Act expressly allows for the exercise of judicial discretion as to the destruction remedy, section 504 seemingly does not as to disengagement.\textsuperscript{269} Nevertheless, federal courts arguably have the discretionary authority to deny disengagement when unwarranted, or to modify that remedy when appropriate to fit the particular offense.\textsuperscript{270} To interpret


\textsuperscript{268} See, e.g., Romero-Barcelo, 456 U.S. at 305; Dun v. Lumbermen's Credit Ass'n, 209 U.S. 20, 23-24 (1908) (noting that equitable discretion was "wisely exercised" in copyright infringement case in refusing injunction against publisher of reference book with "insignificant" improper uses); see also Semaphore Entertainment Group Sports Corp. v. Gonzalez, 919 F. Supp. 543, 551 (D.P.R. 1996) (holding "the federal judge sitting as chancellor is not mechanically obligated to grant an injunction for every violation of law").

\textsuperscript{269} See e.g., Dobbs, supra note 7, at 376 ("Courts refuse to permit recovery of restitution even when unjust enrichment is fully established if a restitutuory award . . . would be unfair or inequitable on the particular facts of the case.").

\textsuperscript{270} Compare 17 U.S.C. § 503(b) (1994) (providing "the court may order the destruction or other reasonable disposition of all copies") (emphasis added), with id. § 504(b) (providing the "copyright owner is entitled to recover . . . any profits of the infringer that are attributable to the infringement") (emphasis added).

\textsuperscript{271} See Goff & Jones, supra note 8, at 727 ("An account is a discretionary remedy, and it should always be open to a court to deny it . . . ."); Tettelborn, supra note 8, at 229 ("An account of profits is a discretionary remedy . . . and may be refused on any of the usual equitable grounds"); see also Harold Lloyd Corp. v. Witwer, 63 F.2d 1, 45 (9th Cir. 1933) ("An equity court is . . . invested with discretion in copyright infringement cases upon granting an injunction to administer such monetary relief as appears to the court to be just under the particular facts and circumstances of the suit."). Courts in trademark infringement cases have not hesitated to deny disengagement of profits, particularly in cases involving innocent trademark infringers. See Int'l Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc., 146 F.3d 65, 72 (2d Cir. 1998) ("Recent cases establish that a district court has discretion to fashion an alternative remedy, or to award only a partial accounting, if the aims of equity would be better served."); Sweatt v. Sunline, Inc., 436 F.2d 705, 711 (8th Cir. 1971) ("We note . . . that an accounting of profits is a form of equitable relief and does not follow as a matter of course upon the mere showing of trademark infringement."); Fuller Prods. Co. v. Fuller Brush Co., 299 F.2d 772, 777 (7th Cir. 1962); Borg-Warner Corp. v. York-Shipley, Inc., 293 F.2d 88, 95 (7th Cir. 1961); Maternity Yours, Inc. v. Yours Maternity Shop, Inc., 234 F.2d 538, 545 (2d Cir. 1956); Triangle Pub'g, Inc. v. Rohrlich, 167 F.2d 969, 974 (2d Cir. 1948); Tools USA & Equip. Co. v. Champ Frame Straightening Equip., Inc., 885 F. Supp. 141, 144 (M.D.N.C. 1994) ("In considering the principles of equity and exercising its discretion, the court will deny an award of disengagement of Defendant's profits . . . ."); Fancree Free Mfg. Co. v. Fancy Free Fashions, Inc., 148 F. Supp. 825, 831 (S.D.N.Y. 1957). See generally Dobbs, supra note 78, § 6.4(4), at 87, 88-89 ("The profits claim, like other statutory remedies is "subject to the principles of equity"; "the court is required to discard the profits measure of recovery if it is deemed either inadequate or excessive."); Brown, supra note 72, at 69 (observing an award of infringer's profits in trademark cases is "subject to the principles of equity") (quoting 15 U.S.C. § 117(a)); Hubbard, supra note 75, at 978. Granted, the Lanham Act explicitly provides for the exercise of discretion in this regard. See 15 U.S.C. § 1117(a). A federal district court recently exercised its equitable discretion to
section 504 otherwise would be "a major departure from the long tradition of
equity practice," and would run afoul of the "important principle of statutory
construction that Congress should not lightly be assumed to have enacted a
statutory scheme foreclosing a court of equity from the exercise of its
traditional discretion." Perhaps the best evidence of this authority is that
deny the impounding of infringing, but pornographic, materials. See Devils Films, Inc. v. Nectar Video,

