

ANNOTATION

MEASURE OF DAMAGES AND PROFITS TO WHICH COPYRIGHT OWNER IS ENTITLED UNDER 17 USCS § 504(b)

by

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18 Am Jur 2d (Rev), Copyright and Literary Property §§ 234-236

Annotations: See the related matters listed in the annotation.

7 Federal Procedure, L Ed, Copyrights § 18:93

6A Federal Procedural Forms, L Ed, Copyrights §§ 17:37, 17:53, 17:54,
17:129-131

7 Am Jur Pl & Pr Forms (Rev), Copyright and Literary Property, Forms 68-
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20 Am Jur Proof of Facts 727, Plagiarism in Narrative Fiction; 16 Am Jur
Proof of Facts 2d 253, Forensic Economics—Valuation of Businesses and
Business Losses; 28 Am Jur Proof of Facts 2d 333, Limited Publication of
Artistic or Literary Property; 50 Am Jur Proof of Facts 2d 263, Damages
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9 Am Jur Trials 293, Copyright Infringement Litigation

17 USCS § 504(a), (b)

US L Ed Digest, Copyright and Literary Property § 22; Damages §§ 148-150

ALR Digests, Copyright § 10; Damages § 331

Index to Annotations, Copyrights and Literary Property; Damages; Profits or
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I. Preliminary Matters

§ 1. Introduction

[a] Scope

This annotation¹ collects and analyzes the federal cases in which the courts discussed or decided the measure of actual damages and profits to which a copyright owner was entitled under 17 USCS § 504(b).

This annotation includes cases decided under § 504(b) of the Copyright Act of 1976 (hereinafter referred to as the 1976 Act) and comparable provisions of the Copyright Act of 1909 and its various revisions (hereinafter referred to as the 1909 Act).

Excluded from the scope of this annotation is the issue of whether and to what extent interest may be awarded in conjunction with an award of damages and profits for federal statutory copyright infringement.²

Beyond the scope of this annotation is the issue of the measure of statutory damages that may be

awarded for federal copyright infringement under 17 USCS § 504(c).³ Also beyond the scope of this annotation are the issues of the measure of damages that may be awarded for infringement of common-law copyrights and common-law right of literary property.⁴

[b] Related matters

Interest on award of damages and profits for federal copyright infringement. 91 ALR Fed 839.

Right to jury trial on issue of damages in copyright infringement action under 17 USCS § 504. 64 ALR Fed 310.

Scope of relief which may be granted, under Rule 54(c) of Federal Rules of Civil Procedure, except in cases of default judgment, even though party in whose favor judgment is rendered has not demanded such relief. 16 ALR Fed 748.

Liability as "vicarious" or "contributory" infringer under Federal Copyright Act. 14 ALR Fed 825.

Supreme Court's views as to

1. This annotation, together with the annotation at 91 ALR Fed 839, supersedes the annotations at 2 ALR3d 1211, and 97 L Ed 283.

2. For an annotation treating this issue, see 91 ALR Fed 839.

3. See, generally, 18 Am Jur 2d (Rev), Copyright and Literary Property §§ 237-239.

4. See, generally, 18 Am Jur 2d (Rev), Copyright and Literary Property §§ 3, 159.

what constitutes copyright infringement. 78 L Ed 2d 957.

Prevailing party's right to recover counsel fees in copyright cases. 8 L Ed 2d 923.

Recovery of anticipated lost profits of new business: post-1965 cases. 55 ALR4th 507.

Allowance of punitive damages for invasion of common-law rights in literary property. 40 ALR3d 248.

Recovery of cumulative statutory penalties. 71 ALR2d 986.

◆
Leonard, *The Measurement of Damages: An Economist's View*. 31 Ohio St LJ 687 (1970).

Monetary Recovery Under the Copyright Act: Calculation of Damages. 65 Or L Rev 809 (1986).

◆
Boorstyn, *Copyright Law* (1981).
Gemignani, *Computer Law* (1985).

[c] Statutory text

The text of 17 USCS § 504(a), (b), as enacted October 19, 1976, provides as follows:

§ 504. Remedies for infringement: Damages and profits

(a) In general.

Except as otherwise provided by this title [17 USCS §§ 101 et seq.], an infringer of copyright is liable for either—

- (1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or
- (2) statutory damages, as provided by subsection (c).

(b) Actual damages and profits.

