COPYRIGHT, CAUSALITY, AND THE COURTS

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1. INTRODUCTION

Per the terms of the U.S. Copyright Act (17 U.S.C. §504(b)), a copyright plaintiff has the option to recover from a proven infringer the actual damages suffered as a consequence of the wrongful act, as well as any additional profits earned from the infringement but not otherwise taken into account.[1] In this calculus, the plaintiff must prove only the infringer's gross revenue; the infringer bears the burden of proving deductible expenses and elements of profit that are attributable to factors other than the

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[1] The copyright statute also provides to plaintiffs an option for restitution via statutory damages of no less than $750 nor more than $30,000 per infringement. Willful infringers may be punished up to a maximum of $150,000 per infringement. 17 U.S.C. 504

copyrighted work[2] While a prevailing plaintiff may receive as a windfall more profits than she could have earned otherwise, the purpose of profit disgorgement is clear; the law aims to prevent the infringer from unfairly benefitting from a wrongful act.[3] The legal framework of copyright damages then seeks to preserve incentives to create intellectual property, dissuade potential infringers, and preserve common equity.

However, a copyright plaintiff carries a burden as well. The plaintiff may be called upon in a motion for summary judgment, judgment as a matter of law, or a trial or appeal to provide or reaffirm to the court some nonspeculative evidence of a reasonable relationship or causal nexus between the infringing use and the defendant's profits that are to be disgorged and paid to the plaintiff. The demonstration of the causal connection involves evidentiary standards that have never been codified and that appear to differ by circuit.

[2]Thus the law presumes that, once infringement has been proven, all of the infringer's gross revenue is initially attributable to that infringement, and thus recoverable. See 4-14 Nimmer on Copyright § 14.03[B] (2008)

[3]Rep. 94-1476, 1976 U.S.C.C.A.N. at 161, 5777. ("[D]ifferent purposes are served by awards of damages and profits. Damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act.") The Congressional intent at the inception of the Copyright Act of 1976 appears to differ from the stated purpose of §25(b) of the superseded Copyright Act, which had awarded to a copyright owner "all the profits which the infringer shall have made from such infringement," in order to provide just compensation for the wrong, not to impose a penalty by giving to the copyright owner profits that are not attributable to the infringement. P. 309 U. S. 399.

This article reviews some of the more important cases where courts have ruled on the plaintiff's burden of proving causality. The paper here attempts to provide to the legal practitioner a roadmap of issues that can come to bear on the matter.

2. ADVERTISING AND PROMOTION

Claims regarding the causal connection may apply to both direct and indirect infringements of an owner's copyright. An infringement is *direct* when the copyrighted work itself is used without authorization, either alone or commingled as part of a product or event;[4] e.g., an infringing song used on a record album or at a concert. By contrast, an infringement is *indirect* if the copyrighted work is used to sell another product; e.g., a song in an advertisement or live promotion.[5] Neither term is defined or referred to in the Copyright Act.

Indirect infringement of a copyrighted work as part of an advertisement or promotion seems to be the usual area where defendants may challenge causality. However, at least since *Deltak v. Advanced Systems, Inc.* 574 F. Supp. 400 (N.D. Ill. 1985), courts have recognized that an infringer's profits arising from infringing

[4]Infra note 10 and surrounding text.

[5]Id.

advertisements can be legally recoverable. However, because the facts of causality from the infringement to the defendant's revenues are often difficult to establish, the likelihood of recovery is nonetheless uncertain.[6] A number of circuit cases highlight the issues.

Estate of Vane v. The Fair

In *Estate of Vane v. The Fair*, 849 F.2d 186 (5th Cir. 1985), a Texas retail store, The Fair, used the plaintiff's photographic slides of store merchandise as part of several dozen television commercial that featured a sequenced photographic display of items on sale in the store. After the plaintiff's expert Herbert Lyon presented a complex statistical study that showed that the advertisement generated merchandise sales at The Fair, the court ruled that the proper causal test could implicate only the connection between the defendant's merchandise sales and those individual Vane photographs that were elements of the commercial sequence. In contrast to *On Davis* (infra) -- where the infringing element in an advertisement was used only to enhance viewer appeal and not to promote specific products -- the Estate would presumably have recovered some share of defendant's profits if Prof. Lyon had been able to demonstrate a tighter connection between the infringing photographs and product sales.

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[6]Deltak, at 411 (holding that sales arising from infringing advertising were too speculative on facts, although acknowledging in principle that such recovery may be possible).

The case of *Estate of Vane* might have reached great influence in 2011 had pleadings gone further in the matter of *Vergara v. The Coca-Cola Company* (S.D. Fl. 2011, 10-21418). During the 2010 World Cup, Coca-Cola broadcast to world audiences a very popular television commercial that featured as background music a song that Coke commissioned from the African composer K'naan. (entitled *Wavin' Flag Celebration Mix*) For television broadcasts in Spanish-speaking countries, Coke modified K'naan's songs with lyrics created by songwriter Rafael Vergara Hermosilla. Tthe defendant also invoked in its pleadings *Estate of Vane* to argue that causality must be established directly between Vergara's *actual lyrics* and sales of Coca Cola. That Vergara's contested lyrics were designed primarily as an instrument to complement and enhance the message behind K'Naan's commissioned melody – a highly compensated musical work that itself ran through the entire Coke commercial -- was of no apparent consequence to the defendant's legal analogy. Coke eventually prevailed in summary judgment after proving before the court that the plaintiff had granted to Coke permission for use.