273 United States v. Rodgers, 461 U.S. 677, 708 (1983); see, e.g., Romero-Barcelo, 456 U.S. at 313;
Porter v. Warner Holding Co., 328 U.S. 395, 398 (1946); Hecht Co. v. Bowles, 321 U.S. 321, 330 (1944);
Brown v. Swann, 35 U.S. (10 Pet.) 209, 216 (1836) ("The great principles of equity, securing... justice,
should not be yielded to light inferences, or doubtful construction."); see also Galgay v. Beaverbrook
Coal Co., 105 F.3d 137, 143 (3d Cir. 1997); NY Life Distr., Inc. v. Adherence Group, Inc., 72 F.3d 371,
381 (3d Cir. 1995) ("We therefore resolve any ambiguities in [the statute]... in favor of that interpretation
which preserves the courts' equitable discretion."); United States v. Monsanto, 852 F.2d 1400, 1405 (2d Cir.
1988) ("[T]he established canon of statutory construction is to favor the retention of full equitable powers by
courts absent a clear statement of a contrary legislative intent."); Jicarilla Apache Tribe v. Andrus, 86 F.2d
62, 65 (D.N.J. 1990) (applying these principles but holding that Congress did intend to displace the court's
usual equitable discretion in the statute considered). See generally 27A AM. JUR. 2D Equity § 85 (1996)
("Unless a statute in so many words, or by necessary and inescapable inference, restricts a court's jurisdiction
in equity, the full scope of that jurisdiction is to be recognized and applied.").

A colorable argument exists, however, that in enacting section 504, Congress explicitly abrogated any
equitable discretion that courts may once have had to grant or deny disgorgement of profits. Particularly,
because section 504(b) provides that the copyright owner "is entitled to recover... any profits of the
infringer," see 17 U.S.C. § 504(b) (1994) (emphasis added), courts must grant such relief when infringement
is established. In contrast, with regard to injunctions, see id. § 502(a), destruction, see id. § 503(a), and costs
and attorneys' fees, see id. § 505, Congress specifically provided that the court "may" grant such relief.
Congress, of course, is free to foreclose legislatively the judiciary's exercise of equitable discretion in
violation of Endangered Species Act compels granting of injunction without traditional balancing of harms
in order to protect snail darter); Gorsuch, 554 F. Supp. at 1062 ("Congress may, in an exercise of its
constitutionally delegated powers, act to restrict or guide the court's discretion in a particular area.").

However, even when Congress uses mandatory "language instead of 'may,' there is caselaw holding that an
exercise of equitable discretion would still be required." Monsanto, 852 F.2d at 1406 (Winter, J.,
concurring); accord Hecht, 321 U.S. at 328 ("[S]hall be granted' is less mandatory than a literal reading
might suggest."); see ABNER J. MIKVA & ERIC LANE, AN INTRODUCTION TO STATUTORY
INTERPRETATION AND THE LEGISLATIVE PROCESS 24 (1997) (noting traditional canons of construction that "[t]raditional statutes
are to be read broadly" rather than narrowly and literally). Moreover, nothing in the legislative history of
section 504, see, e.g., H.R. REP. No. 94-1476, at 161 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5777, or
in the "statutory scheme" of the Copyright Act of 1976, suggests that Congress intended to eliminate the
discretion traditionally exercised by courts in fashioning restitutionary awards. See Romero-Barcelo, 456
U.S. at 316-19 (discussing these factors in another context). Finally, the exercise of equitable discretion
would not frustrate the "purpose" of the disgorgement remedy given that courts could still order restitution
to prevent unjust enrichment and to deter future infringement when the remedy would in fact serve those
goals. See Romero-Barcelo, 456 U.S. at 314 (discussing this factor in another context). Indeed, the
statutory-damages remedy of section 504(c) exists for precisely these reasons (among others), and that
remedy is undeniably subject to the court's equitable discretion. See, e.g., D.C. Comics, Inc. v. Mini Gift
irrespective of the lack of express authorization, courts have routinely exercised equitable discretion in fashioning disgorgement awards in infringement actions. Indeed, courts have considered the defendant’s culpability in allowing or disallowing certain expense deductions, and in apportioning profits among revenue-generating factors, despite that present statutory law makes no distinction between innocent and culpable defendants for these purposes. 274

In exercising discretion in future infringement cases, courts could deny disgorgement entirely in many cases of innocent infringement. Disgorgement often serves no useful purpose. 275 This is particularly true when the court has enjoined future infringement and fully compensated the copyright owner for any actual losses. 276 But even when supercompensatory disgorgement awards are appropriate, courts should tailor them carefully to the circumstances. Take, for example, an infringer who negligently obtains an invalid license and then produces a number of infringing copies of a work. While the infringer’s culpability may justify some amount of disgorgement, combining injunctive relief, destruction of infringing copies, and disgorgement of insufficiently-allocated net profits may be unduly punitive. Under these circumstances, a court should have the discretion to order disgorgement of less than all of the infringer’s profits, perhaps ordering disgorgement of only some portion of those net profits which are clearly identifiable and decidedly attributable to infringement. Similarly, if the copyright owner’s fault is a contributing cause of the defendant’s infringement, 277 a court should be able to assure that the supercompensatory windfall bestowed upon an at-fault copyright owner is no greater than is appropriate in light of the parties’ relative culpability.