The copyright owner is entitled to re-

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

§ 2. Summary and comment

[a] Generally

The courts in federal statutory copyright infringement actions have expressed various general views regarding cumulative awards of damages and profits and regarding usual measures of actual damages that may be awarded for copyright infringement (§§ 3-7). Regarding cumulative awards of actual damages and infringer's profits, some courts have stated that actual damages and infringer's profits may be awarded cumulatively (§ 3[a]); while other courts have stated that actual damages and infringer's profits may be awarded cumulatively, but that such an award may not result in double counting the same economic transaction (§ 3[b]); and one court, applying and construing the 1909 Act, has stated that actual damages and infringer's profits may not be awarded cumulatively (§ 3[c]). Other views have also been expressed on cumulative awards for infringement (§§ 4, 5). For example, some courts have stated that infringer's profits and statutory damages may be awarded cumulatively (§ 4[a]); but one court

has stated that infringer's profits and statutory damages may not be awarded cumulatively (§ 4[b]). Some courts have stated that actual damages and statutory damages may be awarded cumulatively (§ 5).

Courts in some federal statutory copyright infringement actions have also expressed general views on the usual measures of actual damages that may be awarded for infringement (§§ 6, 7). Some courts have expressly stated that a copyright owner's actual damages are usually measured by the copyright owner's lost profits (§ 6); while other courts have expressly stated that the usual or primary measure of recovery of a copyright owner's actual damages is the extent to which the market value of the copyrighted work at the time of the infringement has been injured or destroyed by the infringement (§ 7).

In federal statutory copyright infringement actions, courts have discussed and decided whether and under what circumstances to award actual damages measured by various specific, or unspecified (§ 31), measures of actual damages (§§ 8-31). Moreover, even courts within the same jurisdiction have applied from case to case different measures of actual damages to determine an appropriate award for federal statutory copyright infringement, depending on distinguishing factual circumstances.⁵ Some courts have discussed or decided whether or under what circumstances to

award actual damages measured by a copyright owner's losses (§§ 8-19). For example, one court has ruled that a copyright owner's claim for damages for interference with his business supported an award of actual damages (§ 8[a]); but under different factual circumstances another court has ruled that a copyright owner's alleged loss of business did not constitute damage from an infringement of his copyright, was not a recoverable item in a copyright infringement suit, and thus did not support an award of actual damages against the defendant infringer (§ 8[b]). Another court has ruled that a copyright owner was entitled to actual damages apparently measured by lost commissions (§ 9). Some courts have awarded copyright owners actual damages measured by licensing fees that the copyright owner would have received if there had been no infringement (§ 11); and one court has awarded a copyright owner actual damages measured by the copyright owner's loss of productive time (§ 13). However, it has been held that based on particular evidence, a copyright owner was not entitled to any actual damages for alleged damage to its goodwill (§ 10), and another court has ruled that a copyright owner was not entitled to any actual damages measured by his alleged loss of health, since loss of health did not constitute damage from copyright infringement (§ 12). Courts have

5. See, for example, *Pret-A-Printee, Ltd. v Allton Knitting Mills, Inc.* (1982, SD NY) 218 USPQ 150 (1976 Act), in which the court declined to apply either of the two formulas for determin-

ing actual damages dictated in *Stevens Linen Associates, Inc. v Mastercraft Corp.* (1981, CA2 NY) 656 F2d 11, 210 USPQ 865 (1976 Act), due to distinguishable facts.

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also discussed or decided whether or under what circumstances to award actual damages measured by other alleged losses to copyright owners, such as lost profits—either gross, net, or unspecified (§§ 14-16); lost revenue (§ 17); and lost sales—either unspecified or future (§§ 18-19). Accordingly, the courts in some cases have ruled or apparently held that evidence of a copyright owner's lost profits, generally, supported an award of actual damages (§ 14[a]); whereas, under different factual circumstances, one court has decided that an award of actual damages measured by a copyright owner's lost profits, generally, was not supported by the evidence (§ 14[b]). Some courts have awarded a copyright owner actual damages measured by its lost net profits, or what were apparently its lost net profits (§ 15), or have similarly ruled that actual damages would be awardable based on a determination of a copyright owner's lost net profits rather than a determination of his lost sales (§ 15). Moreover, based on particular circumstances one court has awarded a copyright owner actual damages measured by its gross profit lost due to the copyright infringement (§ 16). However, under different circumstances in another case, a court has held that a copyright owner was not entitled to actual damages for claimed loss of revenues (§ 17). As to lost sales, generally, courts have explicitly or impliedly held that the evidence did not support an award of actual damages measured by lost sales (§ 18). Also, some courts have held, or apparently have held, that claims for actual damages measured by lost future sales by

the copyright owners due to the copyright infringement were not supported by the evidence (§ 19).