<u>*On Davis v. The Gap*</u>

In 2001, Judge Pierre Leval of the Second Circuit authored the frequently cited case of *On Davis v. The Gap,* 246 F. 2d 152 (2d Cir. 2001). Designer plaintiff On Davis sought to recover damages from the clothing chain The Gap after the chain ran public advertisements with one of pictured actors dressed in ornamental eyeglasses designed by Davis. While The Gap did not actually make Davis' eyeglasses available for sale and used them only as costume props in their ads (unlike *Estate of Vane,* supra), the plaintiff sought nonetheless to define as defendant gross revenues the entire amount of The Gap's $1.668 billion that resulted from the sale of *all* store merchandise in all chain outlets during the interval when the ad was run.

A lower court declined to order any profit disgorgement after finding that defendant revenues bore no *reasonable relation* to the infringement itself. The Circuit Court upheld; "gross revenue under the statute means gross revenue reasonably related to the infringement, not unrelated items."[7] Consequently, the defendant recovered no portion of general merchandise sales at The Gap. Resisting the authority of Nimmer,[8] the Circuit Court did allow Davis to recover – per Section 504(b) -- actual damages equal to the lost licensing revenues of $50 that represented a fair market value that would otherwise have expectedly been earned in an arms-length transaction**.** The causal connection was implicated in a number of later District Court cases involving indirect infringement in the Second Circuit.[9]

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[7]Id., at 160, citing Taylor v. Meirick, 712 F. 2d 1112 (7th Cir. 1983), regarding a mapmaker who sought to recover profits from sales of all maps sold by an infringer, not just those that infringed his copyright. "It was not enough to show the defendant's gross revenues from the sale of everything he sold." At 1122.

[8]§14.02[A], at 14-13 to 17; arguing that actual damages could not implicate lost licensing fees.

Mackie v. Rieser

In *Mackie v. Rieser,* 296 F. 3d 909 (9th Cir. 2002), professional sculptor Jack Mackie designed urban street sculpture on the streets of Seattle. The Seattle Symphony Orchestra had printed an infringing photo of one of Mackie's works, *The Tango,* on one page of a twenty-four page promotional brochure that it mailed to potential subscribers at the beginning of the concert season. The plaintiff attempted to recover a fraction of subscription profits that purportedly resulted from the pictured use of his sculpture in the brochures.

The Ninth Circuit upheld a District Court summary judgment that held that Mackie failed to prove a causal connection between the infringement and the defendant's sales. The court held that the orchestra's infringement was *indirect*[10] and thus comparable to *Univ. of Colo. Found. v. Am. Cyanamid Co,* a related patent ruling where the Federal Circuit ruled favorably to the defendant on matters related to the causal connection..[11]

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[9]Mager v. Brand New School, No. 03-cv-8552, 2004 U.S. Dist. LEXIS 21686, at *11 (S.D.N.Y. Oct. 28, 2004); Mannion v. Coors Brewing Co., 2007 U.S. Dist. LEXIS 82909 (S.D.N.Y. No. 7, 2007); Granger v. Gill Abstract Corp., 566 F.Supp. 2d 323, 330 (S.D.N.Y. 2008); Zoll v. Ruder Firms, Inc., No.02-cv-3652, 2004 U.S. Dist. LEXIS 4129, 2004 WL 527056, at *2 (S.D.N.Y. Mar. 16, 2004); Fleurimond v. New York University, 2011 U.S. Dist. LEXIS 83288, at *13-14 (E.D.N.Y, July 29, 2011)

[10]Mackie, in text, Section 2, at 914.

[11]196 F. 3d 1366, 1375 ("The plaintiff has the burden to demonstrate nexus between the infringement and the indirect profits before apportionment can occur.")

The Court established a threshold inquiry; "there must first be a demonstration that the infringing acts had an effect on profits before the parties can wrangle about apportionment."[12] Moreover, a District Court could properly preclude "recovery of a defendant's profits if they are only remotely or speculatively attributable to the infringement."[13]

<u>*Polar Bear v. Timex*</u>

In *Polar Bear Productions, Inc. v. Timex Corporation,* 384 F. 3d 700 (9th Cir. 2004), Timex infringed on a video production studio by continuing after a license period to use video sequences from a promotional film that the studio had produced on the watchmaker's behalf. In addition to awarding to plaintiff actual damages, a federal jury in District Court awarded to the plaintiff a $2.1 million award for disgorgement of indirect profits that Timex purportedly earned through use of the copyrighted images at twelve trade shows and in a promotional campaign associated with the soft drink Mountain Dew. The jury also awarded as well the valuation of the brand enhancement that Timex had come to enjoy. After finding that the plaintiff had sufficiently proven causality regarding

[12]Supra note 10, at 915.

[13]Id., citing Frank Music I, infra, at 517.

the trade shows and the Mountain Dew promotion, the Ninth Circuit as a matter of law deemed as speculative the jury's decision to award to the plaintiff Timex's revenues arising from appreciated goodwill or brand value,[14] and as a matter of law remanded the case for a new trial.[15]

<u>*Lucky Break Wishbone v. Sears Roebuck*</u>

The Ninth Circuit later came to favor the plaintiff in upholding *Lucky Break Wishbone v. Sears, Roebuck and Co.* 2006, 9th Cir., 2:2006-cv-00312. Sears had distributed to shoppers an ornamental wishbone as part of a promotion that included special coupons that could be redeemed at Sears outlets. Upholding a District Court opinion, the Ninth Circuit Court ruled that the plaintiff had provided sufficient

[14]In the course of his analysis, plaintiff expert Robert Hansen posited that a significant portion of the price increase for Timex's watches during a four-year period arose from favorable feelings generated by Timex's promotional efforts, and that between one-quarter and one-half of that effect arose from the copyright infringements at the twelve trade shows. The Court deemed Hansen's exercise to be too speculative. See also Burns v. Imagine Films Entm't, Inc., 164 F.R.D. 589, 594 (W.D.N.Y. 1996), where plaintiff writer of infringed screenplays also sought to recover profits earned from an amusement ride related to the movie; Business Trends Analysts v. Freedonia Group, Inc. 650 F. Supp. 1452 (S.D.N.Y. 1987), where the court ruled that goodwill enhancement as an indirect profit arising from an infringement was theoretically recoverable, but not justified per the specific facts of the case now before it.