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274 See supra Part II.A.
275 Disgorgement in this situation is devoid of purpose because neither deterrence nor punishment is relevant as to one who infringes faultlessly.
276 See 17 U.S.C. § 502 (1994) (injunctions); id. § 504(b) (actual damages); id. § 505 (costs and attorneys’ fees).
277 Examples of fault by the owner that may cause infringement include, among others, the following: failure to place copyright notice on publicly distributed copies; failure to enjoin instances of known fraudulent or otherwise improper licensing by third parties; and, failure to enforce rights timely after learning of infringing activities.
B. Legislative Reform

While the exercise of equitable discretion by courts could address some of the problems afflicting copyright’s disgorgement remedies, others nonetheless would remain. For example, the inherent difficulties associated with calculating deductible expenses and apportioning profits would continue to trouble courts and practitioners. Moreover, the questionable theoretical footing of these restitutionary remedies would continue to call into question the need for them in the first place. For these reasons, more comprehensive legislative reform is warranted.

1. Remedial Models from Trademark Law and Patent Law

In evaluating legislative options for reforming copyright’s remedial scheme, consideration should be given to the remedies that Congress has already established to prevent and to compensate for the infringement of other federally-protected intellectual property rights. Indeed, both trademark law and patent law offer remedial provisions that could form part of a revised remedial scheme in copyright law.

The remedies available under the Lanham Act for trademark and trade-dress infringement are similar to those available for copyright infringement. For example, courts in trademark actions may award injunctive relief (both permanent and preliminary), actual damages, infringer’s profits, impoundment, destruction, as well as costs and attorneys’ fees. Although both trademark and copyright law permit the prevailing plaintiff to recover an award of profits, significant differences exist. Most notably, the recovery of profits in trademark cases is a matter explicitly committed to the equitable discretion of the court. In contrast, the role of equitable discretion in awarding profits in copyright cases is less certain. Largely as a result of the Lanham Act’s

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278 See supra Part II.A.
279 See supra Part III.
280 See 15 U.S.C. § 1116(a) (1994) (injunctive relief); see id. § 1116(d) (impoundment); see id. § 1117 (compensatory damages, infringer’s profits, costs and attorneys’ fees); see id. § 1118 (destruction).
281 See 15 U.S.C. § 1117(a) (1994) (providing recovery of “defendant’s profits” is “subject to the principles of equity”); id. (“If the court shall find that the amount of recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case.”). See generally 2 DOBBS, supra note 78, § 6.4, at 88 (“[T]he court is required to discard the profits measure of recovery if it is deemed either inadequate or excessive. In that case the court is to use ‘discretion’ in making an award. This, combined with whatever discretion is invoked by reference to the principles of equity, allows considerable leeway.”).
282 See supra Part IV.A.
explicit recognition of a role for equitable discretion, courts in trademark cases commonly condition awards of infringer’s profits on proof of willful infringement.\textsuperscript{233} These distinguishing attributes of restitution in trademark—the explicit emphasis on equitable discretion and the importance of culpability—should play a role in restitution in copyright.

Another remedial provision of trademark law that merits consideration for adoption in copyright is the Lanham Act’s treble-damages provision. Under that provision, courts “may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount”; it further provides that such an award “shall constitute compensation and not a penalty.”\textsuperscript{234} While it is unclear how this treble-damages remedy is not punitive,\textsuperscript{235} such a supercompensatory monetary remedy is, for reasons discussed below,\textsuperscript{236} an indispensable component of any sound copyright remedial scheme.

Under the Patent Act, a prevailing patentee may obtain injunctive relief, compensatory damages, punitive damages, and attorneys’ fees.\textsuperscript{237} Although this remedial scheme does share similarities with those of trademark and copyright—all permit injunctive relief, compensatory damages, and attorneys’ fees—there are remedies, distinct to patent, that merit consideration in the course of reconsidering copyright’s restitutory remedies. First, the Patent Act expressly permits courts to fix compensatory damages at an amount representing “a reasonable royalty for the use made of the invention by the infringer.”\textsuperscript{238} A “reasonable royalty” is the amount a willing licensor and a

\textsuperscript{233} See, e.g., Dobbs, supra note 78, § 6.4, at 8-89; 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 30:52, at 30-101 (4th ed. 1997); Blair & Cotter, supra note 6, at 1674-75; Brown, supra note 72, at 68-69; Hubbard, supra note 75, at 978; Note, An Accounting of Profits for Trade-Symbol Infringement Based Upon a Theory of Restitution, 1963 Wash. U. L. Q. 243, 257 (“A trade-symbol infringer must act in a deliberate and intentional fashion before an accounting of profits will be ordered.”). In other countries, the infringer’s culpability is likewise important in evaluating a trademark owner’s entitlement to recover a restitutory award of profits. See Latman & Tager, supra note 164, at 157. See, e.g., Goff & Jones, supra note 8, at 727; Tettenborn, supra note 8, at 230; Roshana Kelbrick, Damages Against the Innocent Infringer, 18 BOR. INT’L PROP. REV. 204, 205 (1996).


\textsuperscript{235} See Donald S. Chisum & Michael A. Jacobs, Understanding Intellectual Property Law § 5F[3][e][ii], at 5-360 (1992) (“What remains unexplained is how an award of triple the plaintiff’s actual damages can be ‘compensation and not a penalty.’”).

\textsuperscript{236} See infra Part IV.B.2.

\textsuperscript{237} See Patent Act, 35 U.S.C. § 283 (1994) (injunctive relief); id. § 284 (compensatory and punitive damages); id. § 285 (attorneys’ fees).

