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Sneering at the Law: An Argument for Punitive Damages in Copyright

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Sneering at the Law: An Argument for Punitive Damages in Copyright

ABSTRACT

The Copyright Act limits statutory damages in a copyright action to one award for every work that a plaintiff can prove a defendant infringed. The maximum amount a plaintiff may recover for each work is \$30,000, except in the case of willful infringement, for which that amount may be increased to a maximum of \$150,000. This Note explains how this dual limitation in the Copyright Act—the one-award-per-work limitation and the cap on statutory damage amounts—allows infringers to manipulate court procedures and corporate structure so that their acts of copyright infringement may maintain profitability despite the imposition of maximum statutory damages. Such efficient willful infringement undercuts the deterrence rationale of the Copyright Act’s statutory damages provision. This Note argues that punitive damages are the most practical solution to this problem. Punitive damages may be used as a tool to encourage defendants in infringement actions to submit to the legal process and may provide copyright claimants with a more ironclad way to recover defendants’ profits when infringers refuse to submit to discovery procedures. Allowing plaintiffs to plead punitive damages presents a low risk of unfairness and abuse because defendants may avoid the imposition of punitive damages by participating in the trial phase of infringement actions and because a preexisting due process framework already exists by which courts may check excessive awards.

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Suppose you have written several songs and own the copyrights. You find that someone has recorded and released one of your songs without your permission. In fact, this person recorded three different versions of the song and released those recordings on separate albums. Your copyright is registered, you have proof of the three separate infringements, and the infringer does not claim fair use or any other defense. What is your claim worth?

The Copyright Act contains two alternative damages provisions: (1) the plaintiff may pursue actual damages and defendant's profits attributable to infringement, or (2) the plaintiff may elect to pursue statutory damages.¹ One of the purposes of the statutory damages provision is to encourage plaintiffs to bring infringement claims and go to trial, which may be costly and inconvenient in cases where they would otherwise face a minimal recovery (such as when the infringer did not profit and damages to the plaintiff were minimal).² Before the addition of statutory damages to the Copyright Act, the available remedies were ineffective to discourage "willful and deliberate infringement" because plaintiffs had little incentive to incur the expense of trial when the infringing conduct yielded little profit.³

To promote deterrence, Congress amended the Copyright Act to allow statutory damages up to \$150,000 when a court or jury finds that the defendant willfully infringed the plaintiff's copyright.⁴ While under the 1909 Copyright Act the statutory maximum was available for every act of infringement,⁵ the 1976 Act amended the language to allow recovery of only a single statutory award for each infringed

1. 17 U.S.C. § 504 (2006).

2. See *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935) (referring to the inclusion of statutory damages in the 1909 Copyright Act).

3. *Id.*

4. See Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160, § 2, 113 Stat. 1774 (codified as amended at 17 U.S.C. § 504(c)).

5. See *infra* Part I.A.

work, regardless of the number of separate acts of infringement of that work by a defendant.⁶ Thus, in the above hypothetical, even though the defendant willfully infringed the copyright of the song three times, the recovery will not be \$450,000. In fact, it does not matter if the infringer made and released one or hundreds of separate recordings of the song; damages under the statute are limited to a maximum of \$150,000.

This dual limitation on statutory damages—the \$150,000 cap and the limitation to one award per work—means available statutory damages are less than actual damages and profits whenever the infringer profits by more than \$150,000 for each infringed work.⁷ In such a case, the prudent move for the plaintiff is to forgo statutory damages and seek actual damages and profits. But, an uncooperative defendant can frustrate a plaintiff's choice. For example, in *Venegas-Hernandez v. Sonolux Records*, a defendant avoided an accounting of its profits by refusing to appear or to defend.⁸ Without access to the defendant's books, the plaintiffs were unable to adequately prove the defendant's profits.⁹

When it appears a defendant may not participate in discovery, the plaintiff must elect to receive statutory damages or else risk being awarded nothing when the plaintiff cannot duly show actual damages.¹⁰ If the defendant fails to appear, the court may enter a default judgment and award damages limited to the statutory maximum for each of the works allegedly infringed.¹¹ Even if the court errs in its findings on the number of works, the defendant is still free to appeal that finding without having had to participate in the trial.¹² Thus, whenever the default judgment is less than the amount of profit the defendant reaped from the infringement, the defendant has no incentive to challenge the ruling unless it foresees a reasonable chance of a reduction in damages on appeal.¹³ In either case, the defendant retains a profit in spite of the damages allowed by the Copyright Act, thwarting the deterrence rationale behind the statutory damages provision.¹⁴

What, then, will deter our hypothetical infringer, or the real-world infringer in the *Venegas-Hernandez* case? If anticipated

6. See *infra* Part I.B.

7. See *infra* Part II.C.

8. *Venegas-Hernandez v. Sonolux Records*, 370 F.3d 183, 186 (1st Cir. 2004).

9. *Id.*

10. See *infra* text accompanying notes 150–157.

11. See *infra* text accompanying notes 150–157.

12. See *Venegas-Hernandez*, 370 F.3d at 188.

13. See *infra* Part II.C.

14. See *infra* Part II.D.

profits are greater than the maximum damages allowed, the rational choice is infringement. If the infringers are caught, they can forgo an expensive legal defense and accept that it will cost them, at most, \$150,000.¹⁵ The infringer simply builds a \$150,000 charge into the cost of doing business. In such a scenario, the statute is inadequate to deter infringement.

This Note argues that there are hints of a solution in the case law: punitive damages.¹⁶ Although punitive damages are not ordinarily allowed in copyright claims, allowing a plaintiff to claim punitive damages above the statutory maximum during the pleading phase will encourage a defendant to appear in order to contest the grounds for punitive damages and to participate in pre-trial discovery.¹⁷ If the defendant fails to appear, a court's ability to enter an award for punitive damages will provide relief for the plaintiff in the absence of proof of actual damages and should eliminate the defendant's profits, even if those profits are above the statutory limit. This would remove the theoretical incentive to infringe. Allowing punitive damages is a practical solution because it does not require amendment of the statute and because it has a basis in the current case law.¹⁸ District court judges may implement this solution despite a lack of guidance from Congress and higher courts.

Part I details the evolution of the one-award-per-work limitation in the statutory damages provision and discusses its immediate procedural implications. Part II explores how the current Copyright Act and accompanying case law fail to deter willful infringers who may take advantage of its procedural limitations and profit in spite of the law's deterrence intent. Part III presents punitive damages as a solution to the statute's failure to live up to its purposes in the face of intentional and profitable infringement.

I. "AN AMBIGUOUS HODGEPODGE OF IMPROVISATION"¹⁹: STATUTORY DAMAGES IN COPYRIGHT

The Copyright Act affords two alternative remedies for copyright owners.²⁰ An owner may choose to recover actual damages as well as any profits attributable to the infringement that were not

15. See 17 U.S.C. § 504(c) (2006).

16. See *infra* Part III.

17. See *infra* notes 248–250 and accompanying text.

18. See *infra* text accompanying notes 244–247.

19. *Davis v. E. I. DuPont de Nemours & Co.*, 249 F. Supp. 329, 331 (S.D.N.Y. 1966) (referring to the damages provisions under the 1909 Copyright Act).

20. 17 U.S.C. § 504(a).

taken into account in computing the actual damages.²¹ Alternatively, the owner may elect damages that fall within a range provided by the statute.²² The statute limits damages based on the number of works infringed and the culpability of the infringer.²³ Section 503(c) of the Copyright Act states:

[T]he copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally²⁴

The accompanying House Report states that any single infringer is liable for one award for each infringed work “no matter how many acts of infringement are involved in the action and regardless of whether the acts were separate, isolated, or occurred in a related series.”²⁵

Thus, courts allow only one award of statutory damages for each work infringed, regardless of the number of separate acts of infringement, so long as the acts were committed by an individual infringer or by multiple infringers who are jointly and severally liable.²⁶ This was a departure from the Copyright Act of 1909,²⁷ under which courts allowed a separate award for each independent act of infringement, regardless of the number of works at issue.²⁸

Under the current Act, a plaintiff may elect to recover statutory damages at any time before the court renders its final judgment²⁹ regardless of the adequacy of evidence of actual damages.³⁰ A court may award anywhere from \$750 to \$30,000 for

21. *Id.* § 504(a)(1).

22. *Id.* § 504(a)(2).

23. *Id.* § 504(c).

24. *Id.*

25. H.R. REP. NO. 94-1476, at 162 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5778.

26. *See, e.g.,* WB Music Corp. v. RTV Comm’n Grp., Inc., 445 F.3d 538, 540 (2d Cir. 2006); Venegas-Hernandez v. Sonolux Records, 370 F.3d 183, 194 (1st Cir. 2004); Mason v. Montgomery Data, Inc., 967 F.2d 135, 143–44 (5th Cir. 1992); Walt Disney Co. v. Powell, 897 F.2d 565, 569 (D.C. Cir. 1990); Sony/ATV Music Publ’g L.L.C. v. D.J. Miller Music Distribs., Inc. (*D.J. Miller I*), No. 3:09-CV-01098, 2011 WL 4729755, at *4 (M.D. Tenn. Oct. 5, 2011); Arista Records L.L.C. v. Lime Group L.L.C., 784 F. Supp. 2d 313, 316 (S.D.N.Y. 2011); MCS Music Am., Inc. v. Yahoo! Inc., No. 3:09-CV-00597, 2010 U.S. Dist. LEXIS 10312, at *5, *9–10 (M.D. Tenn. Feb. 5, 2010).

27. An Act to Amend and Consolidate the Acts Respecting Copyright § 28, 35 Stat. 1075, 1082 (1909) (codified as amended at 17 U.S.C. § 504(c)).

28. *See, e.g.,* L.A. Westermann Co. v. Dispatch Printing Co., 249 U.S. 100, 109 (1919); Robert Stigwood Grp., Ltd. v. O’Reilly, 530 F.2d 1096, 1103 (2d Cir. 1976); *see generally* 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.04[E][2][a][ii] (Matthew Bender rev. ed. 2012) (explaining that the modern construction departs from the case law under the 1909 Act in disallowing separate claims for multiple acts of infringement).

29. 17 U.S.C. § 504(c).

30. NIMMER & NIMMER, *supra* note 28, § 14.04[A].

infringement of one work.³¹ It may increase the award to \$150,000 if the court finds the infringement is willful,³² but it has no discretion to exceed this statutory limit³³ and is not required to award more than the statutory minimum of \$750 per work, even upon a finding of willful infringement.³⁴ Neither Congress nor the courts have provided much guidance as to where within the range awards should fall.³⁵ The principal guide is simply that the awards be “just.”³⁶

To be just, in accordance with the statute’s deterrence rationale, statutory damages must be high enough to induce copyright owners to “invest in and enforce their copyrights” when actual damages are difficult to prove, as is often the case.³⁷ Other justifications include deterring infringement³⁸ and providing an economic incentive to discover minimal acts of infringement.³⁹ Congress has consistently set the statutory maximum for willful infringement at five times the maximum for ordinary infringement (the current limit of \$150,000 is five times the ordinary infringement maximum of \$30,000).⁴⁰ Congress established the current maximums in the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999.⁴¹

The statutory damage limit of \$150,000 is in part a result of political compromise, as it arises from Congress’s implementation of

31. 17 U.S.C. § 504(c).