In some federal statutory copyright infringement actions, courts have discussed or decided whether or under what circumstances to award actual damages measured by a copyright owner's claimed expenditures (§§ 20-22). In one case, a court has awarded a copyright owner actual damages measured in part by moneys it expended on administration fees and tape (§ 20); and another court has awarded actual damages measured in part by remedial or extra costs incurred by a copyright owner because of the copyright infringement (§ 22). However, one court has ruled that a copyright owner was not entitled to actual damages for its losses incurred in its investigation and prosecution of the copyright infringement lawsuit (§ 21).

Some courts, in federal statutory copyright infringement actions, have discussed or decided whether or under what circumstances to award actual damages measured by claimed injury to reputation or value of a copyright (§§ 23-25). For instance, in one case, a court has held that a copyright owner was entitled to actual damages measured by the extent of destruction, caused by the infringement, of apparently either the actual value of the copyrighted work or its value to the copyright owner (§ 23). In some cases, the courts have awarded copyright owners what were apparently actual damages measured by the extent to which the market value of the copyrighted work at the time of the infringement had been injured or

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destroyed by the infringement (§ 24[a]); however, under different circumstances in other cases, some courts have explicitly or impliedly ruled that the evidence did not support an award of actual damages measured by the extent to which the market value, or fair market value, of the copyrighted works at the time of the infringement had been injured or destroyed by the infringement (§ 24[b]). Regarding injury to reputation of a copyright, one court has ruled that the evidence did not support an award of actual damages measured by alleged damage to the reputation of the copyrighted items caused by the infringement (§ 25).

In other federal statutory copyright infringement actions, courts have discussed or decided whether or under what circumstances to award actual damages measured by the copyright infringer's gains (§§ 26-28). Thus, in one case, a court has awarded a copyright owner actual damages measured by certain commissions that the infringer received from his infringing activity (§ 26), and other courts have held that a copyright owner was entitled to actual damages measured by the copyright infringer's revenue from the infringement (§ 28). Also, some courts have ruled or apparently ruled that an award of actual damages measured by the infringer's profits was supported by the evidence (§ 27[a]); while under other circumstances, courts have ruled or apparently ruled that an award of actual damages measured by the infringer's

profits was not supported by the evidence (§ 27[b]).

Some courts, in other federal statutory copyright infringement actions, have also discussed or decided whether or under what circumstances to award actual damages measured by certain other or unspecified measures (§§ 29-31). For example, one court has held that a copyright owner was not entitled to actual damages measured essentially on a contractual measure of damages (§ 29). Another court has awarded actual damages, but without specifying what measure of damages it used (§ 31). Various other courts, utilizing a "value of use" measure of actual damages, have explicitly or impliedly held that a copyright owner was entitled to actual damages measured by the value of the use of the copyright by the copyright infringer (§ 30[a]); or similarly have upheld the awardability of actual damages measured by the value of use approach (§ 30[a]). One court, however, has held that the evidence did not support an award to the copyright owner of actual damages measured by the value of the use of the copyright by the copyright infringer (§ 30[b]).

Prior to the Copyright Act of 1909, there had been no statutory provision for the recovery of profits, but recovery of profits had been allowed in copyright cases as appropriate equitable relief incident to a decree for an injunction.⁶ The courts in federal statutory copyright infringement actions have made various particular deter-

6. See *Sheldon v Metro-Goldwyn Pictures Corp.* (1940) 309 US 390, 84 L Ed 825, 60 S Ct 681, 44 USPQ 607.

minations regarding the amount of a copyright infringer's profits (§§ 32-71). The courts in many cases have discussed or decided issues regarding the apportionment of an infringer's profits (§§ 35, 36), or the deduction of claimed expenses from the infringer's profits (§§ 37-71); and a few courts have also ruled on issues regarding the gross profits of a copyright infringer (§§ 32-34).