\textsuperscript{238} 35 U.S.C. § 284. Note, however, that the reasonable-royalty measure of compensatory damages is merely a “floor below which the courts are not authorized to go.” See Del Mar Avionics, Inc. v. Quinton
willing licensee would have agreed upon had they negotiated a license *ex ante*.

In contrast, the Copyright Act does not expressly authorize courts to set compensatory damages at the amount of a reasonable royalty, although some courts have done so nonetheless. For reasons discussed below, copyright law should permit owners to opt for compensatory damages measured by the amount of a reasonable royalty.

Second, the Patent Act, unlike both the Lanham Act and the Copyright Act, does not permit prevailing plaintiffs to recover an infringer's profits. This has not always been so. From at least 1819 through 1946, a prevailing patentee could obtain an accounting of a patent infringer's profits. In 1946, however, Congress abolished the restitutionary infringer's profits remedy. It did so for an understandable reason: the process of accounting for and allocating profits had become "protracted, expensive and unworkable."

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291 *Compare* Rogers v. Koons, 960 F.2d 301, 313 (2d Cir. 1992) ("[W]e think that a reasonable license fee ... best approximates the market injury sustained" by the copyright owner.), Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 361-62 (7th Cir. 1985), and Atlantic Monthly Co. v. Post Publ'g Co., 27 F.2d 556, 560 (D. Mass. 1928) (measuring compensatory award by reasonable royalty rate), *with* Childress v. Taylor, 798 F. Supp. 981, 990 (S.D.N.Y. 1992) (rejecting reasonable royalty measure), and Widenski v. Shapiro, Bernstein & Co., Inc., 147 F.2d 909, 911 (1st Cir. 1945) (rejecting use of reasonable royalty measure). *See generally* 4 NIMMER & NIMMER, *supra* note 20, § 14.02(A), at 14-14 to 14-16; Kesner, *supra* note 75, at 825 ("[A] more appropriate approach would be to award the value of the loss actually suffered by the plaintiff, that is, the value of the license ... .") *Note*, *supra* note 107, at 1046-47 ("[T]here would seem to be no valid objection to allowing the plaintiff at his option to measure actual damages by a reasonable license fee for use of his copyright ... ."); Sinclair, *supra* note 31, at 967 ("[T]he would seem that in damage actions there is no substantial problem in awarding actual damages measured by a reasonable license fee for the use of copyrighted matter ... .").

292 *See* infra Part IV.B.2.

293 *See*, e.g., Water Techs. Corp. v. Calco, Ltd., 850 F.2d 660, 673 (Fed. Cir. 1988) ("[U]nlike copyright and trademark infringements, patent infringement carries no remedy of an accounting for an infringer's profits.").


295 Selinger & Young, *supra* note 176, at 31; see H.R. REP. NO. 79-1587, at 1-3 (1946), reprinted in 1946 U.S.C.C.A.N. 1386, 1387; S. REP. NO. 79-1503, at 2 (1946), reprinted in 1946 U.S.C.C.A.N. 1387 (Senate committee adoption of House report); see also Aro Mfg. Co., Inc., v. Convertible Top Replacement Co., Inc., 377 U.S. 476, 505-06; *see also* 7 DONALD S. CHISUM, CHISUM ON PATENTS § 20.02(4) (1997); GRAHAM DOUTHWAITE, ATTORNEY'S GUIDE TO RESTITUTION 213 (1977) (arguing infringer's profits remedy eliminated due to congressional "concern over the problems surrounding the apportionment of infringer's profits derived from infringement and other factors; and concern over the expense and delays involved");
Because much the same can be said of the current process of accounting for and allocating profits in copyright cases, copyright should consider following patent’s lead in abolishing the infringer’s profits remedy.

Finally, the Patent Act, like the Lanham Act, authorizes courts to award the prevailing plaintiff treble damages. Such treble-damages awards are discretionary and are typically imposed only for “willful” patent infringement. Given that this exemplary remedy exists to punish past and to deter future patent infringement, the discretionary and conditional nature of such awards is sensible. While the current Copyright Act contains no per se punitive damages provision, such a provision should, for the reasons discussed below, be a part of copyright law.

2. A Proposal

Copyright’s remedial scheme should both reflect the unique nature of the copyright entitlement and promote the goals underlying copyright law. A remedial scheme that would satisfy both of these requirements more satisfactorily than copyright’s current scheme would not be difficult to construct. Rather, such a system would include the following traditional components: injunctive relief, affirmative equitable relief, flexible compensatory damages, and discretionary exemplary awards.

Blair & Cotter, supra note 6, at 1647-48; Douthwaite, supra note 216, at 1080 (“Due to concern over the difficulties of ascertaining a patent infringer’s profits . . ., the patent law was amended in 1946 to exclude defendant’s profits as an item of recovery.”).

296 See supra Part II.A.

297 See 35 U.S.C. § 284 (1994) (“When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.”).

298 See Modine Mfg. Co. v. Allen Group, Inc., 917 F.2d 538, 543 (Fed. Cir. 1990) (“A finding of willful infringement merely authorizes, but does not mandate, an award of increased damages.”).