32. *Id.* § 504(c)(2).

33. *L.A. Westermann Co.*, 249 U.S. at 106–07; *D.C. Comics, Inc. v. Mini Gift Shop*, 912 F.2d 29, 34 (2d Cir. 1990) (citing *Robert Stigwood Grp. Ltd.*, 530 F.2d at 1102) (explaining that the Supreme Court’s interpretation that the 1909 Act limits courts’ discretion to the bounds of the statute applies with equal vigor to the 1976 Copyright Act).

34. *See Arclightz & Films Pvt. Ltd. v. Video Palace, Inc.*, 303 F. Supp. 2d 356, 363 (S.D.N.Y. 2003) (awarding the minimum of \$750 for the infringement of a single work despite a finding of willful infringement).

35. *See* Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 441 (2009).

36. *See id.*

37. 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 14.2 (3d ed. 2012); *see also* 6 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 22:153 (2012).

38. *See* *Capitol Records Inc. v. Thomas-Rasset*, 680 F. Supp. 2d 1045, 1049, 1053 (D. Minn. 2010) (defending a remittitur to \$54,000 as sufficient to maintain the deterrent effect); *supra* note 4 and accompanying text; *see also* Richard Craswell, *Deterrence and Damages: The Multiplier Principle and Its Alternatives*, 97 MICH. L. REV. 2185, 2186 (1999) (discussing the deterrence justification of damage multipliers).

39. Roger D. Blair & Thomas F. Cotter, *An Economic Analysis of Damages Rules in Intellectual Property Law*, 39 WM. & MARY L. REV. 1585, 1656 (1998).

40. NIMMER & NIMMER, *supra* note 28, § 14.04[B][3][b] n.149.

41. Pub. L. No. 106-160, § 2(1), 113 Stat. 1774 (1999). Patry asserts that the increase of maximum damages by \$10,000 for ordinary infringement and by \$50,000 for willful infringement was enacted “for no apparent perceived reason.” PATRY, *supra* note 37, § 22:163.

the Berne Convention.⁴² By passing the Berne Convention Implementation Act of 1989, Congress amended the Copyright Act to no longer require claimants from foreign nations to register their copyrights domestically.⁴³ Authors from the United States, however, still found themselves bound by the registration requirement.⁴⁴ Because registration is a prerequisite to recovering statutory damages, Congress also intended the amendment to further incentivize copyright holders to register. To provide such incentive, and as a compromise to US copyright holders, Congress “sweetened the pill” by increasing the statutory remedies.⁴⁵

A. Statutory Damages under the 1909 Copyright Act: Per Infringement

The 1909 Act permitted multiple awards of the statutory minimum for separate acts of infringement,⁴⁶ as construed by the Supreme Court in *L.A. Westermann Co. v. Dispatch Printing Co.*⁴⁷ The plaintiff in *L.A. Westermann* owned the copyright in an illustration of women’s clothing designs that the defendant reprinted in two different advertisements that appeared twenty-six days apart.⁴⁸ The defendant also published five of the plaintiff’s other copyrighted designs in another edition,⁴⁹ adding up to seven total acts of infringement.⁵⁰ The Court held that the plaintiff was entitled to a minimum of one award for each act of infringement, including two for the separate infringements of the same work.⁵¹ Thus, going forward, claimants could receive damages for each distinct act of infringement, even if defendants only copied one work.

Nearly fifty years later, in *Davis v. E.I. Dupont de Nemours & Co.*, a district court declined to follow *L.A. Westermann*, distinguishing it as inapplicable to radio and television broadcasts.⁵² The court reasoned that if the minimums were mandatory, an innocently infringing broadcast aired on over two hundred stations would result

42. NIMMER & NIMMER, *supra* note 28, § 14.04[B][1][b].

43. *Id.*

44. *Id.*

45. *Id.* Congress was also motivated by compensating for inflation. *Id.* But see PATRY, *supra* note 37, § 22:163 (describing the act as increasing the statutory maximum “for no apparent perceived reason”).

46. NIMMER & NIMMER, *supra* note 28, § 14.04[E] (“Under the 1909 Act, it was sometimes loosely said that the mandatory minimum must be paid for each ‘infringement.’”).

47. *L.A. Westermann Co. v. Dispatch Printing Co.*, 249 U.S. 100, 109 (1919).

48. *Id.* at 102–03.

49. *Id.*

50. *Id.* at 106.

51. *Id.* at 109.

52. See *Davis v. E. I. DuPont de Nemours & Co.*, 249 F. Supp. 329, 341 (S.D.N.Y. 1966).

in mandatory minimum damages of \$50,000.⁵³ As parties involved in radio and television broadcasting were particularly susceptible to multiple inadvertent infringements, the court protected them by restricting per-infringement awards.

Just prior to the passage of the one-award-per-work limitation, the US Court of Appeals for the Second Circuit analyzed the above cases and found that courts calculate the number of infringing acts in myriad ways. The court observed that "when the components of the infringing activity are heterogenous [sic], [some courts] presum[e] that each infringing activity is a separate infringement."⁵⁴ That is, when the infringements occur in separate transactions or are the result of separate arms of a business enterprise, they merit a separate award.⁵⁵ Other courts, however, particularly when addressing publication cases, look to the interval between the publications, finding a single infringement if the interval was only a few days but finding multiple infringements if the interval was for a "substantially longer period."⁵⁶ The Second Circuit called this the "time-test rule."⁵⁷ These inconsistent standards in determining what constituted a separate infringement, *inter alia*, prompted the revision of the damages provision of the Copyright Act in 1976.⁵⁸

B. The Current Statutory Damage Regime: Per Work

In the current Copyright Act, passed in 1976, Congress shifted the inquiry from determining how many separate acts of infringement occurred to determining how many distinct works the defendant infringed, specifying that a court could grant only one award per copyrighted work.⁵⁹ In other words, courts no longer could consider separate acts of infringement; rather, they were to focus on the number of works infringed and award only one statutory damage

53. *Id.* Note that this was under the \$250 minimum of the 1960s. Under the current statutory minimum of \$750, the fine would have been \$150,000.

54. Robert Stigwood Grp., Ltd. v. O'Reilly, 530 F.2d 1096, 1103 (2d Cir. 1976).

55. *Id.*

56. *Id.* at 1102-03 (citing NIMMER & NIMMER, *supra* note 28, § 14.04[E][2][a][2]).

57. *Id.*

58. See Venegas-Hernandez v. Sonolux Records, 370 F.3d 183, 194 & n.11 (1st Cir. 2004) (citing NIMMER & NIMMER, *supra* note 28, § 14.04[E][2][a]) (suggesting that the difficulty in determining what were separate infringements "no doubt" led to the revising of the Copyright Act).

59. Gamma Audio & Video, Inc. v. Ean-Chea, 11 F.3d 1106, 1116 (1st Cir. 1993) (citing Twin Peaks Prods. v. Publ'ns Int'l, Ltd., 996 F.2d 1366, 1381 (2d Cir. 1993)).

award for each.⁶⁰ This created a “fundamental shift” in damages calculations from the standards of the 1909 Act.⁶¹

For each separate work infringed, if the plaintiff elects statutory damages, the court must award the statutory minimum; if a defendant infringes many works,⁶² the plaintiff can receive substantial awards.⁶³ Additionally, courts may choose to award more than the minimum statutory amount per work, which can lead to very high judgments. For example, in one case under the 1976 Act, damages reached \$31.68 million for 440 infringed works,⁶⁴ and in another, they reached \$53.4 million⁶⁵ for 2,136 infringed works.⁶⁶ While the court in the latter case chose to award damages at less than the (then) statutory maximum of \$25,000 per work,⁶⁷ it had to award at least \$750 per work to comply with the statutory minimum.⁶⁸ Given the large number of infringed works, the statutory minimum required the court to award the plaintiff at least \$1,602,000. Such high awards are potentially detrimental and unfair to defendants; consequently, critics have called for reform.⁶⁹

The limitation of statutory damages on a per-work basis serves also to limit a copyright claimant’s flexibility.⁷⁰ In *Venegas-Hernandez v. Sonolux Records*, the defendant record company, without license, published sixteen albums, each containing different recordings of two songs written by the plaintiffs’ father.⁷¹ When Sonolux Records chose

60. See *Patry*, *supra* note 37, § 22:191 (“The limitation applies regardless of whether the defendant violated the reproduction right 10,000 times, the reproduction right once and the distribution right once, or any conceivable combination of any of the section 106 and 106A rights. On the whole, the courts have followed this simple direction.”).

61. *Id.* § 22:184.

62. See *Rogers v. Eighty Four Lumber Co.*, 623 F. Supp. 889 (W.D. Pa. 1985).

63. *NIMMER & NIMMER*, *supra* note 28, § 14.04[E][1][a].

64. *Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1191 (9th Cir. 2001).

65. *UMG Recordings, Inc. v. MP3.com, Inc.*, No. 00Civ.0472(JSR), 2000 U.S. Dist. LEXIS 17907, at *1–2 (S.D.N.Y. Nov. 14, 2000).

66. See *UMG Recordings, Inc. v. MP3.com, Inc.*, No. 00Civ.472(JSR), 2000 U.S. Dist. LEXIS 13293, at *18 (S.D.N.Y. Sept. 6, 2000) (explaining that the basis for the court’s award is a finding that appropriate damages are \$25,000 per infringed CD).

67. *Id.*

68. See *NIMMER & NIMMER*, *supra* note 28, § 14.04[B][1][b].

69. See *Samuelson & Wheatland*, *supra* note 35, at 443 (arguing that statutory damage awards are particularly likely to be grossly excessive when compared with actual damages); J. Cam Barker, Note, *Grossly Excessive Penalties in the Battle Against Illegal File-Sharing: The Troubling Effects of Aggregating Minimum Statutory Damages for Copyright Infringement*, 83 TEX. L. REV. 525, 525–27 (2004) (arguing there are due process concerns when an individual who downloads four thousand songs illegally is liable for a minimum of \$3 million dollars in statutory damages when plaintiff’s harm is only \$4,000).