Regarding an infringer's gross profits, one court in a federal statutory copyright infringement action has ruled that the value of an infringer's "house" advertising space was not includible in the infringer's gross revenues (§ 32); and another court has held that certain interest payments were not includible in the infringer's gross revenues from the infringement (§ 34). However, one court has ruled that under the circumstances some portion of the infringer's indirect profits had to be included in the infringer's gross profits (§ 33).

In federal statutory copyright infringement actions in which a profit-apportionment formula was offered or apparently offered by the infringer, the courts have awarded the infringer's profits apportioned pursuant to or apparently pursuant to the court's or a master's profit-apportionment formula or upheld such an award (§ 35[b]); pursuant to the infringer's formula for apportionment (§ 35[a]); or pursuant to the jury's formula for apportionment (§ 35[c]).

The results have also varied where an infringer did not or apparently did not offer a profit-apportionment formula (§ 36). For

instance, in some such cases, the courts have awarded the copyright owner the infringer's profits apportioned pursuant to or apparently pursuant to the court's or a master's apportionment formula or upheld such an award (§ 36[a]); and other courts in such cases have awarded, or upheld awards, due to particular circumstances, certain unapportioned infringer's profits (§ 36[b]); but in some such cases, the courts have held that a copyright owner was not entitled to an award of infringer's profits (§ 36[c]).

In some federal statutory copyright infringement actions, the courts have made determinations regarding general expense-deduction formulas (§§ 37, 38). Thus, in cases in which a copyright infringer offered or apparently offered an expense-deduction formula, some courts have awarded to the copyright owner the infringer's profits with expenses deducted pursuant to or apparently pursuant to the infringer's proffered formula (§ 37[a]); in some such cases, the courts have awarded the infringer's profits with expenses deducted pursuant to the court's own expense-deduction formula or upheld such an award (§ 37[b]); in one such case, the court has upheld an award to the copyright owner of the infringer's profits with expenses deducted pursuant to the jury's expense-deduction formula (§ 37[c]); and in other such cases, some courts have awarded the infringer's profits with no expenses deducted or upheld such an award (§ 37[d]).

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parently did not offer an expense- deduction formula (§ 38). For ex- ample, in some such cases, the courts have awarded the infringer's profits, or have held that the in- fringer's profits were awardable, with expenses deducted pursuant to or apparently pursuant to the court's or a master's expense- deduction formula (§ 38[a]). Other courts in such cases have awarded the infringer's profits, or have held that the infringer's profits were awardable, with no expenses de- ducted (§ 38[b]). In another such case, a court held that the trial court had erred in its calculation and award of profits and remanded for a determination of damages and profits (§ 38[c]).

The courts in federal statutory copyright infringement actions have discussed or decided whether or under what circumstances to allow particular claimed business expenses from an infringer's profits (§§ 39-71). Thus, where an infringer provided sufficient evi- dence to support a particular claimed expense deduction, courts have allowed or apparently allowed an expense deduction from the in- fringer's profits for administrative and bookkeeping costs (§ 39[a]); an uncollectible debt (§ 41[a]); compi- lation costs (§ 42); an amount paid by an infringer for, or apparently for, the construction of an infring- ing real-estate project (§ 43); a de- sign and engraving cost (§ 45[a]); furniture and equipment deprecia- tion or unspecified depreciation ex- penses (§ 46[a]); editorial costs (§ 47); a general insurance expense (§ 50[a]); interest payments on an investment or on a capital funds loan (§ 51[a]); professional services costs (§ 52[a]); various expenses

for office supplies or materials, in- cluding costs for such items as art supplies, buttons, greige goods, paper, stationery, and certain simi- lar items (§ 53); overhead expenses (§ 54[a]); freight, freight and cart- age outward, packing, or shipping and packing expenses (§ 55[a]); certain photography expenses, such as costs for separations, read- ing photographs for publication, and retouching (§ 56[a]); postage expenses (§ 57[a]); printing expen- ses (§ 58); rent or facilities costs (§ 60[a]); costs of salaries, wages, or other compensation of the in- fringer's employees or agents (§ 63[a]); expenses for royalties, commissions, or other compensa- tion paid or apparently paid to independent contractors (§ 64); ex- penses for compensation paid to a co-infringer (§ 65[a]); sales-dis- counts costs (§ 66); selling expen- ses (§ 67[a]); real-estate taxes, fed- eral income taxes, payroll taxes, or certain other taxes (§ 68[a]); a trade-bill expense (§ 69); a trans- portation expense and an automo- bile and travel expense (§ 70); and utilities or telephone expenses (§ 71[a]).