301 The infringer’s profits provision of section 504 arguably has a punitive effect. See supra Parts I.B.4 & II.B.

302 See infra Part IV.B.2.
Copyright law should retain injunctive relief as a remedy for infringement. The continued availability of preliminary and permanent injunctions appropriately would reflect the nature of the copyright entitlement as one protected largely, though not entirely, by property rules. Moreover, because injunctive relief prevents would-be users from taking copyrighted works without ex ante bargaining, it would continue to deter market bypass and to facilitate the incentive-generating market for which copyright law exists.

Copyright law likewise should retain the affirmative equitable remedies of impoundment and destruction. These forms of affirmative equitable relief complement injunctive relief by stripping from the infringer the means (including “plates,” “molds,” “masters,” and the like) to commit future infringement. In addition, by forcing disgorgement of “all copies or phonorecords found to have been made or used in violation of the copyright owner’s rights,” these remedies prevent the infringer from being unjustly enriched. In serving this restitutory end, destruction not only reflects the partial property-like nature of the copyright entitlement, but also deters market bypass by sending a message to would-be infringers that they stand to lose all that they create through their infringing conduct. However, because these restitutory remedies are, and should remain, explicitly discretionary,

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303 The current Copyright Act provides that a court “may ... grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of copyright.” 17 U.S.C. § 502(a) (1994).

304 See Blair & Cotter, supra note 6, at 1589 (To the extent that copyright should be protected under a property-rule regime, “injunctive relief should be the principal remedy available against those who infringe.”).

305 As to impoundment, the current Copyright Act provides that:

[A court] may order the impounding, on such terms as it may deem reasonable, of all copies or phonorecords claimed to have been made or used in violation of the copyright owner’s exclusive rights, and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced.

17 U.S.C. § 503(a) (1994). As to destruction, the Act provides that:

As part of a final judgment or decree, the court may order the destruction or other reasonable disposition of all copies or phonorecords found to have been made or used in violation of the copyright owner’s exclusive rights, and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced.

Id. § 503(b).

307 Id. § 503(b).

308 See id. § 503(a) (“the court may order the impounding”) (emphasis added); see id. § 503(b) (“the court may order the destruction”) (emphasis added); see also Midway Mfg. Co. v. Omni Video Games, Inc.,
courts can carefully tailor them to fit the circumstances. For example, courts can deny such relief when the infringer is innocent. By preventing this restitutionary remedy from over-determing well-meaning potential users of copyrighted works, a discretionary safety-valve would help to preserve the market demand for copyrighted works that is necessary to generate the incentives to create such works.

As to monetary remedies, copyright should continue to permit the recovery of actual damages to compensate the copyright owner for losses resulting from the defendant’s infringement. This restorative response to economic loss is the most traditional in American remedies law. Perhaps for this reason, compensatory damages have long been and should remain an integral part of copyright law. But even with these deep historical roots, copyright’s compensatory-damages remedy can be improved. Courts and commentators have long recognized that proving actual damages in copyright cases is problematic. Partly for this reason, the Copyright Act provides the aggrieved owner with additional remedial options—namely, the recovery of infringer’s


309 See Foreign & Domastic Music Corp. v. Licht, 196 F.2d 627, 629 (2d Cir. 1952); Jeweler’s Circular Pub’g Co. v. Keystone Pub’g Co., 274 F. 932, 936 (S.D.N.Y. 1921), aff’d, 281 F. 83 (2d Cir. 1922). See generally 4 Nimmer & Nimmer, supra note 20, § 14-08, at 14-132 (“It seems clear that the remedy of forfeiture and destruction is not available as against an innocent third party who acquires infringing copies or articles, but does not himself engage in any act of infringement.”).

310 See 17 U.S.C. § 504(a)(1) (1994) (“An infringer of copyright is liable for . . . the copyright owner’s actual damages . . . .”; see id. § 504(b) (“The copyright owner is entitled to recover the actual damages suffered by him as a result of the infringement . . . .

311 See H.R. REP. NO. 94-1476, at 161 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5777 (“Damages are awarded to compensate the copyright owner for losses from the infringement . . . .”). See generally Dobbs, supra note 7, at 3 (“The damages remedy is a money remedy aimed at making good the plaintiff’s losses.”).

312 See, e.g., Brown et al., supra note 61, at 1070 (“Actual damages are of course the cornerstone of common law remedies . . . .”); Epstein, supra note 202, at 1379 (“The tort impulse makes the measure of damage equal to the loss . . . .”); Polinsky & Shavell, supra note 60, at 427-28 (“In tort and contract disputes, liability generally is based on the victim’s harm . . . .”).


314 See, e.g., Hubbard, supra note 75, at 935 (“It is often difficult to prove actual damages.”); Benno Lewinsohn, Inefficiency of the Copyright Law as Affecting Remedies, 21 CASE & COM. 179, 183 (1914) (There are a “considerable number of cases” in which “it is not practical, even if possible, to ascertain or determine ‘actual damages’ for an infringement.”); Strauss, supra note 56, at 1000.
profits and statutory damages—which serve to some extent as rough surrogates for awards of actual damages.315 In revising copyright’s monetary remedies, Congress should explicitly adopt another such proxy for compensatory damages: the reasonable royalty. If adopted, this measure should be discretionary, and should serve merely as a floor below which no compensatory award could go.