70. See *supra* notes 8–10 and accompanying text.

71. *Venegas-Hernandez v. Sonolux Records*, 370 F.3d 183, 185–86 (1st Cir. 2004).

not to defend against the claims of infringement, the trial court entered a default judgment.⁷² Because of the defendant's failure to appear, the plaintiffs had no opportunity to conduct discovery and were "disadvantaged" in proving actual damages or defendant's profits as a result of the infringement.⁷³ The plaintiffs elected to seek statutory damages.⁷⁴ The trial court found the infringement was willful and awarded \$1,600,000—a \$100,000 award for each of the sixteen infringing albums.⁷⁵

After the entry of judgment, Sonolux challenged the basis for the award, pointing out that the damages should have been limited to the number of the plaintiffs' songs it infringed rather than the number of infringing albums on which those songs appeared.⁷⁶ The trial court granted Sonolux's motion to amend the judgment, reducing the award to \$200,000, and the plaintiffs appealed.⁷⁷ The First Circuit considered the plain meaning and the legislative history of § 504(c)⁷⁸ and, following the holdings of other federal circuits, limited the total number of statutory damage awards to two, one for each song.⁷⁹ Acknowledging that the statutory provision was a punitive measure designed to deter infringers,⁸⁰ however, the First Circuit remanded the case to give the plaintiffs the opportunity to argue for an increased award.⁸¹ The plaintiffs failed to raise any argument on appeal that they should be allowed to seek actual damages or the defendant's profits, so by statute their recovery could not exceed \$300,000.⁸² Thus, the one-award-per-work requirement and Sonolux's failure to appear at the trial phase stymied the plaintiffs' ability to recover what the defendant gained by infringing.

Walt Disney Co. v. Powell, a case the *Venegas-Hernandez* court relied upon in interpreting the one-award-per-work requirement, presented a similar instance in which a plaintiff had difficulty proving

72. *Id.* at 186.

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.*

77. *Id.*

78. *Id.* at 192.

79. *Id.* at 195.

80. *Id.* at 196 (citing *Williams v. United States*, 503 U.S. 193 (1992)).

81. *Id.* at 196–97.

82. *Id.* at 196. The statutory maximum at the time of the trial was \$150,000 per song. *Id.* It is doubtful the plaintiffs could successfully have "unelected" statutory damages. Generally, once the election of statutory damages has been made, "it may not be revoked." PATRY, *supra* note 37, § 22:173.

damages despite many acts of infringement.⁸³ In *Walt Disney Co.*, the defendant ran a wholesale souvenir business through a network of street vendors that sold t-shirts with six different designs featuring Mickey and Minnie Mouse to tourists.⁸⁴ Because the defendant did not keep business records of how many shirts he sold, making it nearly impossible for the court to assess actual damages or profits, Disney elected to seek statutory damages.⁸⁵ The US District Court for the District of Columbia based its award of \$90,000 on a finding of six separate infringed works.⁸⁶ Holding that works are only distinct when they “live their own copyright life,”⁸⁷ however, the D.C. Circuit determined that there were only two *works* at issue—Mickey Mouse and Minnie Mouse—rather than the six different designs of Mickey and Minnie that the defendant was selling.⁸⁸ The court held that the plain language and legislative history of § 504(c) limit a plaintiff to one statutory award for each work.⁸⁹ The same reasoning now controls in all federal circuit courts that have considered the question.⁹⁰

C. Procedural Implications of the Current Limits

Because of the one-award-per-work rule, the type of award a copyright claimant elects and the procedure he chooses to follow can greatly affect the amount of relief he receives.⁹¹ A plaintiff may file separate actions against an infringer for each act of infringement in the hope this might allow recovery of several statutory damage

83. *Venegas-Hernandez*, 370 F.3d at 192 (citing *Walt Disney Co. v. Powell*, 897 F.2d 565, 569 (D.C. Cir. 1990)).

84. *Walt Disney*, 897 F.2d at 567.

85. *Id.*

86. *Id.* at 569.

87. *Id.* (quoting *Robert Stigwood Grp. Ltd. v. O'Reilly*, 530 F.2d 1096, 1105 (2d Cir. 1976)). Patry argues that this formulation has “wreaked havoc” on the understanding of the one-award-per-work requirement, which he asserts is clear from the plain language of the statute. PATRY, *supra* note 37, § 22:190; *see infra* notes 215–221 and accompanying text.

88. *Walt Disney*, 897 F.2d at 570.

89. *Id.* at 569.

90. *See, e.g.,* *WB Music Corp. v. RTV Commc’n Grp., Inc.*, 445 F.3d 538, 540 (2d Cir. 2006); *Columbia Pictures Television v. Krypton Broad. of Birmingham, Inc.*, 106 F.3d 284, 294 (9th Cir. 1997); *Mason v. Montgomery Data, Inc.*, 967 F.2d 135, 143–44 (5th Cir. 1992); *D.J. Miller I*, No. 3:09-CV-01098, 2011 WL 4729755, at *3-4 (M.D. Tenn. Oct. 5, 2011).

91. *See* NIMMER & NIMMER, *supra* note 28, § 14.04[E][2][b] (explaining that plaintiffs may avoid the limitation by suing the same infringer in separate actions, so long as such claim splitting is not barred by the doctrine of *res judicata*); *see also id.* § 14.04[E][2][d] (explaining that some courts will hold separate infringers of a single copyright jointly and severally liable for a single award while others will hold each separate infringing party liable for a separate statutory damage award).

awards rather than one.⁹² The risk, though, is that once a court makes a negative ruling on one act or claim, any subsequent claims may be precluded under the doctrine of *res judicata* if those claims could have also been made in the first action.⁹³ Accordingly, this tactic may result in a smaller overall award than if all claims had been brought together⁹⁴ because only the meritless claims should fail if they were brought in the same action, and the court may be more generous than the plaintiff anticipates in interpreting the number of works at issue.

The claimant may also seek to sue separate infringers in separate actions.⁹⁵ In *Bouchat v. Bon-Ton Department Stores, Inc.*, the plaintiff sought relief against separate defendants, making “identical” claims in each action regarding a “common series of transactions.”⁹⁶ The Fourth Circuit noted that the plaintiff was not under any legal obligation to join the defendants together.⁹⁷ However, because the plaintiff had unfavorable rulings on his earlier claims against several defendants, he was precluded from relitigating those claims against other defendants by estoppel.⁹⁸ A plaintiff suing in successive actions runs the risk of a single unfavorable ruling spoiling his claims against other defendants.⁹⁹

Thus, a plaintiff may be better off joining separate infringers together in a single action even though he runs the risk of the court finding that the awards are limited to just the particular work(s) infringed.¹⁰⁰ This involves questions of joint and several liability that complicate the inquiry into whether separate acts of infringement are *separate enough* to escape the limitations of the one-award-per-work requirement.¹⁰¹ According to § 504(c), the statutory minimum and maximum apply to each infringement with respect to a single work for

92. See *Bouchat v. Bon-Ton Dep't Stores, Inc.*, 506 F.3d 315, 328–29 (4th Cir. 2007).

93. *Id.* If it were found that the defendant had not infringed, the doctrine of *res judicata* would restrict the plaintiff from relitigating related claims in subsequent actions. 18 MOORE'S FEDERAL PRACTICE—CIVIL § 131.20 (Matthew Bender, 2012). Thus, if a defendant or multiple defendants had repeatedly (allegedly) infringed one of the copyrighted works, a court finding of non-infringement or of an incurable defect in the claim regarding one act of infringement would be binding for all later claims that could have been raised in the same action. *Id.*

94. GOLDSTEIN, *supra* note 37, § 14.2.2.2(a).

95. See NIMMER & NIMMER, *supra* note 28, § 14.04[E][2][e].

96. *Bouchat*, 506 F.3d at 328–29.

97. *Id.* at 328 (“[W]e do not create a rule of mandatory joinder . . .”).

98. *Id.* at 329.

99. *Id.* (“Any plaintiff who sues joint tortfeasors separately bears the risk that an adverse determination in the first action will trigger preclusion doctrines in a later action.”).

100. See NIMMER & NIMMER, *supra* note 28, § 14.04[E][2][d].

101. *Id.*

which any defendants are jointly and severally liable.¹⁰² If the defendants all contributed to a single infringement of a single work, then no matter how many defendants there are, the plaintiff can only recover one statutory damage award.¹⁰³ For each act of independent infringement, however, the plaintiff may sometimes recover a separate award.¹⁰⁴ When a single defendant is jointly and severally liable with independent defendants who are not jointly liable with one another—say, if a person makes a bootleg of a DVD and gives copies to three different people to distribute—that defendant may be liable for multiple statutory damage awards for independent infringements of the distribution right of a single work.¹⁰⁵ This is because the three distributors of the bootleg are not jointly liable with one another, justifying three separate awards, which the defendant may not be able to circumvent by asserting his joint liability with each distributor.¹⁰⁶

However, the mere possibility of joining a defendant to multiple infringers who are severally liable will not guarantee that a plaintiff can recover multiple awards.¹⁰⁷ In *Sony/ATV Music Publishing LLC v. D.J. Miller Music Distributors, Inc.*, the plaintiffs argued that they might have sued the defendants (distributors of karaoke discs allegedly infringing plaintiffs' copyrights) together with the various manufacturers of different karaoke versions of a single work.¹⁰⁸ If they had, plaintiffs argued, then the defendants would have been jointly and severally liable with each manufacturer, and the plaintiffs would have been able to recover as many awards per work as there were manufacturers.¹⁰⁹ The plaintiffs explained to the court that there were good reasons those manufacturers were not

102. See 17 U.S.C. § 504(c)(1) (2006).

103. See NIMMER & NIMMER, *supra* note 28, § 14.04[E][2][d].

104. *Id.*

105. See *Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1194 (9th Cir. 2001) (holding the owner of two television stations liable for two separate awards for each work because the stations were not joint tortfeasors when they aired the same episodes of "Who's the Boss?").

106. See *id.* at 1194 ("[T]o the extent that Feltner seeks to introduce evidence to demonstrate his connection with each of the stations, that simply makes Feltner a joint tortfeasor with each station—it does not make each station a joint tortfeasor with respect to the other."). But see *Fitzgerald v. CBS Broad., Inc.*, 491 F. Supp. 2d 177, 183 (D. Mass. 2007) ("[A] tort plaintiff may not multiply defendants by breaking up a corporation or other institution into its organizational components when those components have no separate legal identity.").

107. See *D.J. Miller I*, No. 3:09-CV-01098, 2011 WL 4729755, at *4 (M.D. Tenn. Oct. 5, 2011).

108. Plaintiffs' Response in Opposition to JSK Defendant's Motion for Judgment on the Pleadings ¶ 1(c), *Sony/ATV Music Publ'g L.L.C. v. D.J. Miller Music Distribs., Inc.*, No. 09-CV-01098 (M.D. Tenn. July 19, 2011), 2011 WL 4805123 [hereinafter *D.J. Miller Plaintiffs' Response*].