However, in federal statutory copyright infringement actions, where an infringer failed to pro- vide sufficient evidence to support a particular claimed expense de- duction, courts have disallowed or apparently disallowed an expense deduction from the infringer's profits for claimed administrative costs (§ 39[b]); advertising, promo- tion, or public-relations costs (§ 40); a bad-debts expense (§ 41[b]); a credit and collection expense (§ 44); a design expense (§ 45[b]); depreciation expenses

(§ 46[b]); factoring costs (§ 48); a "house errors" expense (§ 49); an insurance expense (§ 50[b]); interest payments on a loan obtained to purchase land for an infringing real-estate project, and interest payments incurred on amounts borrowed by an infringer, from a savings and loan association, as working capital for construction of an infringing project (§ 51[b]); legal and professional fees (§ 52[b]); overhead expenses (§ 54[b]); expenses for freight-in, or shipping and warehousing (§ 55[b]); a photography expense for retouching costs (§ 56[b]); postage expenses (§ 57[b]); the cost of real estate on which an infringing project had been constructed (§ 59); rent costs (§ 60[b]); repairs costs (§ 61); costs of charge-backs or returned goods (§ 62); costs of salaries, or fees paid to an infringer's employees or agents (§ 63[b]); expenses for compensation apparently paid by an infringer to himself (§ 65[b]); selling expenses (§ 67[b]); an energy surcharge cost or income taxes (§ 68[b]); and costs for an energy surcharge, and for heat, light and power, and telephone expenses (§ 71[b]).

[b] Practice pointers⁷

Pursuant to 17 USCS § 501(c) (1), a copyright owner is required to elect between actual and statutory damages, at any time before a final judgment is rendered. Coun-

sel should note that in one case in which the federal statutory copyright owners submitted evidence of actual damages and also requested statutory damages rather than specifically electing between them at the outset, and then asked the court to award whichever type of damages resulted in the greater award, the court declared that any other approach might have worked a substantial injustice due to the uncertain quality of the evidence of actual damages.⁸ Also, noting that the copyright infringers had made no objection to this procedure, the court nevertheless ordered the copyright owners after trial to file a notice of election stating which type of damages they preferred.

In another federal statutory copyright infringement case in which the value of the infringer's use of the copyright was utilized to measure the copyright owner's actual damages, the court commented that under the jury instructions it was permissible for the infringers to have argued to the jury that a reasonable use damage award should be deducted as a direct expense from the jury's calculation of the infringer's profits. The court nevertheless pointed out that the infringers' proposed special verdict contained no interrogatory regarding deduction of a reasonable use from infringers' profits.⁹ The court concluded that

7. For sample testimony and discussion of the various issues involved in proving actual damages and profits for federal statutory copyright infringement, see *Damages for Copyright Infringement*, 50 Proof of Facts 2d 263 §§ 1-9, 15-30.

8. *RSO Records, Inc. v Peri* (1984, SD NY) 596 F Supp 849, 225 USPQ 407 (1976 Act) (§ 18).

9. *Harper House, Inc. v Thomas Nelson Publishers, Inc.* (1987, CD Cal) 4 USPQ2d 1897 (1976 Act) (§ 30[a]).

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the infringers were therefore barred under Rule 51 of the Federal Rules of Civil Procedure from raising a new argument that could and should have been raised before the jury retired.

Counsel should note that at least one court held that when financial records sufficiently detailed to show an infringer's sales are not available, expert testimony may be used either to develop this proof or proof of its profits rather than its sales.¹⁰

At least one court awarding actual damages in a federal statutory copyright infringement action specifically denied a copyright owner's request for treble damages.¹¹ The court reasoned that there was no statutory authorization in the 1976 Act for such an award, and that the infringers' activities had not been so outrageous or egregious as to justify such an award.

Another court, furthermore, rejected a federal statutory copyright owner's request that his recovery of infringer's profits be increased to adjust for inflation during the period between the filing of the lawsuit and judgment; the court ruled that this element was not traditionally included in a copyright infringement award and would not be granted in the present case.¹²

10. Estate of Vane v The Fair, Inc. (1988, CA5 Tex) 849 F2d 186, 7 USPQ2d 1479 (1976 Act) (§ 36[c]).

11. Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co. (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 30[a]).