There is much to commend the legislative adoption316 of the reasonable-royalty measure. First, patent law has long accepted the reasonable royalty as a measure of compensatory damages.317 Thus, there is not only precedent for such a measure of damages in federal intellectual property legislation, but also a significant body of available case law and commentary to guide courts in setting reasonable-royalty rates in future copyright cases.318 Second, the reasonable-royalty measure would be consistent with the incentives-access model that constitutionally underlies copyright law. According to that model, an author creates because he can expect to receive an economic benefit in return for his labor. This economic return is often in the form of royalties. And these royalties often are not author-negotiated royalties, but rather, either statutory royalties established by the government or contractual royalties negotiated by collective-rights organizations.319 Thus, a reasonable-royalty provision arguably would preserve an author’s expectation that his labor will result in the receipt of a royalty and that the rate of such royalty may well be established by someone other than himself. Protecting these expectations should preserve the incentive to create. Finally, the availability of a reasonable-royalty measure would be consistent with the nature of copyright as

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315 See Hubbard, supra note 75, at 955 (observing that because it is “often difficult to prove actual damages . . . courts more frequently use infringer’s profits or statutory damages as the basis of monetary awards”); Laycock, supra note 44, at 1287 (“[R]estitution of defendant’s profits has sometimes been thought of as a proxy for plaintiff’s losses.”); Strauss, supra note 56, at 1000 (arguing that because actual damages are difficult to prove, “courts frequently base their awards on the profits which accrued to the infringer or award statutory damages”). Cf. Corrill, supra note 79, at 1914 (reporting that in trademark infringement cases, the accounting of profits remedy was “originally thought to compensate the trademark holder for lost profits on diverted sales”).

316 For a discussion of the extent to which courts could adopt this measure even without explicit congressional authorization, see supra Part IV.A.


318 In setting a reasonable royalty, courts in patent cases seek to determine the amount that “willing parties would have agreed to had they negotiated a license under the patent.” See 7 CHISUM, supra note 295, § 20.03, at 20-78. See generally id. § 20.03; SCHLICHER, supra note 171, § 9.04-9.05 (1996); Ned L. Conley, An Economic Approach to Patent Damages, 15 AIPLA Q.J. 354 (1987).

319 See Merges, supra note 246, at 1393; Merges, supra note 259, at 2669 (discussing fact that compulsory licensing provisions “cover a substantial portion of the copyrighted works in circulation”).
an entitlement secured by both liability and property rules. Given that copyright is riddled with liability-like rules, the refinement of one such rule would not be extraordinary.\(^{320}\)

In addition to compensatory damages, the Copyright Act must also permit courts to assess some type of supercompensatory monetary award against selected infringers. Though copyright must permit such exemplary awards, why it must do so is less apparent. The traditional rationale—that supercompensatory awards of restitution are necessary to prevent the infringer from being unjustly enriched\(^{322}\)—is questionable for a number of reasons. As a threshold matter, whether copyright law should pursue the redress of injustices in holdings is questionable. Copyright law, after all, constitutionally exists for the utilitarian purpose of promoting the creation of works of authorship.\(^{323}\) But even if redressing such injustices is an appropriate goal for copyright law, it is not obvious that supercompensatory liability is a step in that direction. Stripping an infringer of ill-gotten gains that exceed the copyright owner's actual losses arguably reflects little more than a spite-driven impulse to harm the infringer and to confer an unjust windfall on the owner.\(^{324}\) Viewed in that light, supercompensatory liability not only swims against a stream of compelling philosophical arguments against acting from spite or envy,\(^{325}\) but also runs counter to the traditional liberal view that harmful governmental intrusions on personal autonomy should be minimized.\(^{326}\) For these reasons,

\(^{320}\) See supra Part III.B.

\(^{321}\) To assure that the copyright owner is fully compensated for his losses, the Copyright Act should continue to permit courts to award costs and attorneys' fees. See 17 U.S.C. § 505 (1994).

\(^{322}\) See, e.g., H.R. Rep. No. 94-1476, at 161 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5777 ("P[rofits are awarded to prevent the infringer from unfairly benefiting from a wrongful act.").

\(^{323}\) See Keenan, supra note 75, at 810 ("T[he] these windfall awards are arguably antithetical to the avowed purpose of copyright legislation: the promotion of scientific and artistic expression.").

\(^{324}\) See Wonnell, supra note 175, at 192 ("T[he] award in excess of compensation is a windfall to plaintiff which enriches him through the defendant's wrong."); see, e.g., Birks, supra note 8, at 94; Blair & Cotter, supra note 6, at 1617 n.141; Friedman, supra note 79, at 532; Gordon, supra note 7, at 241; Isley, supra note 79, at 37.