109. *Id.*

joined—the litigation costs were prohibitive since some manufacturers were insolvent and others were judgment proof—and argued that it should make no difference that they were not named parties in the suit.¹¹⁰

The court rejected this argument, holding that the one-award-per-work requirement means the defendant is liable only for one work regardless of the number of manufacturers.¹¹¹ The court noted that if the defendants *named* in the suit were found not to be acting in a jointly liable capacity, the plaintiffs could recover an award from each defendant per work.¹¹² The statute states that there will be only one award for each work “for which any two or more infringers are liable jointly *and severally*”¹¹³ Copyright scholar William Patry asserts that this language serves a dual purpose of allowing plaintiffs a mode for recovery in the case of judgment-proof defendants while disallowing plaintiffs from multiplying the number of awards by making the same argument the Sony plaintiffs made in *D.J. Miller*.¹¹⁴

In *Arista Records LLC v. Lime Group LLC*, the plaintiff record companies argued that the file-sharing service LimeWire should be liable for each individual infringement (of roughly eleven thousand copyrighted works) by the users of LimeWire, none of whom were jointly liable with one another.¹¹⁵ The Southern District of New York disagreed, holding that, even for the separate infringers with whom LimeWire might be jointly and severally liable, the plaintiff could recover only one statutory damage award per work.¹¹⁶ In support of its decision, the court pointed out that the fact-finder may increase the award within the statutory limits on the basis of the number of direct infringers.¹¹⁷ In addition, the court explained that allowing the plaintiffs to recover an independent statutory award from LimeWire for each direct infringer’s sharing of its eleven thousand works would produce an absurd result: damages that could reach into the trillions of dollars.¹¹⁸

It appears that the only circumstance under which a plaintiff can recover multiple awards from multiple defendants infringing the same work is if the defendants each infringed a *separate* right that the

110. *Id.* ¶ 1(c) n.3.

111. *See D.J. Miller I*, 2011 WL 4729755, at *5.

112. *See id.*

113. 17 U.S.C. 504(c)(1) (2006) (emphasis added).

114. *See* PATRY, *supra* note 37, § 22:194.

115. *Arista Records L.L.C. v. Lime Group L.L.C.*, 784 F. Supp. 2d 313, 316 (S.D.N.Y. 2011).

116. *See id.* at 316.

117. *See id.* at 316–17.

118. *See id.* at 317.

co-defendants had not also infringed.¹¹⁹ Patry gives two helpful illustrations of situations that could give rise to such a right to multiple statutory awards:

[1] Defendants A, B, & C, acting in concert, violate the reproduction right. Defendant C, acting alone, also violates the public performance right. There is one award for violation of the reproduction right, for which A, B, & C are jointly and severally liable. There is a second award for violation of the public performance right, for which C is severally liable.

[2] Defendants A, B, & C, acting in concert to put on [a performance] which is infringing, violate separate rights. A alone violates the reproduction right. B alone violates the distribution right. C alone violates the public performance right. There are three awards, for which each defendant is severally liable.¹²⁰

Although it seems quite unlikely that among a group of infringers each would have violated only one right—and that none of those rights would have also been violated by the others—there can, at least theoretically, be multiple awards for the infringement of the same work by several defendants.¹²¹

II. THE LIMITS OF DETERRENCE IN STATUTORY DAMAGES

If the infringer is a more efficient producer, his gain may exceed the copyright owner's loss.¹²²

The uniform judicial approach to the one-award-per-work requirement can run counter to the purposes of the statutory damages provision, which are to deter copyright infringement and to compensate copyright owners in circumstances when actual damages and defendant's profits are difficult to prove.¹²³ In the face of a growing piracy problem, Congress amended the statutory damages provision in 1999, increasing the available award.¹²⁴ Preserving the limitation on damages by the number of works infringed, however, blunts the damage provision's effectiveness, regardless of how high the cap is set. Even the maximum allowable damages (\$150,000) may be inadequate to effectively deter willful infringers when plaintiffs face a strong incentive to elect statutory damages and there are a limited number of works at issue because defendants may price in those costs and still profit.

119. See PATRY, *supra* note 37, § 22:196.

120. *Id.*

121. See *D.J. Miller I*, No. 3:09-CV-01098, 2011 WL 4729755, at *4 (M.D. Tenn. Oct. 5, 2011) (noting that separate defendants had not been named for severable infringements of the same work but were alleged to have acted in concert with respect to each act of infringement).

122. *Bucklew v. Hawkins, Ash, Baptie & Co.*, 329 F.3d 923, 931 (7th Cir. 2003).

123. See Jeffrey M. Thomas, Comment, *Willful Copyright Infringement: In Search of a Standard*, 65 WASH. L. REV. 903, 903 (1990).

124. See NIMMER & NIMMER, *supra* note 28, § 14.04[B][1][b].

Statutory damages are necessary to induce copyright owners to enforce their copyrights in court and, more broadly, invest in the creation of copyrightable content in the first place because the value of the right depends on the power of court enforcement.¹²⁵ Actual damages in copyright actions are often difficult to prove.¹²⁶ If the threat of statutory damages is the only tool available for some owners to enforce their copyrights, then it is the only means of deterring infringement in such cases.¹²⁷ Inadequate damages may actually encourage infringing activity that yields a profit despite the imposition of legal judgment and damages.¹²⁸ Since there are instances in which only statutory damages are foreseeably available, there exists an opportunity for willful infringers to profit from the inadequacy of the statute and its application by the courts.¹²⁹

A. Copyright Plaintiffs Face Incentives to Choose Statutory over Actual Damages

Electing statutory damages benefits plaintiffs by allowing them to avoid the difficulties of proving actual damages or defendant's profits and forgo the costs of defending those issues on appeal, particularly if they might lose at the appellate level.¹³⁰ Some courts allow a plaintiff to reserve the right to elect statutory damages until the fact-finder renders a judgment on both actual and statutory damages.¹³¹ But the plaintiff may not revoke the election of statutory damages once it is made.¹³² And the statute requires that the plaintiff elect statutory damages before the entry of final judgment.¹³³

125. See GOLDSTEIN, *supra* note 37.

126. See, e.g., *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935); GOLDSTEIN, *supra* note 37, § 14.42; PATRY, *supra* note 37.

127. See *supra* note 126.

128. See *Douglas v. Cunningham*, 294 U.S. at 209 (explaining that copyright law allows the recovery of defendant's profits in addition to harm to the plaintiff in actual-damages cases because otherwise the defendant may still gain from the infringement). Note that the opposite effect may also occur—a defendant's profits, admitted or proven, may be minimal when compared to the harm suffered by a copyright owner. See *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 232 (1952).

129. See *infra* Part II.D.

130. See *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1382 (2d Cir. 1993).

131. See PATRY, *supra* note 37, § 22:171.

132. See *Jordan v. Time, Inc.*, 111 F.3d 102, 104 (11th Cir. 1997) (per curiam); *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1380 (2d Cir. 1993). *But see* *Cotter v. Christus Gardens, Inc.*, 238 F.3d 420, 428–29 (6th Cir. 2000) (allowing plaintiff to elect statutory damages on remand after jury issued alternative awards, one in statutory damages and one in actual damages, and plaintiff did not make an election). Patry calls the Sixth Circuit's decision in *Cotter* “poorly reasoned and incorrectly decided.” See PATRY, *supra* note 37, § 22:173.

133. 17 U.S.C. § 504(c) (2006).

Actual damages are often difficult¹³⁴ and at times impossible to prove.¹³⁵ The defendant may profit from infringement that is inextricably intertwined with a noninfringing, profit-generating activity, such that it is impossible to discern the portion of the profits that is attributable to the infringement.¹³⁶ While this ordinarily favors the plaintiff because the burden is on the defendant to prove an apportionment based on noninfringing activities,¹³⁷ the inability of the plaintiff to know the proportion of defendant's profits due to the infringement without discovery might encourage him to seek statutory damages. The harm to the plaintiff may not be ascertainable from existing evidence,¹³⁸ or the defendant may avoid discovery altogether.¹³⁹ In cases where a plaintiff cannot prove actual harm or unjust enrichment, the only alternative to minimal or no recovery is to elect statutory damages.¹⁴⁰

Additionally, the costs of discovering a particular act of infringement may exceed actual damages and defendant's profits to such an extent that those search costs are recoverable only through statutory damages.¹⁴¹ When proving actual damages and profits is a challenge—if, for instance, a defendant fails to appear (as in *Venegas-Hernandez*) or does not keep adequate business records (as in *Walt Disney*)—the plaintiff puts himself in a far less risky position by choosing statutory damages.¹⁴² Furthermore, a court is less likely to reduce statutory damages than actual damages on appeal because the fact-finder at the trial-court level has greater discretion in choosing the size of the award within the statutory limits.¹⁴³ In sum, there are compelling reasons why statutory damages are the more appealing option for plaintiffs.

In *Sheldon v. Metro-Goldwyn Pictures Corp.*, Judge Learned Hand considered what proportion of the profits of the film *Letty Lynton* were attributable to the play upon which it was impermissibly

134. See GOLDSTEIN, *supra* note 37.

135. See *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935).

136. See, e.g., *Bus. Trends Analysts, Inc. v. Freedonia Grp., Inc.*, 887 F.2d 399, 407 (2d Cir. 1989); *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 48 (2d Cir. 1939).

137. See *Bus. Trends*, 877 F.2d at 407.

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

139. See *supra* notes 69–72 and accompanying text.

140. See *Blair & Cotter*, *supra* note 39, at 1653.

141. See *id.* at 1656.

142. *Venegas-Hernandez v. Sonolux Records*, 370 F.3d 183, 186 (1st Cir. 2004); *Walt Disney Co. v. Powell*, 897 F.2d 565, 566 (D.C. Cir. 1990).

143. See PATRY, *supra* note 37, § 22:174 (explaining that because it is not prohibited by statute, some courts have held that statutory damages bear some relation to actual damages, while in others they may be awarded regardless of actual damages or profits).

based.¹⁴⁴ The analysis was complicated because substantial portions of the play, including its overall narrative structure, were based on a story from the public domain.¹⁴⁵ Judge Hand noted that the film's profits could have derived from a host of factors, including the cast of actors in the production, their reputations, the producer and director, the scenery and costumes, and the advertising employed to promote the film.¹⁴⁶ He called the problem "insoluble," and fixed the proportion of the profits attributable to the plaintiffs at one-fifth, acknowledging that this allotment was "really no more than a guess."¹⁴⁷

In cases of collaborative works like films or sound recordings—which may only infringe in part and which often are profitable as a result of a concerted effort of creators, hired talent, engineers, producers, managers, and advertisements—copyright owners seeking to recover a defendant's profits may fear that the defendant may prove noninfringing contributions to his profits, which are very difficult and expensive for the plaintiff to disprove.¹⁴⁸ For complex enterprises, a plaintiff "could hardly verify or contest" a defendant's apportionment without auditing the entire business.¹⁴⁹ A defendant could prove enough costs that "profits could be diminished even to the vanishing point."¹⁵⁰ Electing statutory damages not only relieves the plaintiff from having to disprove a defendant's profits attributable to infringement at the trial stage, but also moots all appellate issues concerning calculations of actual damages and profits, reducing the uncertainty and cost of litigating these issues on appeal.¹⁵¹

Even for plaintiffs who would prefer to seek actual damages and profits, proving a defendant's profits is not an option for some copyright owners. In *Venegas-Hernandez*, for instance, Sonolux Records avoided discovery by failing to appear, leaving the plaintiffs with little choice but to opt for statutory damages.¹⁵² Plaintiffs who choose to proceed with a claim for actual damages in these circumstances run the risk of failing to adequately prove harm or unjust enrichment and may be left with only nominal damages or, worse, a finding of no liability.¹⁵³

144. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 48 (2d Cir. 1939).