[15]This remand was made necessary only because the jury did not specify in its total award the valuation of this increment related to Timex's additional goodwill, which otherwise could have been deducted immediately from the total due of $2.1 million.

circumstantial evidence to prove causality; i.e., shoppers redeemed the wishbone coupons at a 42.7% higher rate than other comparable coupons.

Bouchat v. Baltimore Ravens

In *Bouchat v. Baltimore Ravens Football Club, et al.,* 346 F. 3d 514 (4th Cir. 2004), the plaintiff Frederick Bouchat was an amateur artist who designed a logo that the Ravens adopted unknowingly for display on team helmets and fan merchandise. In a bifurcated trial where Bouchat initially prevailed on liability, the plaintiff sought to recover from the defendants (i.e., the Ravens and National Football League Properties) indirect profits earned from broadcast rights and ticket sales, and direct profits earned from the sale of clothing and other merchandise directly bearing his infringed artwork. Citing *On Davis* (supra, at 160) and *Mackie (*supra, at 913), the Circuit Court upheld a partial summary judgment that Bouchat could not recover any indirect revenues earned from ticket sales, broadcast rights, and food and parking because the plaintiff either could not demonstrate a conceivable connection between the infringement and the revenues earned, nor present any non-speculative evidence of a causal link between the infringement and actual revenues earned.[16]

[16]Bouchat, in text, Section 2, at 522-3.

Additional parts of the *Bouchat* ruling regarding the direct infringements are discussed in Section 3 of this article.

Andreas v. Volkswagen

The plaintiff fared better in the 8th Circuit in *Andreas v. Volkswagen*, 336 F. 3d 789 (8th Cir. 2003). Writer Brian Andreas sued Volkswagen/Audi and its advertising agency McKinney & Silver after the defendants used some of his copyrighted text in a television commercial for VW's new TT coupe. After the jury in District Court awarded to Andreas an award that included $575,000 of disgorged profits from sales of the TT, VW prevailed on a motion of law that vacated the jury verdict.

The Circuit Court reinstated the jury verdict. Reading the evidence in the required light most favorable, the Circuit Court ruled that the jury had sufficient circumstantial evidence behind its finding and that the award thus was not overly speculative.[17] In this context, the Court found that the infringement was the centerpiece of a commercial that showed nothing but the TT, the commercial came to receive industry awards and bonuses for its creators, and the TT came to outsell VW projections.

District Court Decisions

Two recent District Court decisions in the Ninth Circuit regarding causality in advertising and promotion bear mention. In *Garcia v. Coleman* (C-07-2279, N.D. Cal., 2009), plaintiff photographer Roland Garcia brought suit against the Sonoma Ridge winery for reproducing his work on the product label of its bottles. The District Court refused to grant the defendant's motion for a judgment as a matter of law, which aimed to overturn the jury's decision based on unproven causality. Unlike the indirect infringements in *Mackie* and *Polar Bear*, the copyrighted image in *Garcia* was not part of an advertisement for the product. Rather, *it was an integral part of the product itself*, and thus a direct infringement. The Court rejected the defendant's notions that a host of other factors – brand name, price, etc. – could have more pronouncedly affected the sales of wine.

In *Thale v. Apple, Inc.* (C-11-03778, N.D. Cal, 2013), plaintiff Taea Thale sued Apple after it used one of her posted photographs in a television commercial for promotion of its new iPhone. The plaintiff established that Apple disregarded the license posted along with her photo, was enthusiastic about the commercial importance of the picture, and used the infringed image as the central visual focus for five seconds of a thirty second television commercial. The Court nonetheless denied recovery of profits

[17] Andreas, in text, Section 2, at 797.

because the plaintiff – invoking *Andreas* (supra) –yet failed to prove that her specific photograph generated sales of the iPhone for a period of time reasonably related to the limited airing (two weeks) of the commercial. Moreover, the airing was synchronous with two other Apple advertisements.

3. MERCHANDISE AND EVENTS

Less common matters involving the causal connection may relate to direct infringement where the infringing work was actually a component of merchandise or a paid event. In a landmark case involving direct infringement, the Ninth Circuit upheld plaintiff recovery of direct profits from a musical revue that performed a number of infringing compositions. By contrast, the Fourth Circuit later shut down plaintiffs in causality matters involving direct infringement in stadium merchandise, architecture, and entertainment events. Both cases established precedents that often appear elsewhere.

Frank Music v. MGM Grand

In *Frank Music v MGM Grand*, 886 F. 2d 1545 (9th Cir.1989), the Ninth Circuit considered an infringement matter that did not explicitly invoke any opinion on causal connection. Nonetheless, the matter implicated the use of musical compositions as part of a musical revue, as well as additional defendant revenues earned on surrounding properties.

In *Frank Music*, the plaintiff publisher of the musical *Kismet* sued the renowned Las Vegas hotel after the establishment infringed upon five songs in one act (entitled *Kismet*) of a nightly revue that featured musical highlights from different productions in ten acts. The infringing revue, *Hallelujah Hollywood*, ran for 1700 performances in the 1970s. In a bifurcated trial, the Circuit Court allowed the plaintiff to recover a share of *direct profits* earned at the box office; the share was eventually fixed by the Court at nine percent (see below). The Court also declined to find clearly erroneous the lower court's award of an additional two percent of *indirect profits* related to other transactions at the hotel – e.g., room accommodations, casino, and restaurant.