\(^{325}\) See Wonnell, supra note 175, at 180-83 ("A long philosophical tradition, both deontological and consequentialist, stands against the general legitimacy of gratuitous desire to bring down others as an end in itself.") (citing NOZICK, supra note 229, at 229 (1974); JOHN RAWLS, A THEORY OF JUSTICE 143, 532-33 (1971)).

\(^{326}\) See Mather, supra note 151, at 30 ("The goal of protecting liberty ... acts as a constraint on the liability imposed by a liberal system. In protecting B's liberty (or some other interest of B), the legal system should interfere with A's liberty only to the extent necessary to rectify A's harmful interference with B's liberty and to realize any other purpose for giving B's interests priority over A's."); see id. at 29-32, 45-46.
some have concluded that "supercompensatory liability" is not justified as an "attempt to prevent unjust enrichment."227

Although perhaps unjustified as a means to pursue a debatable notion of justice, supercompensatory awards are undoubtedly warranted in copyright's remedial scheme as a means of deterrence.228 Copyright law exists to create an incentive-generating market for copyrighted works. If copyright's monetary remedies were purely compensatory, many users would simply infringe now and compensate later, thereby bypassing the market that copyright serves.229 Moreover, given that much copyright infringement goes undetected and thus unremunerated,230 market bypass would be all the more attractive to odds-calculating infringers.231 Therefore, a credible threat of liability in excess of compensatory damages is necessary to channel users into the market by making bargaining economically more attractive than infringement.232 So justified, supercompensatory awards not only would advance the utilitarian goals prescribed by the Constitution, but also would be consistent with the nature of copyright as a mixed entitlement protected in part by property rules.233

Given that copyright must have a supercompensatory measure of monetary relief, should this relief take the form of restitution or exemplary damages?234

227 Mather, supra note 151, at 32; see also Wonnell, supra note 175, at 180-195.
228 See Barker, supra note 175, at 465-67 (finding supercompensatory award of restitution is "logical" if objective is "to provide strong societal disincentives to wrongdoing"); Mather, supra note 151, at 31-32 (arguing supercompensatory liability appropriate for "purposes of deterrence") (citing John Locke, Second Treatise of Civil Government §§ 6-10 (1690)).
229 See, e.g., Taylor v. Melnick, 712 F.2d 1112, 1120 (7th Cir. 1983) (Posner, J.); Huber, supra note 151, at 100 ("If the converted/trespasser makes profits that exceed his expected liability in tort, he should be ready to infringe the owner's property and pay damages."); Laycock, supra note 44, at 1289-90.
230 See Blair & Cotter, supra note 6, at 1659 n.258.
231 See Huber, supra note 151, at 104 (arguing expected cost of nonconsensual use will be reduced if the user factors in the possibility that he "can get away with the infringement" without getting caught).
232 See, e.g., Posner, supra note 80, at 227. Wonnell suggests that:

Because we want to channel resource allocation through the market as much as possible, we want to make sure that I am not allowed to be indifferent between stealing and buying my neighbor's car. We do this by making the damage award greater than the value of the car so that I do not consider conversion an acceptable substitute for purchase.

Wonnell, supra note 175, at 204-06.
233 See Calabresi & Melamed, supra note 46, at 1123 ("For us to charge the thief with a penalty equal to an objectively determined value of the property stolen would be to convert all property rule entitlements into liability rule entitlements.").
234 See Posner, supra note 80, at 227 (arguing punitive damages and restitution are two means of channeling resource allocation through the market); Birks, supra note 72, at 77 ("There is certainly no
A restitutionary approach to deterrence, such as copyright’s present infringer’s profits remedy, is moderately effective. Faced with the risk of disgorgement, an infringer would be less likely to infringe than he would be if his monetary exposure were limited to compensation. Moreover, as compared to exemplary damages, restitutionary awards offer greater determinacy because they are tagged to the infringer’s quantifiable gain rather than being left to judicial discretion.  

Nevertheless, flexible exemplary damages are a preferable alternative to disgorgement. While restitutionary awards of infringer’s profits in theory promise greater determinacy, in practice they deliver confusion and uncertainty in calculating deductible expenses and in apportioning profits to factors other than the infringing work. Moreover, the very inflexibility that makes restitutionary awards more determinate also makes them less effective at deterring infringement. On the one hand, disgorgement can underdeter harmful conduct because, in theory, even the most culpable of infringers is permitted to retain their capital as well as any profits attributable to their own labor or other factors. On the other hand, the severity and inflexibility of disgorgement in practice can overdeter beneficial uses of copyrighted works, thereby reducing the market demand for such works. For these reasons,

denying that the theoretical status of restitutionary damages is closely bound up with that of exemplary damages.”.  

335 See MADDAUGH & MCCAMUS, supra note 186, at 528 (“[T]he defendant’s gain can be measured with some degree of precision in the restitution context, whereas exemplary damages are by their very nature most difficult to ascertain.”); HARVEY MCGREROR, MCGREROR ON DAMAGES 266-67 (15th ed. 1988) (arguing restitution is a more “direct” and “appropriate” means than exemplary damages for preventing unjust enrichment); see also Birks, supra note 72, at 86 (“The crucial way in which restitutionary damages do differ from punitive damages is that they are not arbitrary and indeterminate.”). Presumably, greater determinacy would promote settlement. See Barker, supra note 175, at 466 (finding principal drawback of exemplary damages approach to deterrence is “uncertainty”); Jaffey, supra note 79, at 41 (“[T]he likelihood of out of court settlement in civil proceedings will be reduced by the difficulty of predicting the outcome in the case of exemplary damages, but not significantly in the case of disgorgement.”).