145. *See id.* at 50.

146. *Id.* at 48–49.

147. *Id.* at 48, 51.

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

149. *Id.*

150. *Id.*

151. *See Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1382 (2d Cir. 1993).

152. *Venegas-Hernandez v. Sonolux Records*, 370 F.3d 183, 185–86 (1st Cir. 2004).

153. *See Blair & Cotter, supra* note 39, at 1653.

As a matter of fact, the *Venegas-Hernandez* plaintiffs proceeded with a separate claim for actual damages and profits for an album entitled *Sentimientos*.¹⁵⁴ This turned out to be disastrous, as the district court found they had failed to prove actual damages or defendant's unjust profits.¹⁵⁵ The First Circuit acknowledged that this failure resulted from the disadvantage of having no opportunity to obtain discovery.¹⁵⁶ Though the plaintiffs had claims for two other songs that the defendants had infringed in sixteen separate recordings,¹⁵⁷ they mistakenly believed they were entitled to a statutory damage award for each of the sixteen infringements—which was fortuitous, since this may have been the real reason they elected to seek statutory rather than actual damages for these two works.¹⁵⁸ Had the plaintiffs sought actual damages for these two songs, they presumably would have had no recovery at the trial level and Sonolux would have lost nothing for failing to appear.¹⁵⁹ The lesson of *Venegas-Hernandez* is that it is much less risky to choose statutory damages when they are available.

B. Punitive Damages under the 1976 Copyright Act

As a general rule, punitive damages are unavailable under the Copyright Act.¹⁶⁰ Because the 1976 Copyright Act preempts state common-law copyright claims,¹⁶¹ the statutory damage enhancement for willful infringement is the only mechanism by which the law may deter infringement by awarding damages greater than what the plaintiff suffers or the defendant gains.¹⁶² The language of § 504 contains no indication as to whether or not a court should award punitive damages.¹⁶³ Some argue that punitive damages do not

154. *Venegas-Hernandez*, 370 F.3d at 186.

155. *Id.*

156. *Id.*

157. *Id.* at 185–86.

158. *See id.* at 186.

159. *See id.* On the other hand, had they elected for statutory damages in the case of the album *Sentimientos*, they may have been eligible to recover an award for each separate song on the album as well. *See id.* But see *infra* Part II.D.3 (discussing case law and scholarship suggesting an album of sound recordings may constitute only one work within the meaning of the statute).

160. *Faulkner v. Nat'l Geographic Soc'y*, 576 F. Supp. 2d 609, 612–13 (S.D.N.Y. 2008). But see, e.g., *Bridgeport Music, Inc. v. Justin Combs Publ'g*, 507 F.3d 470, 476 (6th Cir. 2007) (allowing punitive damages under common-law copyright for pre-1972 sound recordings and remanding on instructions to offer a remittitur on due process grounds).

161. 17 U.S.C. § 301(a) (2006).

162. *See generally* PATRY, *supra* note 37, § 22:151 n.8 (listing cases in all but the First Circuit interpreting the 1976 Act to have rendered punitive damages unavailable).

163. *See, e.g.,* *Bucklew v. Hawkins, Ash, Baptie & Co.*, 329 F.3d 923, 931 (7th Cir. 2003).

comport with the restitution-providing function of the actual-damages and profits provisions of § 504(a).¹⁶⁴ One possible reason for the lack of recognition of punitive damages in copyright is that courts may believe the goals of punishment and deterrence are fulfilled by the statutory maximum of \$150,000 per work for willful infringement.¹⁶⁵ In *TVT Records v. Island Def Jam Music Group*, however, a judge in the Southern District of New York indicated he might allow punitive damages in addition to actual damages and profits.¹⁶⁶ In the interests of furthering the policies of punishment and deterrence, Judge Marrero rejected a jury instruction proposed by the defendants that would have stated that punitive damages were unavailable under the 1976 Act.¹⁶⁷ The plaintiffs, though, elected to seek statutory damages, mooting the issue.¹⁶⁸

While the Ninth Circuit has recognized a punitive rationale behind statutory damages,¹⁶⁹ Patry argues that § 504(c) serves only to deter and not to punish.¹⁷⁰ He points to the Supreme Court's decision in *L.A. Westermann* as rejecting a punitive rationale behind statutory damages.¹⁷¹ In *L.A. Westermann*, the Court wrote:

The idea of the punishment of the wrongdoer is not so much suggested by the language used in the [1909 Act] as is a desire to provide for the recovery by the proprietor of full compensation from the wrongdoer for the damages such proprietor has sustained from the wrongful act of the latter. . . . The statute itself does not speak of punishment or penalties, but refers entirely to damages suffered by the wrongful act. . . . Although punishment, in a certain and very limited sense, may be the result of the statute before us so far as the wrongdoer is concerned, yet we think it clear such is not its chief purpose, which is the award of damages to the party who had sustained them¹⁷²

The deterrence function is distinct from punishment, Patry argues, because it is designed merely to impose "a high enough penalty so that defendants will realize that it is less expensive to comply with the law

164. See *id.*

165. On *Davis v. The Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001); NIMMER & NIMMER, *supra* note 28, § 14.02[C][2].

166. *TVT Records v. Island Def Jam Music Grp. (TVT Records I)*, 262 F. Supp. 2d 185, 186–87 (S.D.N.Y. 2003). Patry is highly critical of this ruling's reasoning and result, believing it to reflect poor understanding of the statute and of Second Circuit precedent. PATRY, *supra* note 37, § 22:151.

167. *TVT Records I*, 262 F. Supp. 2d at 186–87.

168. *TVT Records v. Island Def Jam Music Grp. (TVT Records II)*, 288 F. Supp. 2d 506, 509 n.5 (S.D.N.Y. 2003).

169. *Leegin Creative Leather Prods., Inc. v. Belts by Nadim, Inc.*, 316 F. App'x 573, 575 (9th Cir. 2009) ("[I]t is well established that statutory damages may be imposed for both punitive and compensatory purposes.") (citing *L.A. News Serv. v. Reuters Television Int'l, Ltd.*, 149 F.3d 987, 996 (9th Cir. 1998)).

170. PATRY, *supra* note 37, § 22:174.

171. *Id.*

172. *L.A. Westermann Co. v. Dispatch Printing Co.*, 249 U.S. 100, 108–09 (1919) (quoting *Brady v. Daly*, 175 U.S. 148, 154–57 (1899)).

than to violate it.”¹⁷³ If statutory damages fail to impose a penalty that is high enough, and it is cheaper to violate the law, then the damage provisions are insufficient to deter infringement. The law would allow willful infringers to “sneer in the face of copyright owners and copyright laws.”¹⁷⁴

C. Statutory Damages May Be Inadequate to Deter Infringement

The combination of the one-award-per-work limitation and the overall damages cap jeopardizes the deterrence function of the statutory damages provision when infringers may simply account for these costs as a part of their bottom line. A defendant who refuses to appear, robbing the copyright owner of a chance to prove the defendant’s profits from the infringement, faces a maximum claim of \$150,000 per work.¹⁷⁵ So long as the infringer’s profits exceed \$150,000, there is no incentive for the defendant to contest the claim of infringement, especially since defendants know they can thwart discovery by refusing to appear.¹⁷⁶ In *Venegas-Hernandez*, for instance, the plaintiffs had properly served Sonolux with a summons and a complaint and gave Sonolux notice of the damages hearing after the court had entered a default judgment in favor of the plaintiffs.¹⁷⁷ The First Circuit found that Sonolux “intentionally did not appear.”¹⁷⁸ Sonolux may well have calculated that its profits so exceeded its maximum liability under the statute that it was not worth the cost of litigating the case in Puerto Rico, only to have its books opened to the plaintiffs.

Additionally, transaction costs—specifically, the costs of discovery and trial—may reduce the likelihood of even innocent infringers electing to defend against infringement claims. If the sum of the infringer’s anticipated litigation costs and its expected liability for innocent infringement (up to \$30,000) exceeds \$150,000, it makes no financial sense to contest the claim.¹⁷⁹ It is an added bonus that

173. PATRY, *supra* note 37, § 22:174.

174. *Int’l Korwin Corp. v Kowalczyk*, 665 F. Supp. 652, 659 (N.D. Ill. 1987).

175. *See supra* Part II.A.

176. *See Venegas-Hernandez v. Sonolux Records*, 370 F.3d 183, 186, 195 (1st Cir. 2004).

177. *Id.* at 187.

178. *Id.*

179. *See id.* at 186 n.2. One ramification of such perverse incentives is that they provide a rational boundary for any settlement between the parties. The hypothetical *Venegas-Hernandez* plaintiffs, knowing that Sonolux has every incentive not to appear, are better off filing for statutory damages and rejecting any settlement offer under \$150,000 minus their litigation costs. However, the only settlement offer Sonolux would reasonably make would be less than \$150,000, its maximum exposure from a judgment. The reasonable floor would be determined by subtracting the plaintiff’s anticipated litigation expenses. A plaintiff who is

the plaintiff will thereby lose the opportunity to prove defendant's profits after the plaintiff elects statutory damages.¹⁸⁰

A willfulness determination may have other consequences for the defendant apart from increasing the judgment owed to the plaintiff, including "loss of insurance coverage, encouraging shareholder derivative suits, and loss of bankruptcy exemptions."¹⁸¹ But derivative suits are less likely if the damages are as minor as they were in *Villegas-Hernandez* or when the defendant is a small, private company.¹⁸² While these secondary effects of a finding of willfulness might marginally increase the perceived risk of intentional infringement, this Note assumes a non-risk-averse profit seeker—one who is already willing to ignore copyright laws whenever it appears that the costs of infringement are less than the potential profit. For such an infringer, the secondary consequences of a finding of willfulness are less of a concern than for ordinary defendants who intend to comply (or wish to appear to comply) with the law. Most importantly, the monetary penalties of the statute do not serve to adequately deter such infringement.

D. The Law Allows for Efficient Willful Infringement

Because of the procedural complexities of liability for copyright infringement, some infringers may seek to reduce their exposure to multiple damage claims by avoiding dealings with multiple other infringers independent of one another, by vertically integrating infringing operations, or by attempting to manipulate the number of works at issue.

1. Joint and Several Liability

*D.J. Miller*¹⁸³ illustrates how the one-award-per-work requirement may allow an infringer to profit by manipulating his exposure to joint and several liability. The plaintiffs in *D.J. Miller* sued various karaoke manufacturers for allegedly manufacturing and

expected to spend *more* money litigating an infringement would merit a *lower* settlement offer from the defense. See generally *supra* Part II.C.

180. GOLDSTEIN, *supra* note 37, § 14.0.

181. *In re Braun*, 327 B.R. 447, 452 (Bankr. N.D. Cal. 2005); PATRY, *supra* note 37, § 22:180.

182. *Venegas-Hernandez v. Sonolux Records*, 370 F.3d 183, 186 (1st Cir. 2004) (awarding \$200,000 for infringement of two works under the then-statutory maximum of \$100,000 for willful infringement of a single work).