The evidence of a connection between the infringed music and all defendant revenues was circumstantial. That is, the plaintiff did not put forth any audience member to testify that she bought a ticket to the revue in order to hear music from *Kismet.* Nor did it seem relevant to the court's decision what fraction of the audience (if any) was actually aware of the featured segment before purchasing tickets. With regard to indirect profits earned elsewhere on the property, the Ninth Circuit too found suitable linkage from circumstantial evidence.[18]

In addition to preserving a plaintiff's right of recovery in direct and indirect infringements, the Ninth Circuit then turned to apportionment of defendant revenues.. With regard to the direct infringement in the musical revue itself the Court set forth a two-step heuristic for apportioning profits from an entertainment event to those commingled components that infringe copyright. Reversing a lower court finding, the Ninth Circuit assigned 75% of the value of the nightly revue to the combined musical component from all ten acts. For its part, the *Kismet* segment accounted for 12% of the running time of the show. In this respect, the court fixed its apportionment of ticket profits as 9.0% = 75% x 12%.[19]

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[18] 772 F. 2d 505, 517 (9th Cir. 1985) (citing MGM's 1976 Annual Report: "the hotel and gaming operations of the MGM Grand –continue to be materially enhanced by the popularity of the hotel's entertainment, [including] Hallelujah Hollywood, the spectacularly successful production revue.")

[19] Had the matter gone to trial, this procedure from *Frank Music* would have found an applicable situation in *Fitness Quest v. Universal Music Publishing*, 5:2002-cv-02528 (N.D. Ohio). Fitness Quest, a putative infringer seeking declaratory judgment, had synchronized Universal's music in a five minute soundtrack interval that was used in an exercise tape. As a direct component that enhances viewer enjoyment of the tape, the entire musical soundtrack could have been assigned a rebuttable presumption of a reasonable relation (supra, *On Davis*). The Court could then have allowed plaintiff to present defendant revenues and thus challenge the defendant to present both costs and a suitable apportionment technique for the infringing element of the soundtrack. The Court here could have applied the two step heuristic from *Frank Music*; i.e., the initial

Walker v. Forbes

The Fourth Circuit heard the 1994 matter of *Walker v. Forbes, Inc*., 28 F. 3d 409 (1994), which would come to form a precedent in the District Court decision of *Bouchat v. Baltimore Ravens,*[20] and later opinions in the Fourth Circuit with regard to causality and revenue disgorgement. Plaintiff Wesley Walker owned the copyright to a photograph of a South Carolina tycoon that Forbes printed in a magazine article. Disappointed with a jury verdict that awarded him a judgment but only actual damages of $5,823, Walker sought a new trial based on damages alone. When he was denied, Walker contended that the judge erred on not giving two jury instructions that he had requested. Walker then sought on appeal to recover apportioned defendant revenues, which were earned from advertising, subscriptions, and newsstand sales of the magazine.

The Court declined to disgorge any revenues from advertising and subscriptions. Since these transactions with Forbes were established before the work was actually imprinted, advertisers and subscribers were consequently unaware of the presence of the

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apportionment of merchandise profits to the musical soundtrack and the apportionment of the soundtrack to its infringing component

[20] 215 F.Supp.2d 611 (2002)

photo. Of the remaining newsstand sales (amounting to 2.9% of total revenues), the plaintiff was entitled to a recovery of one ninth of one page -- the space consumed by the infringement. The plaintiff's eventual revenue recovery was higher than the actual damages of $100, corresponding to the missed licensing fee normally paid to photographs.[21] .

Bouchat v. Baltimore Ravens

In addition to pursuing a claim for revenues generated by ticket sales and broadcast rights from the Baltimore Ravens (supra Section 2), Frederick Bouchat also sought to recover a share of merchandise in which his logo appeared. With regard to merchandise, the Court upheld a District Court partial summary judgment that excluded recovery of defendant profits earned from license transactions that involved the distribution of free goods or minimum guarantees that were established before the infringing work was actually imprinted; license revenues here were fixed and immutable and therefore unaffected by consumer behavior.[22] Also summarily excluded were sales of trading cards, video games, and game programs that could not have been influenced by the presence of the logo.

[21] At 410

With regard to non-excluded merchandise (e.g., t-shirts, caps, souvenir cups), the Court upheld a jury verdict that awarded no disgorgement for the plaintiff. Plaintiff here failed to present to the jury anything more than a fact-free speculation of connection in response to defense evidence that the infringing image did not affect sales of this particular merchandise.[23] The critical caveat: "unsupported speculation is not sufficient to defeat a summary judgment motion."[24]

Here the Fourth Circuit extended the precedents of *On Davis* and *Mackie* into matters of *direct infringement.* In so extending these rulings, the Fourth Circuit applied the causality test to products in which the infringement was a commingled component. The application of causality to direct infringement seems unique to this Circuit.

__Bonner v. Dawson__

In *Bonner v. Dawson*, 404 F. 3d 290 (4th Cir. 2005), architect Kenneth Bonner sued a defendant construction company for use of his architecture plans to construct a façade built into a commercial building. After a jury affirmed liability and allowed

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[22]Supra note 16, at 524.

[23]Id.,at 525.

[24]Id.,citing Felty v. Graves-Humphreys Harvey, 818 F. 2d at 1128.

Bonner to recover actual damages, the District Court ruled on plaintiff's JMOL that Bonner could not disgorge anything because he failed (per *Bouchat*) to establish the requisite causal link between his plans and subsequent builder revenues.