336 See supra Part II.A. Realization of profits not only engenders uncertainty and confusion, but also high administrative costs. See, e.g., DOUTHWAITE, supra note 255, at 213; Blair & Cotter, supra note 6, at 1647-48; Douthwaite, supra note 216, at 1089; Selinger & Young, supra note 176, at 31.

337 See Stephen Hedley, The Myth of Waiver of Tort, 100 LAW Q. REV. 653, 679 (1984) (arguing restitution is often “inflexible” and the “need for restitution ... can be adequately dealt with under the general law of exemplary damages”).

338 See Friedman, supra note 79, at 552.

339 See POSNER, supra note 20, at 591-92 (describing risk of overdeterrence); see also supra Part II.B.2.a.
copyright law should discard restitution as the supercompensatory means to deter infringement and, in its stead, adopt discretionary exemplary damages.\footnote{340}{See, e.g., Mather, supra note 151, at 35 ("[P]unitive damages offer a better corrective than does restitution. Indeed, deterrence is a principal purpose of punitive damages. Unlike restitution, punitive damages can be tailored to produce a given level of deterrence.").}

In adopting exemplary damages, copyright law should cede great discretion to future courts fashioning awards of exemplary damages. Thus, unlike the Patent Act,\footnote{341}{See 35 U.S.C. § 284 (1994) (limiting exemplary awards to "three times the amount found or assessed" as actual damages).} the Copyright Act should not constrain the exercise of judicial discretion by adopting an arbitrary quantum cap. While such caps, like the treble-damages cap of the Patent Act, do check the indeterminacy of exemplary damage awards to some extent,\footnote{342}{See, e.g., Barks, supra note 72, at 83-84 (providing one way to control the indeterminacy is "by multiplying the simple damages"); David G. Owen, The Moral Foundations of Punitive Damages, 40 Ala. L. Rev. 705, 735 (1989) ("I propose that courts and legislatures replace current standards with a multiple damages standard, perhaps together with a flexible 'kicker' limited by a cap.").} they do so at the risk of underdeterrence. Copyright law should permit courts to adjust exemplary awards upward to account for the low probability that infringement will go undetected. Take, for example, a would-be infringer who faces a ten percent chance\footnote{343}{Considering the anecdotal evidence that much copyright infringement goes undetected, see Blair & Cotter, supra note 6, at 1659 n.258, a 10% chance of facing civil liability is not unrealistic.} of being caught and cast in judgment for $1,000 in actual damages. If courts could award no more than treble damages in such cases, many rational users would choose to infringe.\footnote{344}{See, e.g., Posner, supra note 80, at 240 ("[P]unitive damages can be adjusted upward to take account of the difficulty of detection.").} For this reason, copyright law should allow courts to fix supercompensatory exemplary awards at any reasonable amount justified by the totality of the circumstances.\footnote{345}{The factors that courts in copyright cases should consider in fixing exemplary awards might include the following: the harm caused by the infringing defendant; the "reprehensibility of the defendant's conduct, the duration of that conduct, the defendant's awareness, any concealment, and the existence and frequency of past conduct"; "the profitability to the defendant of the wrongful conduct and the desirability of removing that profit and of having the defendant also sustain a loss"; the "financial position" of the defendant; the cost of litigation; and, the imposition of criminal sanctions against the defendant. See, e.g., Pacific Mut. Life Ins. Co. v. Haslip, 499 U.S. 1, 21-22 (1991) (discussing factors relevant to fixing award of punitive damages); see also TXO Prod. Corp. v. Alliance Resources Corp., 509 U.S. 443, 462 n.28 (1993) (noting that Haslip Court "approved" the use of these "factors" to set an award of exemplary damages).}
CONCLUSION

Copyright's restitutioinary remedies must be reformed. Granted, supercompensatory remedies have an important role to play in copyright law. Such remedies are critical to render ex ante bargaining more attractive than infringement, and thus to channel transactions into the incentive-generating market that copyright strives to create. But to the extent that copyright's current supercompensatory restitutioinary remedies serve this end, they do so clumsily, insufficiently, and at the risk of harming the very market that copyright law establishes.

Many of the problems associated with restitution in copyright law could be addressed judicially. Indeed, through the exercise of their inherent equitable discretion, courts could more precisely tailor restitutionary awards to the circumstances and thereby ameliorate some of the harmful effects these remedies have on copyright's market. Nevertheless, a myriad of other practical and conceptual problems would linger. For these reasons, Congress should fundamentally reconsider the role of restitution in copyright. In so doing, Congress should retire restitution as the primary supercompensatory means of channeling users into the market for copyrighted works, and cast in its stead a more flexible and efficacious exemplary remedy.