183. See *D.J. Miller I*, No. 3:09-CV-01098, 2011 WL 4729755, at *5 (M.D. Tenn. Oct. 5, 2011).

distributing karaoke discs in violation of plaintiffs' copyrights.¹⁸⁴ The defendants filed a motion for judgment on the pleadings, arguing that the plaintiffs were seeking damages on a per-infringement rather than a per-work basis.¹⁸⁵ On several occasions, the plaintiffs had listed in their complaint more than one claim for a particular sound recording, arguing that the usual one-award-per-work requirement should not apply.¹⁸⁶ To get around this limitation, the plaintiffs argued that the defendants were distributing several unlicensed "brands," each consisting of a different karaoke version of a particular work, and each of which was manufactured by a separate entity.¹⁸⁷ The plaintiffs argued that prohibiting additional claims for the different "brands" would give infringing distributors an incentive to expand their catalogue to encompass as many "brands" as possible with respect to a given work because their liability would be limited to one award.¹⁸⁸ Further, the plaintiffs argued that those in the business of manufacturing unlicensed recordings would benefit from a distribution network that faced no additional liability when taking on new "brands," so long as the unlicensed recordings were of the same copyrighted works as those it was already distributing.¹⁸⁹

The plaintiffs pointed out that under the one-award-per-work requirement, each of these manufacturers would be liable for a statutory award as long as the defendants had not operated jointly in manufacturing the recordings.¹⁹⁰ If they had individually sued ten manufacturers, for example, each of which had made a unique recording of a single copyrighted work, the plaintiffs could recover ten statutory damage awards because the manufacturers are not jointly and severally liable with one another.¹⁹¹ If one of the actual defendant distributors in the case joined these hypothetical codefendants, it would face joint liability for contributory infringement for each of the claims against the manufacturers, meaning the defendant would be jointly and severally liable for ten statutory damage allotments even though there is only one copyrighted work.¹⁹² The plaintiffs argued that allowing only one award per work requires similarly situated copyright owners to "undertake the charade of filing separate actions"

184. *Id.* at *1.

185. *Id.* at *1–2.

186. *Id.* at *2.

187. *Id.*

188. *Id.*

189. *See id.*; *see also D.J. Miller Plaintiffs' Response*, *supra* note 109, ¶ 1.

190. *D.J. Miller I*, 2011 WL 4729755, at *3.

191. *Id.* at *5.

192. *See id.*

in order to achieve multiple awards.¹⁹³ In addition to this judicial-economy argument, the plaintiffs complained it was unfair to require copyright owners to sue manufacturers who may have dissolved or otherwise become judgment-proof, as was the case for many of the karaoke manufacturers.¹⁹⁴

The *D.J. Miller* court, however, granted the defendants' motion and dismissed the plaintiffs' duplicate claims because it considered the law settled as to the interpretation of the one-award-per-work requirement.¹⁹⁵ The court noted that all the federal courts of appeals that had considered the issue were in agreement and declined to find in favor of the plaintiffs on mere policy grounds.¹⁹⁶ The court pointed out that the plaintiffs did not fit into the potential categorical exception to the rule because they had not named any of the allegedly independently liable manufacturers in their complaint.¹⁹⁷

A similar situation arose in *Arista Records LLC v. Lime Group LLC*, in which the plaintiffs actually *had* named some of the independently liable infringers along with the secondarily liable defendant LimeWire.¹⁹⁸ In that case, the district court rejected on policy grounds the plaintiffs' argument that LimeWire should be jointly liable with all the direct infringers, who were responsible for independent infringements of over ten thousand works.¹⁹⁹ The damages for secondary liability could have reached into the trillions of dollars, an absurd result even in the realm of statutory damages for copyright infringement.²⁰⁰

D.J. Miller and *Lime Group* illustrate that the current one-award-per-work limitation can be both inadequate, as in the hypothetical raised by the *D.J. Miller* plaintiffs, and overbroad, as suggested by the fact that LimeWire could theoretically be liable for amounts far beyond any possible actual damages.²⁰¹ While *Lime Group* raises the possibility of overbreadth,²⁰² there are few cases

193. *D.J. Miller* Plaintiffs' Response, *supra* note 109, ¶ 1(c).

194. *Id.* ¶ 1(c) n.3.

195. *D.J. Miller I*, 2011 WL 4729755, at *4–5.

196. *Id.*

197. *Id.* at *5.

198. *Arista Records L.L.C. v. Lime Group L.L.C.*, 784 F. Supp. 2d 313, 316 (S.D.N.Y. 2011).

199. *Id.* at 317.

200. *Id.*

201. *See id.*; *see also* Samuelson & Wheatland, *supra* note 35, at 444–45 (exploring multi-million dollar awards of statutory damages in cases where no evidence of actual harm to plaintiffs or profits to defendants was shown and arguing that copyright law has strayed from its historical basis in compensating the copyright owner, focusing too heavily on deterrence).

202. *See Arista Records*, 784 F. Supp. 2d at 317; *see also* *UMG Recordings, Inc. v. MP3.com, Inc.*, No. 00Civ.472(JSR), 2000 U.S. Dist. LEXIS 13293, at *18 (S.D.N.Y. Sept. 6, 2000)

illustrating blatantly inadequate awards. One reason for the lack of plainly inadequate statutory awards is that if the plaintiff had the evidence to demonstrate the inadequacy of the damage award, he would originally have opted for actual damages rather than statutory damages because he could have used the same evidence to prove damages. Consider *Venegas-Hernandez*: if it is true that the defendants failed to appear because their profits exceeded any possible liability under the statutory regime, then the statutory awards are inadequate when compared with the actual damages, which the plaintiffs could not prove.²⁰³ More importantly, the above cases illustrate that a defendant may have other means of reducing liability by limiting the number of works at issue, regardless of the number of different means or acts of infringement (such as the use of different “brands” in *D.J. Miller*).

2. Vertical Integration of Severable Infringements

The plaintiffs’ argument in *D.J. Miller* illustrates another way in which statutory damages may be inadequate to deter infringement. If the distributors violated only the distribution right for each sound recording, and the manufacturers violated only the reproduction right, then the plaintiffs may have been able to seek a separate award from each defendant, had they all been named in the same lawsuit.²⁰⁴ But imagine that the defendants controlled both manufacturing and distribution, rather than just distribution, and vertically integrated the creation of each infringing “brand” into its distribution network. The entities violating the various § 106 rights would no longer be separate.

In the above hypothetical, the defendants could strategically reduce liability by joining the jointly and severally liable defendants. The plaintiffs would be unable to argue that the manufacturing operation and the distribution arm are separate businesses, justifying separate awards, because a copyright owner may not name multiple units of a single company in order to increase the number of defendants and available statutory awards.²⁰⁵ Not only would the karaoke distributor face no additional liability by incorporating the manufacturer into the suit, but it would also reduce its total possible liability. This shrinks the universe of infringing entities against

(determining the appropriate measure of damages to be \$25,000 for each of 4,700 infringed CDs for a total award of approximately \$118 million despite the lack of any proof of actual damages to the plaintiff).

203. See *supra* notes 152–153 and accompanying text.

204. See *supra* Part II.D.1.

205. See *Fitzgerald v. CBS Broad., Inc.*, 491 F. Supp. 2d 177, 182–83 (D. Mass. 2007).

which the copyright owners may bring a claim for an independent award. The infringing distributor reduces its own liability by conglomerating the infringing businesses, which thereby reduces the ability of the copyright owner to seek redress. At the same time, the infringing distributor increases the likelihood that its profits will exceed the maximum total liability by so limiting the total damages it may face, thereby incentivizing efficient willful infringement.

For a less risky strategy, the distributor may only integrate one manufacturer of a particular brand into its distribution network. As long as that in-house manufacturer produces recordings of every other "brand" the distributor acquires and sells from other manufacturers—much like a grocery store sells both generic and name brands—the distributor protects itself from additional liability because it is infringing *both* the distribution and the reproduction rights of every work.²⁰⁶ The copyright owner would not be able to hold the distributor (or its in-house manufacturer) severally liable on the theory that it engaged in a distinct infringement of a separate right from the various manufacturers.²⁰⁷ If the copyright owner tries to sue the various other manufacturers, it must not do so in the same action as the distributor because there will be no additional liability for the infringement of the reproduction right (since the distributor already violated the same right in the same work).²⁰⁸ If the copyright owner does *not* sue them together, however, it may face *res judicata* in any separate action for findings of noninfringement or on any ruling regarding the number of works at issue.²⁰⁹ Finally, the question of whom to sue first is more vexing when the plaintiff cannot know which defendants will show up to defend.²¹⁰ A plaintiff trying to sue our hypothetical infringer faces a pleading quagmire if he wishes to recover more than just the statutory maximum for each work.

3. One Album, One Work

A willfully infringing party has another strategy by which it may further reduce the number of works at issue on appeal—all the songs that appear on the same album arguably constitute parts of only one work under the statute.²¹¹ By the terms of the statute, all parts of a compilation or derivative work constitute a single work for the

206. See *supra* Part I.C.

207. See *supra* note 118 and accompanying text.

208. See *supra* note 117 and accompanying text.

209. See *supra* notes 96–97 and accompanying text.

210. See *supra* Part II.D.1.

211. See PATRY, *supra* note 37, § 22:185.

purposes of determining statutory damages.²¹² By intentionally copying works that appear together in compilations, an infringer may limit its liability dramatically if it can successfully argue that each album or compilation is only one work.²¹³ For example, in *Bryant v. Media Right Productions, Inc.*, the Second Circuit found that all sound recordings on an album are part of a compilation and do not represent more than one work for the purposes of statutory damages.²¹⁴ If *Bryant* represents the direction in which the law is evolving—a likely conclusion, considering the Second Circuit’s prominence in determining copyright law—it would be even easier for infringers to minimize liability when they infringe multiple sound recordings from a single musical compilation and from a single album by one artist.

A possible solution to this works-in-a-compilation problem could be an extension of the “independent economic” test from *Walt Disney*, which considers whether the alleged works each “live their own copyright life.”²¹⁵ Under this sort of test, since retailers sell separately the sound recordings in a musical compilation, they would be considered separate works.²¹⁶ It follows that all the sound recordings on a single album, whether they were written by one author or several, would represent separate works that live their own independent economic lives on iTunes, Spotify, Pandora, etc.

Courts and commentators have given mixed support to the “independent economic” doctrine. While Patry strongly criticizes it as being inconsistent with the statute and unnecessary in the face of the statute’s clear language,²¹⁷ it is presumably still good law in the First Circuit and the D.C. Circuit,²¹⁸ and it is implied to be the law in the

212. 17 U.S.C. § 504(c)(1) (2006).

213. *Bryant v. Media Right Prods., Inc.*, 603 F.3d 135, 140–41 (2d Cir. 2010); see also Wyatt J. Glynn, Note, *Musical Albums as “Compilations”: A Limitation on Damages or a Trojan Horse Set to Ambush Termination Rights?*, 26 BERKELEY TECH. L.J. 375, 375–76 (2011) (discussing *Bryant*).