The Fourth Circuit overruled on the causality issue. Bonner had established the requisite causal connection because the building could not have existed without his plans. The court nonetheless denied profit recovery from the direct infringement after determining that the revenue transaction of the building would have occurred at the same price regardless of the presence of the façade; the appropriate apportionment of profits was zero. Though winning on liability, the plaintiff then failed to recover any defendant revenue because he failed to prove that his work *actually increased* the price of the infringing building

Dash v. Mayweather

The Fourth Circuit in 2013 considered another direct infringement in a live event in *Dash v. Mayweather and World Wrestling Entertainment*.[25] Plaintiff Anthony Dash of South Carolina was a young music producer and the creator in 2005 of a musical composition TONY GUNZ BEAT. Plaintiff contended that co-defendants Floyd

Mayweather and Cory Harris incorporated the work onto an infringing musical composition named YEP. At Mayweather's behest, the derivative work was performed before and after a Mayweather match that was performed at a *Wrestlemania* event in March, 2008.

Whatever the general subliminal benefits of music as a commingled element in arousing wrestling audiences,[26] the Fourth Circuit nonetheless affirmed a District Court summary judgment that held that the plaintiff failed to produce any previous license, benchmark, or personal affidavit that would prove that his particular work had any market value; plaintiff allegations to the contrary were entirely speculative. The undeniable fact that the song was *actually used* was apparently insufficient for the District and Circuit Courts to perceive a jury question as to whether the use of the song could control *any positive price,* and thus have had *any market value* (sic). With regard to proving causality before disgorging profits, the same Circuit Court ruled (per *Bouchat*) that Dash similarly failed to show that his particular work contributed to any transaction related to performer compensation, ticket sales, merchandise, licensing, etc.

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[25] http://www.ca4.uscourts.gov/Opinions/Published/121899.P.pdf.

4. BOOK PUBLISHING

A number of similar cases involving direct infringements of photographs and artwork in textbooks have been filed in recent years against book publishers Houghton Mifflin Harcourt Publishing Company (HMH), Pearson Education, Inc., McGraw-Hill Companies, and John Wiley & Sons, primarily by the copyright litigation firm Harmon & Seidman.[27] Comparable rulings have come from district courts in Colorado (*Wood v. Houghton Mifflin Harcourt*, 589 F. Supp. 2d 1230, D. Colo., 2008), Illinois (*Bergt v. McDougal Littell*, 661 F. Supp. 2d 916, N.D. Ill., 2009) and New York (*Semerdjian v. McDougal Littell*, 641 F. Supp. 2d 233, S.D.N.Y, 2009).

In connection with its publication of a 1200 page language arts textbook *The Language of Literature*, that was first released in 2000, defendant HMH (or its subsidiary McDougal Littell) infringed on each of a small number of visual works owned by three individuals.[28] The infringement of each work appeared on no more than one page of a book that HMH would eventually print in four editions. In each case, the publisher paid to the respective rights owner a license fee of $200-$300 for the right to include his or her work in 40,000 first-run copies of the book. HMH then came to infringe copyright

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[26]This explains why World Wrestling Entertainment for thirty years has licensed rights for musical compositions (including Bruce Springsteen and Red Hot Chili Peppers, inter alia) and employed staff composers to write theme music for the main performers.

[27]Infra notes 47-490.

in each work in over one million other copies sold afterward, grossing $64 million in sales.

The works were integrated components within the book and not used separately to promote its sales.[29] The *Wood* opinion thus analogized the situation to the oft-cited example of an infringing poem used as part of a published anthology (citing *On Davis*, at 160[30]) and copyrighted songs in a larger musical revenue (citing *Frank Music*), rather than the indirectly infringing use of a copyrighted text or image to advertise a car (citing *Andreas*) or season tickets to the symphony (citing *Mackie*). The three courts thus invoked similar reasoning to deny the defendant's motion for summary judgment related to the purported absence of causality.

There are three elements in consideration here.

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[28]Ted Wood, 9 photos; Hilda Semerdjian, 3 paintings; Michael Bergt 1 painting.

[29]Bergt, at 927.

[30]Wood, at 1245, citing On Davis at 160. ("Thus, if a publisher published an anthology of poetry which contained a poem covered by the plaintiff's copyright, … the owner's burden would require evidence of the revenues from the sale of the anthology containing the infringing poem. The publisher would then bear the burden of proving its costs attributable to the anthology and the extent to which its profits from the sale of the anthology were attributable to factors other than the infringing poem, including particularly the other poems in the volume.")

1.*Market Value:* Plaintiffs sufficiently demonstrated that their works have market value simply because HMH had willingly paid some elemental fee to include the works in their textbooks.[31]

Moreover, the District Court held that the company's commingled use of the visual works as a direct infringement in its textbook demonstrates sufficient causality to allow plaintiff to proceed to establish defendant's gross revenues from book sales; "the Seventh Circuit has required only a minimal connection between revenue and infringement in direct profits cases."[32]

2. Congressional Intent and Equity: It is consistent with Congressional intent to enforce upon plaintiff a light burden regarding causality. "Profits are awarded to prevent the infringer from unfairly benefitting from a wrongful act."[33] In this regard, the *Wood* Court also found compelling the Supreme Court's admonishing dictum; "an infringer who commingles infringing and noninfringing elements must abide the consequences unless it can make a separation of the profits so as to

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[31]Wood, at 1246.

[32]Bergt, at 927, citing Taylor v. Meirick, 712 F. 2d. at 1122.