II. General Views

A. Cumulative Awards

§ 3. Cumulative award of actual damages and infringer's profits

[a] Allowable—generally

The courts in the following federal statutory copyright infringement actions stated that actual damages and infringer's profits may be awarded cumulatively.

Second Circuit—Thomas Wilson & Co. v Irving J. Dorfman Co. (1970, CA2 NY) 433 F2d 409, 167 USPQ 417 (1909 Act), cert den 401 US 977, 28 L Ed 2d 326, 91 S Ct 1200, 169 USPQ 65; MCA, Inc. v Wilson (1981, CA2 NY) 677 F2d 180, 211 USPQ 577 (1909 Act); Abeshouse v Ultragraphics, Inc. (1985, CA2 Conn) 754 F2d 467 (1976 Act).

Dolori Fabrics, Inc. v Limited, Inc. (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act).

Seventh Circuit—F.E.L. Publications, Ltd. v Catholic Bishop of Chicago (1985, CA7 Ill) 754 F2d 216, 225 USPQ 278 (1909 Act), cert dismd 473 US 923, 87 L Ed 2d 674, 106 S Ct 11 and cert den 474 US 824, 88 L Ed 2d 64, 106 S Ct 79, later proceeding on other grounds (ND Ill) 1987 US Dist LEXIS 7179, reconsideration den on other grounds (ND Ill) 1987 US Dist LEXIS 10441 and on remand

12. Blackman v Hustler Magazine, Inc. (1985, DC Dist Col) 620 F Supp 792, 228 USPQ 170 (apparently 1976 Act) (§ 35[b]), affd in part on other grounds and revd in part on other grounds 255 App DC 135, 800 F2d 1160, 231 USPQ 51.

on other grounds (ND Ill) 1989 US Dist LEXIS 10119.

Ninth Circuit—Malsed v Marshall Field & Co. (1951, DC Wash) 96 F Supp 372, 88 USPQ 552 (1909 Act).

Thus, in an action to recover for infringement of copyrighted fabric designs, the court ruled, in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act), that 17 USCS § 504(b), entitling the owner of a copyright "to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing actual damages," did not preclude the present court from awarding the copyright owner both actual damages and one co-infringer's profits. The court said that the copyright owner could therefore recover from each co-infringer both its actual damages and their profits due to the infringement.

But see *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act), an action for infringement of a copyright related to siphon pumps mounted on cards, in which the court held that notwithstanding the language of § 101(b), and the settled rule that the first two clauses of § 101(b) are cumulative, if the copyright infringer's unit profit on the infringement aspect of each transaction in which it had engaged was a certain amount and the copyright owner's profit on the same sale—if it had made such sale—would have been a greater unit amount, then the plaintiff would

not be entitled to both recoveries but only to the greater of the two recoveries.

[b] —View that cumulative award may not result in double counting

In the following federal statutory copyright infringement actions, the courts stated that actual damages and infringer's profits may be awarded cumulatively, but that such an award may not result in double counting the same economic transaction.

Second Circuit—*Abeshouse v Ultragraphics, Inc.* (1985, CA2 Conn) 754 F2d 467 (1976 Act); *Update Art, Inc. v Modiin Pub., Ltd.* (1988, CA2 NY) 843 F2d 67, 6 USPQ2d 1784, 10 FR Serv 3d 877 (1976 Act; recognizing rule), later proceeding on other grounds (SD NY) 1989 US Dist LEXIS 10461.

Dolori Fabrics, Inc. v Limited, Inc. (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act).

Sixth Circuit—*Robert R. Jones Associates, Inc. v Nino Homes* (1988, CA6 Mich) 858 F2d 274, 8 USPQ2d 1224, 26 Fed Rules Evid Serv 1245, 100 ALR Fed 241 (1976 Act).

Seventh Circuit—*Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act); *Deltak, Inc. v Advanced Systems, Inc.* (1985, CA7 Ill) 767 F2d 357, 226 USPQ 919 (1976 Act).

Kleier Advertising Co. v James Miller Chevrolet, Inc. (1989, ND Ill) 722 F Supp 1544, 14 USPQ2d 1061 (1976 Act).