214. *Bryant*, 603 F.3d at 141; see also PATRY, *supra* note 37, § 22:186 (discussing *Bryant* and arguing that it represents the correct interpretation of the statute). But see *WB Music Corp. v. RTV Comm’n Grp., Inc.*, 445 F.3d 538, 540 (2d Cir. 2006) (finding “compilation” depends on whether the copyrights were issued separately or together as a unit); *Twin Peaks Prods., Inc. v. Publ’ns Int’l, Ltd.*, 996 F.2d 1366, 1380–81 (2d Cir. 1993).

215. See *supra* note 87; PATRY, *supra* note 37, § 22:190; see also *Twin Peaks*, 996 F.2d at 1381 (finding eight separately produced episodes of the television series *Twin Peaks* each constituted a separate work).

216. See *Twin Peaks*, 996 F.2d at 1381 (“The author of eight scripts for eight television episodes is not limited to one award of statutory damages just because he or she can continue the plot line from one episode to the next and hold the viewers’ interest without furnishing a resolution.”).

217. See PATRY, *supra* note 37, § 22:190.

218. *Gamma Audio & Video, Inc. v. Ean-Chea*, 11 F.3d 1106, 1116 (1st Cir. 1993) (citing *Twin Peaks*, 996 F.2d at 1381); *Walt Disney Co. v. Powell*, 897 F.2d 565, 570 (D.C. Cir. 1990).

Fifth and Eleventh Circuits.²¹⁹ The Second Circuit, however, which initially gave life to the doctrine in *Twin Peaks Productions v. Publications International*, recently rejected it in explicit terms in *Bryant*, stating that it had “never adopted the independent economic value test” and that the language of the statute does not permit awards for each song on an album.²²⁰ The court dismissed the notion that policy considerations can trump the statute, writing:

We cannot disregard the statutory language simply because digital music has made it easier for infringers to make parts of an album available separately. This interpretation of the statute is consistent with the Congressional intent expressed in the Conference Report that accompanied the 1976 Copyright Act, which states that the one-award restriction applies even if the parts of the compilation are “regarded as independent works for other purposes.”²²¹

Under the interpretation favored by the Second Circuit and Patry, the willfully infringing party may, on appeal, further reduce its liability to one award for each group of songs that appeared on the same album. For instance, had the plaintiffs in *Venegas-Hernandez* sought statutory rather than actual damages for the *Sentimientos* album,²²² Sonolux would have been able to argue successfully that it was liable only for one additional statutory award. If such an infringer, having opted not to defend at the trial level to avoid discovery and the costs of litigation, received a favorable ruling at the trial level on the issue of the number of works eligible for individual awards, it of course would not appeal, saving substantially on legal fees.

These factors—the prevailing one-award-per-work limitation and the Second Circuit’s adherence to the plain language of the statute—increase the likelihood that the current statutory damages provisions are inadequate to deter willful infringers. There are scenarios in which an infringer may profit in spite of a judgment awarding maximum statutory damages for all the works infringed. For this reason, the current law may serve, in some instances, not as a deterrent, but as an incentive to infringe.

219. See *MCA Television Ltd. v. Feltner*, 89 F.3d 766, 770 (11th Cir. 1996) (allowing an award for nine hundred separate telecasts because of a pretrial stipulation under which the defendant incredibly agreed that each was a separate act of infringement); *Broad. Music, Inc. v. Xanthas, Inc.*, 855 F.2d 233, 235–36 (5th Cir. 1988) (upholding damage calculation based on the doctrine when the defendant did not challenge on appeal).

220. *Bryant v. Media Right Prods., Inc.*, 603 F.3d 135, 142 (2d Cir. 2010).

221. *Id.* (quoting H.R. REP. NO. 94-1476, at 162 (1976)).

222. See *supra* Part II.A.

III. PROPOSED SOLUTION: PUNITIVE DAMAGES

[T]he offender may profit from underenforcement, potentially engendering diminished deterrence and encouraging additional or sustained misbehavior by the same or other wrongdoers.²²³

Some critics of the current statutory damages provisions in copyright have suggested that Congress amend the statute in various ways to avoid unfairness to copyright defendants.²²⁴ Others have suggested a wholesale rethinking of copyright enforcement to provide alternatives that would adequately compensate the creators of copyrighted content without subjecting sellers and users to unforeseen and disproportionate harm.²²⁵ But legislation regarding copyright may be exceedingly difficult to pass given the growing saliency of its potential effects on Internet freedoms and commerce.²²⁶ If digital content providers such as Google have the ability to prevent the passage of copyright legislation that impedes their interests,²²⁷ and Congress still feels beholden to the interests of copyright content providers, namely the entertainment industry,²²⁸ then reform of

223. *TVT Records v. Island Def Jam Music Grp*, 279 F. Supp. 2d 413, 425 (S.D.N.Y. 2003) *rev'd on other grounds*, 412 F.3d 82, 92–93 (2d Cir. 2005).

224. See Barker, *supra* note 69, at 533–34 (proposing Congress make an exception to the statutory minimum damages for consumers named in peer-to-peer infringement suits); Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement without Restricting Innovation*, 56 STAN. L. REV. 1345, 1413 (2004) (suggesting amending the statute to provide an option for defendants in peer-to-peer infringement actions to choose administrative dispute resolution before an ALJ in the Copyright Office); Samuelson & Wheatland, *supra* note 35 (proposing amendment removing statutory minimums in cases of innocent infringement and a provision to avoid grossly excessive penalties when aggregating many claims).

225. See, e.g., Aric Jacover, *I Want My MP3! Creating a Legal and Practical Scheme to Combat Copyright Infringement on Peer-to-Peer Internet Applications*, 90 GEO. L.J. 2207, 2250–53 (2002) (suggesting a metering and royalty collection through compulsory licenses for Internet services that allow downloadable content or, alternatively, a tax on all businesses profiting from digital copyrightable content, including ISPs, computer and hard drive manufacturers, and Internet services providing content).

226. See Larry Magid, *SOPA and PIPA Defeat: People Power or Corporate Clout?*, FORBES (Jan. 31, 2012, 10:40 AM), <http://www.forbes.com/sites/larrymagid/2012/01/31/sopa-and-pipa-defeat-peoples-power-or-corporate-clout> (explaining that the issues leading to the failure of SOPA and PIPA marshaled both public dissent along with the lobbying power of tech giants such as Google, and that this may be a precursor for oversized political influence).

227. *Id.*

228. See Will Evans, *Hollywood Money Flows to Calif. Politicians Who Support Anti-Piracy Bills*, CALIFORNIA WATCH (Jan. 24, 2012), <http://californiawatch.org/dailyreport/hollywood-money-flows-calif-politicians-who-support-anti-piracy-bills-14591> (discussing the entertainment industry's \$14 million in contributions to US Senators compared with Internet interest groups' \$2 million); Richard Verrier, *Petition Demands Probe into Comments by MPAA Chief Chris Dodd*, COMPANY TOWN (Jan. 22, 2012, 8:59 PM), <http://latimesblogs.latimes.com/entertainmentnewsbuzz/2012/01/sopa-saga-continues-with-online-protest-over-dodds-remarks.html> (quoting Dodd as threatening to withhold campaign support from Congress members who do not support tougher anti-piracy laws).

copyright laws may become a third rail for politicians until these two industries can reach a compromise. In the meantime, the system will continue to lack a solution to the problem outlined in this Note. Furthermore, any proposed amendment raising the statutory damages cap would require Congress to guess what amount is sufficient to deter any foreseeable scheme that may be profitable in light of the one-award limitation and the statutory cap. Therefore, adequate statutory reform would need to incorporate both a high damages cap and a relaxing of the one-award-per-work limitation. Such changes to the statute would only exacerbate criticisms of grossly excessive awards levied against innocent infringers and consumers through aggregated claims.²²⁹ For these reasons, a judicial approach, which may tailor results based on the equities, is preferable.

While courts generally hold that punitive damages in copyright are unavailable,²³⁰ a few cases have questioned the prevailing general rule.²³¹ In *TVT Records v. Island Def Jam Music Group*, Judge Victor Marrero of the Southern District of New York held that punitive damages were not precluded in copyright infringement actions.²³² In a later opinion, ordering the offer of remittitur,²³³ Judge Marrero analyzed the history of punitive damages²³⁴ and their purpose²³⁵ and found that punitive damages serve to not only punish the individual, but also to discourage “other persons from engaging in similar wrongful conduct.”²³⁶ He applied these principles through the framework of *State Farm* and *Gore*, reducing the punitive award for copyright infringement.²³⁷ Holding that punitive damages are not precluded in copyright as a matter of law, Judge Marrero dismissed

229. See *supra* notes 198–200.

230. See *supra* Part II.B.

231. See *Blanch v. Koons*, 329 F. Supp. 2d 568, 569 (S.D.N.Y. 2004) (citing *TVT Records I*, 262 F. Supp. 2d 185, 187 (S.D.N.Y. 2003)); *TVT Records I*, 262 F. Supp. 2d at 186; see also *Silberman v. Innovation Luggage, Inc.*, No. 01-CV-7109(GEL), 2003 WL 1787123, at *10 (S.D.N.Y. April 3, 2003) (implying punitive damages may be available in copyright if there were malice or ill will toward the claimant). But see *Viacom Int'l, Inc. v. Youtube, Inc.*, 540 F. Supp. 2d 461, 463–64 (S.D.N.Y. 2008). In *Viacom Int'l v. Youtube*, Judge Stanton acknowledged that his earlier decision in *Blanch* was, along with *TVT Records I*, contrary to the prevailing case law and uncontrolling. 540 F. Supp. 2d at 463–64. Judge Stanton held that *Blanch* was a “tentative accommodation” that should not be extended to a case in which the infringed works were expected to be identified through discovery and the plaintiff had sufficient remedy. *Id.*

232. *TVT Records I*, 262 F. Supp. 2d at 186.

233. *TVT Records v. Island Def Jam Music Grp*, 279 F. Supp. 2d 413, 416 (S.D.N.Y. 2003) *rev'd on other grounds*, 412 F.3d 82, 92–93 (2d Cir. 2005).

234. *Id.* at 419–22.

235. *Id.* at 422–26.

236. *Id.* at 423 (citing *State Farm Mut. Auto. Ins. Co. v. Campbell*, 583 U.S. 408, 415 (2003)).