[33]Wood, at 1244, citing H.R. Rep. 94-1476, 1976 U.S.C.C.A.N at 5777. see also *Thornton v. J Jargon*, in text, Section 6, at 1279-80, Andreas, in text, Section 2, at 795. .

assure to the injured party all that justly belongs to him."[34] Moreover, the limited plaintiff burden is justified as a matter of equity.[35]

3. *Causal Evidence*: The judge in each case heard and rejected defense experts who opined that the infringements of the visual works could not possibly have induced anyone to purchase the book.[36] In this regard, the *Bergt* Court found persuasive testimony from plaintiff's expert Lance Fuhrer that visual displays in textbooks generally enhance value and increase sales by facilitating selection of the books by screening committees that appreciate visual display.[37] Moreover, the *Wood* Court made the observation that the very fact that the publisher pays fees to put images in its textbooks illustrates that the publisher believes images have value."[P]ublishing companies are not in the business of subsidizing

[34]Wood, at 1245, citing Harper and Row Publishers, Inc., v. Nation Enters., 471 U.S. 539, 576; 105 S. Ct. 2218, 85 L. Ed. 2d 588 (1985) (quoting Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390, 406, 60, S. Ct. 681, 84 L. Ed. 825 (1940).

[35]Semerdjian, at 247, quoting Data General Corp. v. Grumman Systems Support Corp., 36 F.3d 1147, 1176 (1st Cir.1994). ("Often, as in this case, the defendant has mixed infringing material with non-infringing material and created one commingled work. Equity places the burden on a defendant to unravel the threads.")

[36]Wood, at 1245, citing Andreas, in text, Section 2, at 787. ("it is not necessary to demonstrate causality by putting on the stand a fact witness to testify that she bought the book because of the infringing pictures.") Also Semerdjian, at 248, citing Polar Bear, in text, Section 2, at 715 ("there is no requirement that Polar Bear put Timex customers on the witness stand to testify that they purchased watches because of Timex's use of `Paddle Quest' images.")

[37]Bergt, at 928, citing Fuhrer Dep., 109:7-10; see also citations re witnesses Lankiewicz and Fantasia.

photographers; they are in the business of maximizing their sales . . to maximize their profits."[38]

As the primary matter of this article, the District Court in *Semerdjjian* came to a conclusion regarding causality in direct infringement that is quite different than *Bouchat* or *Dash.* "Courts' use of the decision to buy inquiry reflects the more attenuated causal link between infringement and a defendant's revenues where the copyrighted work is *not part of the product sold. This inquiry is not necessary* to establish causation in a direct profits case, as here." [39] Moreover, "the infringing use of a copyrighted work in a product for sale can cause revenues by increasing the value of the product for sale. A copyrighted work need not directly affect demand for a product to affect revenues and profits."[40] By this standard, plaintiffs thus established a sufficient causal relationship to defendant's profits by proving that their works appeared as commingled material in textbooks sold to the public.[41]

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[38] Wood, at 1246.

[39]Semerdjian, at 248.

[40]Semerdjian, at 248.

[41]Wood, at 1246; Bergt, at 927, see footnote 8 and surrounding text; Semerdjian, at 247, citing Design v. K-Mart Apparel Corp., 13 F.3d 559, 564 (2d Cir.1994). Bergt also recognized that HMH, in paying to include images in its language arts textbooks, "clearly believes … that paying licensing fees for photographs makes good business sense … [I]t can be inferred that language arts publications with good graphics sell better, and generate more profits, than [otherwise]". At 927

5. MORAL HAZARD

As distinguished from acts of pure negligence, copyright infringement frequently implicates conscious decisions to infringe -- or not infringe – upon property rights of other citizens. The provisions of the law may then present opportunities for *moral hazard* -- i.e., business tactics that actors may consciously consider and implement in order to enhance opportunities for private gain at the expense of others. In so far as copyright is concerned, these decisions evidently took place in matters now under our discussion. Timex assured Polar Bear that its works would be properly licensed for any necessary period, Apple disregarded a restrictive license posted on a website, and textbook publishers became serial infringers after paying to copyright owners small licensing fees for limited use. Nonetheless, the issues posed by strategic moral hazard do not appear in any court ruling on the issue of causality.

Advertising and Promotion

There are two apparent sets of moral hazards in indirect cases involving advertising and promotion. First, plaintiff claims for recovery of apportioned profits can be quite aggressive (e.g., merchandise sales in *On Davis*, ticket sales in *Bouchat*, concert subscriptions in *Mackie).* In such cases, it seems appropriate for courts to impose summary judgments denying recovery from defendant in order to reduce speculation. This would serve as a disincentive to legal adventurism by would-be plaintiffs.

On the other hand, prospective users will have great opportunity to misappropriate copyrighted works if the plaintiff's burden is unduly high. In the expansive domain of advertising, sponsors and agents could compose a catchy ad based on an infringing work, offer *ex post* to the infringed composer or artist the missed license fee, and challenge prospective plaintiffs to explain how *their particular work* (narrowly defined) caused any sales revenues that can be rightfully disgorged. (re *Vergara; only the lyrics)*

Merchandise and Tickets

In the Fourth Circuit, plaintiff Wesley Walker was unable to recover any part of advertising and subscription revenues earned by infringing magazines that displayed his copyrighted work. Based on similar reasoning, Frederick Bouchat was unable to recover any profit from infringing merchandise -- bearing his art as a central emblem -- that the District Court excluded from consideration. This outcome occurred because of the sequence of the implicated transactions; the sued parties committed to transactions and guarantees ahead of time, and presumably independent of any act of direct infringement. Nonetheless, *Walker* and *Bouchat* establish *an apparent loophole* for prospective merchandise sellers and event planners who may come to structure their contracted engagements in a similar sequence. Once this moral hazard is recognized, both opinions seem inconsistent with Congressional intent to dissuade acts of infringement.[42]

Regarding *Dash*, the musical background of professional wrestling is a direct part of the product package that enhances consumer enjoyment of the entertainment event;[43] music leads to fan enjoyment, word of mouth, and possible return to the next event. If the *reasonable relationship* between musical works and event profit can be implied by the direct nature of the infringement at hand (i.e., the music was used in the event), plaintiff Dash could have rightfully been awarded (re the two-step heuristic in *Frank Music*[44]) for his musical work based on the imputed contribution of the music. As stipulated in 17 U.S.C. 504 and in *Frank Music*, the defendant could have been called on to provide the appropriate apportioning factors for the value of the musical background and the share of time consumed by the infringing work.

[42]Supra note 3. Thornton, supra note 33, at 1279-80,

[43]Supra note 26.

[44]See Section 3; supra note 18 and surrounding text.

The Court also found that the plaintiff presented no evidence of actual damages. As a matter of economics, the reasoning is incomplete If any product has positive use at a zero price (where demand expectedly exceeds supply), this market result itself presents clear economic evidence that the work could be licensed at some higher positive price (however small) that brings about a supply-demand equilibrium. At such a price, a willing buyer and willing seller would presumably transact in an arms-length negotiation. (re On Davis, at 172). The Court's test, related to the proven marketability of infringed works, could be harmful to any plaintiff in "thin markets" – i.e., wherever previous licensing of the work did not ensue and no reasonable benchmarks could be found.[45]

[45]Thin market litigation in recent years has involved, software algorithms (Jacobsen v. Katzer, N.D.Cal., 3:2006-cv-019), proprietary training manuals (Timpco, LLC v. Implementation Services, LLC, S.D.In., 1:2008-cv-01481), promotional brochures (Melk v. Pennsylvania Medical Society, et al., E.D. Pa, 2:2008-cv-03515), and compilations of ideas for new professional programs (Lyons v. Gillette, et al., D. Mass., 1:2011-cv-12192).

The Fourth Circuit's decision *Bonner v. Dawson* also raises concerns. Here, the Court acknowledged that the plaintiff actually contributed a primary causal element—architectural plans – to the defendant's infringing building. Nonetheless, the Court ruled out any recovery of defendant's revenues because the plaintiff could not demonstrate that the infringement had any *incremental effect* on selling price or profit. If taken to its evident conclusion, *Bonner v Dawson* would allow a wide range of similar thefts. Hypothetically, this could include a theft in a movie of screenplay elements, musical compositions, and/or depicted characters, and the nullifying arguments that prices were not incrementally affected and no additional profits discernible from the inclusion of these commingled works.

The Publisher's Cases

The three Houghton Mifflin courts rejected the publisher's motions for summary judgment and thus did not agree that limited run license obviates the need to compensate rights owners fully for use of their works. This kind of activity with limited run licenses seems to be pervasive in book publishing; it has come to court in copyright matters involving other major defendants -- Pearson Education,[46] John Wiley,[47] Random House,[48] and McGraw Hill[49] as well.

If the generic publisher defense were allowed, these same publishers might come to perfect the application of a new business model based on copyright infringement. That is, an editor can engage creators of visual art, chapters, poems, etc. to enter first-run licensing contracts for a modest fee, and then run the presses overtime to meet predictably greater demands. In the event that the creator discovered the overruns and sought additional compensation, the publisher could offer some settlement amount by extending proportionately the original fee agreement that it should have simply paid in the first place. The defendant -- an apparent copyright infringer -- could then file a motion for summary judgment challenging the plaintiff to prove rigorously a causal relationship between the infringing use of his/her work and sales of the final product. As a practical consequence, the publisher would be free to infringe without paying any profit disgorgement for unauthorized uses, and may succeed in getting away with some uncompensated works.

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[46] Bean v. Pearson Education, Inc., 2013 WL 2564106 (D. Ariz.).

[47] Grant Heilman Photography Inc. v. John Wiley & Sons, Inc., 11-cv-01665 (E.D. Pa. 2012).

[48] Beidleman v. Random House, Inc., 1:07-cv-01347 (D. Colo. 2008).

[49] DRK Photo v. The McGraw-Hill Companies, Inc., 3:12-cv-08093 (D. Ariz. 2013).

6. COMBINATORIAL JURISPRUDENCE

A suitable concluding case that considers the complex issues regarding the causal connection is *Thornton v. J Jargon Co*., 580 F. Supp. 2d 1261 (M. Fl. 2008). The matter involved an unauthorized distribution of the plaintiff's copyrighted trivia quiz (the "Age Test") as a component of theater playbills distributed at productions of "Menopause: The Musical". The matter implicated clearly a direct infringement, as the playbill was an audience perquisite of paid admission to the show. However, as the attendees did not know the contents of the playbill ahead of time, no audience member could possibly have bought tickets in order to receive the playbill. Consequently, the *Thornton* case implicates a direct infringement with a questionable causal connection.

Judge Whittemore of the Middle District of Florida faced an intriguing situation – there was no Circuit Court precedent on the causal connection in the Eleventh Circuit. He then identified two alternative jurisprudential standards for requisite evidence and proof. First, he set forth the need to prove a *causal connection* between defendant's revenues and the *infringing use* of the plaintiff's particular work, which he associated with opinions in the Fourth and Ninth Circuits.[50] Alternatively, he set forth the need to demonstrate a discernible *reasonable relationship* between the defendant's revenues and

[50] At 1279; citing Bouchat at 522-23, Mackie at 915-16.

infringing activity that includes the infringed work as a commingled element. . He ascribes the latter standard to the Second, Seventh, and Eighth Circuits.[51]

In choosing among the conflicting standards, Judge Whittemore denied the defendant's motion for summary judgment that claimed that plaintiff failed to prove the requisite causality. He here invoked Congressional intent behind the Copyright Act to come to favor the *reasonable relationship* standard; playbills enhance the theater experience and are required by the rules of Actor's Equity.[52] That is, the U.S. Congress expressly contemplated in 1976 a light burden on the plaintiff and the disgorgement of the defendant's profits in order to prevent the infringer from benefitting from a wrongful act.[53]

7. CONCLUSION

Unlike the four factors of fair use, common law standards for examining the causal connection are not listed in a statute (or anywhere else) for the benefit of advising

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[51]Id.; citing On Davis, at 160; Taylor v. Meirick, at 1122; Andreas, at 796.