237. *Id.* at 442.

the argument that the Copyright Act allocates the compensatory remedy to the actual damages and profits provision of § 504(b) and assigns deterrence and punishment exclusively to the statutory damages provision of § 504(c).²³⁸ He pointed out that under the actual damages provision, the policy of punishment and deterrence is not “properly accounted for.”²³⁹

Patry is highly critical of this interpretation, arguing that the two sections of the statute cannot be read in isolation and that the provisions of § 504 as a whole represent Congress’s policy approach.²⁴⁰ But while Patry argues that Judge Marrero’s view lacks “appreciation for how statutes work,”²⁴¹ he does not account for the judge’s underlying policy concern, which is that there are instances in which there will be no imposition of statutory damages, either because the plaintiff elects not to seek them or because the statute bars them under the circumstances.²⁴² The *Venegas-Hernandez* case illustrates how statutory damages are an insufficient deterrent when the plaintiff elects to seek actual damages.²⁴³ And cases such as *Blanch v. Koons* demonstrate that there are no available statutory damages, and thus no deterrence, when a claimant has not registered her works prior to the infringement.²⁴⁴

The prevailing case law does not favor punitive damages for copyright infringement.²⁴⁵ Nonetheless, deterrence is an aim of the damage provisions of the Copyright Act.²⁴⁶ This Note has outlined

238. *TVT Records I*, 262 F. Supp. 2d 185, 186 (S.D.N.Y. 2003).

239. *Id.*

240. See PATRY, *supra* note 37, § 22:151.

241. *Id.*

242. *TVT Records I*, 262 F. Supp. 2d at 186.

243. See *supra* Part II.C.

244. *Blanch v. Koons*, 329 F. Supp. 2d 568, 570 (S.D.N.Y. 2004); see also *Viacom Int’l, Inc. v. Youtube, Inc.*, 540 F. Supp. 2d 461, 463–64 (S.D.N.Y. 2008) (explaining that the plaintiff in *Blanch* could not prove any actual damages or defendant profits, and thus was faced with the lack of available relief).

245. See *Fitzgerald v. CBS Broad., Inc.*, 491 F. Supp. 2d 177, 182–83 (D. Mass. 2007); see also PATRY, *supra* note 37, § 22:151 (“Punitive damages are *never* available for copyright infringement actions brought under the 1976 Copyright Act.”); NIMMER & NIMMER, *supra* note 28, § 14.02[C][2] (“It is therefore suggested that this rogue decision [*TVT Records*] should not be followed, in light of the profusion of contrary cases” (footnote omitted)); 2 HOWARD B. ABRAMS, *THE LAW OF COPYRIGHT* § 17:22 (2012) (“Given the consistent holdings of the great majority of cases that punitive damages are not available as a remedy for copyright infringement, *TVT Records* and *Blanch* are dubious precedents to say the least.”).

246. H.R. REP. NO. 94-1476, at 163 (1976) (“[B]y establishing a realistic floor for liability, the provision preserves its intended deterrent effect”; S. REP. NO. 94-473, at 145 (1975) (using the same language); see also PATRY, *supra* note 37 (stating that among the purposes for statutory damages was the worry that damages amounting to lost license fees “would not provide an adequate enough incentive to discourage infringement”) (citing the Report of the Register of

several instances in which neither statutory nor actual damages alone might be sufficient to deter infringement. Most alarming is the notion of an infringer that remains profitable despite the maximum punishment that the law can provide under statutory damages.²⁴⁷ If such an infringer is willing to accept the full punishment the courts are capable of levying and continues to infringe, then the statute has failed outright in its aim of deterrence. For this reason, the courts should be willing to accept the so-called “rogue” precedent set by the Southern District of New York in *TVT Records* and *Blanch v. Koons*.²⁴⁸ While neither ultimately applied punitive damages,²⁴⁹ they provided a framework for allowing plaintiffs to ask for punitive damages in certain narrow circumstances.

Courts should allow a plaintiff to plead punitive damages only in situations such as those outlined in Part II in which an alleged infringer seeks to avoid liability for actual damages by refusing to appear to defend. If the plaintiff could make a claim for punitive damages in his complaint, the court would have the power to enter a default judgment against a defendant who did not appear, awarding the amount of punitive damages set out in the plaintiff's claim for relief under Rule 54(c).²⁵⁰ The defendant would have notice of the amount of damages sought when served with process, which would undercut any due process argument the defendant may raise on appeal. Such an argument would be especially difficult for the court to sustain when there are indications the defendant failed to appear in order to avoid discovery.²⁵¹ This allocates the risks of failing to appear to the defendant: the defendant has an incentive to defend when its potential liability is greater than that allowed by the statute. The purpose behind allowing such a rule, then, is not necessarily to punish the infringer but to provide an incentive for that infringer to appear in

Copyrights on the General Revision of the U.S. Copyright Law, 102-03 (House Comm. Print 1961)).

247. See *supra* Part II.D.

248. See *supra* NIMMER & NIMMER, note 28, § 14.02[C][2].

249. See *TVT Records II*, 288 F. Supp. 2d 506, 509 (S.D.N.Y. 2003) (noting that TVT elected to seek statutory damages, thus mooted the issue of punitive damages); *Blanch*, 396 F. Supp. 2d at 478 (awarding summary judgment for the defendant on fair use grounds and dismissing all of plaintiff's claims for damages).

250. FED. R. CIV. P. 54(c).

251. See *James v. Frame*, 6 F.3d 307, 310 (5th Cir. 1993) (upholding grant of punitive damages in default judgment, and noting that Rule 55 does not require an evidentiary hearing on damages in default judgments and grants courts wide latitude as to whether to conduct such a hearing); *Tax Servs. of Am., Inc. v. Mitchell*, 07-CV-00249-REB-KLM, 2009 WL 464679, at *3 (D. Colo. Jan. 13, 2009) (noting that the award of punitive damages in default judgments without a separate damages proceeding is especially justifiable in cases where defendant “neglect[s] his discovery responsibilities” and then wishes to challenge damages after the fact (citing *James*, 6 F.3d at 309–11)).

court as a defendant, to open itself to discovery for the purposes of supporting the remedy of actual damages and profits, and to provide any defenses it has on the merits.

Most importantly, a rule allowing the pleading of punitive damages in copyright would eliminate the potential incentive for willful infringement created by the combination of the statutory damage limitation and the requirement that there be only one award per work infringed. Defendants would need to appear in order to contest punitive damages. Otherwise, they would need to resort to a motion under Rule 60 to have the court reopen the case, at which point the plaintiff may again get the opportunity to conduct discovery as to actual damages and profits.²⁵² In either case, the plaintiff has the opportunity to seek relief and the law inhibits the infringer from profiting from his violations.

If the courts begin to recognize punitive damages, there might be a worry such recognition would undermine the directives of the statute and could be used to impose unfair awards on defendants. The actual damages and profits provisions of § 504(b) are explicit in preventing double recovery, a limitation on the imposition of punitive damages for copyright defendants that actually appear. If the plaintiff is able to prove actual damages or defendant's profits after discovery and on the merits, the prohibition of double recovery will prevent the award of punitive damages. But the initial burden would be on the defendant. So long as the defendant allows the plaintiff to prove actual damages and profits, it may avoid the imposition of punitive damages.

Due-process jurisprudence is an additional limitation on punitive damages in copyright. In *Bridgeport Music*, the Sixth Circuit suggested that due process limited punitive damages in copyright claims to a 1:1 or even a 2:1 compensatory-to-punitive-damages ratio—the latter when there was only one “reprehensibility factor” present.²⁵³ In *TVT Records*, Judge Marrerro engaged in a lengthy analysis of how a court would apply due process analysis to punitive

252. Note that Rule 60(b)(6) allows the court to “relieve a party . . . from a final judgment” for “any other reason that justifies relief.” FED. R. CIV. P. 60. Section (d) states that the rule does not limit the court's power to “entertain an independent action to relieve a party from a judgment, order, or proceeding.” FED. R. CIV. P. 60(d)(1). This raises another possible issue—the statute allows a plaintiff to elect statutory damages at any time *before* the entry of final judgment. See *supra* note 24 and accompanying text. Ostensibly a court would allow a plaintiff to elect statutory damages in a secondary proceeding under Rule 60 if it could not adequately prove defendants profits or actual damages. But the defendant would have an argument based on the language of the statute that a final judgment had been issued and that therefore the plaintiff had lost the opportunity to elect statutory damages.

253. *Bridgeport Music, Inc. v. Justin Combs Publ'g*, 507 F.3d 470, 486–89 (6th Cir. 2007) (allowing punitive damages in a common-law copyright claim).

damages in the copyright setting.²⁵⁴ These cases provide a framework for courts engaging in such an analysis upon entering a default judgment against a non-appearing defendant.²⁵⁵

IV. CONCLUSION

The damages provisions outlined in § 504 of the Copyright Act have, in addition to a compensatory aim, a deterrence rationale that underlies the creation of statutory damages as an alternative to actual damages and profits.²⁵⁶ The Copyright Act limits statutory damages to one award for each work infringed by a defendant in a copyright action.²⁵⁷ The cap on damages coupled with the limitation to one award per work may serve to create maximum recoverable damages that are below the actual damages and profits from the defendant's infringing activity.²⁵⁸ When this is the case, the infringer may effectively deprive the plaintiff of the option of proving actual damages and profits by refusing to defend against the claims of infringement.²⁵⁹ A court's best recourse is to enter a default judgment of maximum statutory damages.²⁶⁰ This is no deterrent to a willful infringer who profits from violating copyright laws and expects to lose in an infringement suit.

The best solution to this problem is for courts to allow plaintiffs to seek punitive damages in the complaint. Defendants who fail to appear run the risk of a default judgment that may be substantially higher than the maximum statutory award. Punitive damages provide a greater incentive for defendants to appear in court, where

254. See *supra* notes 232–236 and accompanying text.

255. In recognizing due process limitations, the court stated:

[L]arge awards of statutory damages can raise due process concerns. . . . Extending the reasoning of *Gore* and its progeny, a number of courts have recognized that an award of statutory damages may violate due process if the amount of the award is "out of all reasonable proportion" to the actual harm caused by a defendant's conduct. . . . [T]hese cases are doubtlessly correct to note that a punitive and grossly excessive statutory damages award violates the Due Process Clause

In re Napster Copyright Litig., No. C-MDL-00-1239-MHP, 2005 WL 1287611, at *10–11 (N.D. Cal. June 1, 2005) (quoting *Moeller v. Taco Bell Corp.*, 220 F.R.D. 604, 612 (N.D. Cal. 2004)); see also PATRY, *supra* note 37, § 22:193.50 (summarizing statements by courts expressing hesitancy in awarding statutory damages greatly in excess of actual damages in peer-to-peer file sharing infringement suits); see also *Capitol Records, Inc. v. Thomas-Rassett*, 692 F.3d 899 (8th Cir. 2012) (analyzing a claim that high statutory damages violate due process and rejecting that claim, in part, because Congress rooted statutory damages in harm to the public rather than harm to the plaintiff).

256. See *supra* note 4 and accompanying text.

257. See *supra* Part I.B.

258. See *supra* Part II.D.

259. See *supra* Part II.

260. See *supra* Part II.

they must participate in discovery and allow the plaintiff to make a showing of actual damages and profits. If copyright infringers have to weigh the possibility of losing their ill-gotten profits at trial against *guaranteed* losses in a declaratory judgment that may include punitive damages, then profiting from willful infringement will no longer be a viable prospect. Due process jurisprudence may provide an additional check on the potential for abuse of punitive damages. Punitive damages thus provide a practicable solution to achieving the infringement-deterrence goal of the Copyright Act.

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