[52]At 1280.

[53] Id.. Citing H.R. REP. No. 94-1476 at 161 (1976)i supra note 3 and surrounding text.

counsel, or for explicit consideration in other court jurisdictions. Such a listing would seem useful to the application and evolution of legal standards on this matter.

Four considerations may be useful:

1. *Use the reasonable relationship standard to preserve equity and Congressional intent:* Judge Whittemore here convincingly invoked Congressional intent behind the Copyright Act of 1976 to come to favor the reasonable relationship standard; i.e., the U.S. Congress expressly contemplates a light burden on the plaintiff and the disgorgement of the defendant's profits in order to prevent the infringer from benefitting from a wrongful act. Judge Whittemore also distinguished an infringing use of a particular work from the infringing activity that encompasses it; as a matter of equity, he would allow recovery of the defendant's revenues earned from the infringing activity, which is the more expansive.

2. *Distinguish willful and non-willful acts.* There is a difference between willful and non-willful acts of copyright infringement; i.e., the former infringer expectedly considers the consequences but has the incentive to attempt to game the system. Courts that increase the plaintiff's burden to demonstrate causality also increase the plaintiff's anticipated costs – and the likelihood of dropping the

matter. This may widen the loophole for infringers and create adverse incentives for compliance --- infringe now, pay damages (i.e., the appropriate license fee) later.

3. Distinguish direct and indirect. From this author's perspective, a plaintiff who establishes *willful direct infringement* of his/her work as a commingled element in the structure of another work should have an immediate equitable claim to an apportioned share of profits earned from its theft. That is, a direct infringer who commingles a direct copyright infringement should be obliged (per the Supreme Court in *Harper and Row v. Nation* [54]) to carry its full burden to an evidentiary hearing. If nothing else, the plaintiff could use the additional evidence presented before trial to take into account the additional defendant profits earned from the infringement, and so garner a higher statutory damage award.[55] For its part, the defendant yet has a fair opportunity to minimize its profits disgorgement by setting forth a credible means for profit apportionment between infringing and noninfringing elements in the commingled work.

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[54] Supra note 34 and surrounding text.

[55] Supra note 1 and surrounding text.

4. *Consider the widespread effects of behaviors writ large.* A stated Supreme Court concern in *Sony v. Universal*[56] -- regarding possible market harm arising from overly generous allowances for fair use -- can be extended to behaviors that exploit copyrighted works in other manners. "Isolated instances of minor infringements, when multiplied many times, become in the aggregate a major inroad on copyright that must be prevented."[57] This is a compelling consideration, particularly as it applies to strategic behaviors that involve dodging tactics that follow knowing infringement. As the book publisher cases show (see Section 6-7), dishonest tactics can be carefully learned from one defendant to the next, and defended dutifully by attorneys hired to protect the their respective clients. .

5. *Enforce Punitive Damages:* The terms of the present U.S.C. § 504 are appropriately continued in instances of direct or indirect infringement where liability and causality can both be proven. In those instances where infringement is proven but a causal connection from infringement to revenues is not discernible, the statute may specify some measure of punitive damages based on proven actual damages and the egregiousness of the defendant's behavior. The concept here is drawn from the

[56] Sony Corp. of America v. Universal City Studios, Inc., 464 U.S., at 451.

structure of patent law, where courts may now set punitive damages up to triple the actual damages.[58] By contrast, the Copyright Act now makes no explicit provision for punitive damages whatsoever. Punitive standards would be more effective if small claims cases could be referred to a special tribunal, a position advanced by the U.S. Copyright Office in September, 2013.[59]

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In the technology sector, Dr. Einhorn worked at Bell Laboratories and the U.S. Department of Justice (Antitrust Division) and consulted to General Electric, AT&T, Argonne Labs, Telcordia, Pacific Gas and Electric, and the Federal Energy Regulatory Commission. He has advised parties and supported litigation in matters involving patent damages and related valuations in semiconductors, medical technologies, search engines, e-commerce, wireless systems, and proprietary and open source software.

Litigation support involving media economics and copyright damages has involved music, movies, television, advertising, branding, apparel, architecture, fine arts, video games, and photography. Matters have involved Universal Music, BMG, Sony Music

[57]Id.
[58]. 35 U.S.C. § 284.

[61] United States Copyright Office, *Copyright Small Claims* at 4 (Sept. 2013).

Holdings, Disney Music, NBCUniversal, Paramount Pictures, DreamWorks, Burnett Productions, Rascal Flatts, P. Diddy, Nelly Furtado, Usher, 50 Cent, Madonna, and U2.

Matters involving trademark damages have included the Kardashians/BOLDFACE Licensing, Oprah Winfrey/Harpo Productions, Madonna/Material Girl, CompUSA, Steve Madden Shoes, Kohl's Department Stores, *The New York Observer*, and Avon Cosmetics. Matters in publicity right damages have involved Zooey Deschanel, Arnold Schwarzenegger, Rosa Parks, Diane Keaton, Michelle Pfeiffer, Yogi Berra, Melina Kanakaredes, Woody Allen, and Sandra Bullock.

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