Eighth Circuit—*United Tel. Co. v Johnson Pub. Co.* (1987, WD

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Mo) 671 F Supp 1514 (1976 Act; recognizing rule) affd on other grounds (CA8 Mo) 855 F2d 604, 8 USPQ2d 1058.

Ninth Circuit—Transgo, Inc. v Ajac Transmission Parts Corp. (1985, CA9 Cal) 768 F2d 1001, 227 USPQ 598, 82 ALR Fed 97 (1976 Act; recognizing rule), cert den 474 US 1059, 88 L Ed 2d 778, 106 S Ct 802.

Harper House, Inc. v Thomas Nelson Publishers, Inc. (1987, CD Cal) 4 USPQ2d 1897 (1976 Act; recognizing rule).

Accordingly, in a copyright infringement action by owners of a copyrighted poster, "Cube Solution," against their licensed distributor, a printing firm hired by the distributor to print infringing posters, the distributor's president, and the sole beneficiary of a trust that owned all the stock of the distributor, the court held, in *Abeshouse v Ultragraphics, Inc.* (1985, CA2 Conn) 754 F2d 467 (1976 Act), that in reviewing an award made under 17 USCS § 504(b), a court has to insure that the award was not based on undue speculation, and that the award did not entail the double-counting of profits and damages expressly barred by § 504(b). Noting that the jury found the distributor liable for \$18,100 beyond the \$37,268 amount that the jury was entitled to fix as the distributor's infringing profit component of § 504(b), the court declared that it could assume that the additional amount represented the jury's assessment of the actual damages suffered by the copyright owners. The court pointed out that the only actual

damages for which the owners presented sufficient evidence were for the profits they would have earned on sales to their distributor, if the distributor had not sought out an alternative source of supply for the posters. The court said that if the copyright owners, rather than the defendant printer hired by the infringing distributor, had supplied the distributor with 21,500 posters pursuant to the exclusive distribution agreement, the copyright owners would have received \$.75 per poster. The court calculated that out of this sum the copyright owners would have been required to pay printing costs that the jury could have found to be as low as \$.22 per poster, leaving the copyright owners with damages in the form of lost profits of \$11,395. The court stated that in charging the distributor with these damages, the jury would not have been engaging in the double-counting forbidden by § 504(b), even though the jury also awarded the owners the distributor's profits of \$37,268. The court pointed out that double-counting may occur when an infringing seller has to disgorge profits on sales that a copyright owner might have made and for which he could therefore validly claim damages in the form of lost profits. Here, however, the copyright owners could not have sold their posters domestically to anyone but their exclusive distributor, the defendant distributor, at \$.75 a piece. The distributor sold to wholesalers at \$2 per poster. Pointing out that the copyright owners could not properly have made these sales that the distributor made to wholesalers and therefore could not claim any lost profits on

them, the court ruled that requiring the distributor to disgorge to the copyright owners its profits on those sales contained no element of double-counting, even though the owners were also recovering damages of \$11,395.

See also *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act), an action for infringement of a copyright related to siphon pumps mounted on cards, in which the court held that notwithstanding the language of § 101(b), and the settled rule that the first two clauses of § 101(b) are cumulative, if the copyright infringer's unit profit on the infringement aspect of each transaction in which it had engaged was a certain amount and the copyright owner's profit on the same sale—if it had made such sale—would have been a greater unit amount, then the plaintiff would not be entitled to both recoveries but only to the greater of the two recoveries.

In *Taylor v Meirick* (1983, CA7 III) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, the appellate court held that the trial court erred in calculating the copyright owner's actual damages, partly because there was double counting. The court had awarded the copyright owner \$22,700 in damages consisting of two items—the owner's losses (\$19,300), and the infringer's profits (\$3,300) (all rounded off by the appellate court here to the nearest \$100). The losses were calculated as follows: (1) in 1974 the owner's gross revenue from sales of the maps infringed by the infringer beginning

in 1976 was \$4,700 and in 1975 it was \$4,900; (2) the average revenue for the 2 years preinfringement period was thus \$4,800; (3) the owner assumed that but for the infringement he would have continued to gross this amount every year throughout the damage period—until the end of 1980 (he dropped his original contention that the infringer had infringed beyond then); and (4) this made the owner's projected revenue for the 5-year period 1976 through 1980, \$23,900. The owner's actual revenue was \$4,600, and \$19,300 was the difference between projected and actual revenue. The copyright owner calculated the infringer's profits from selling the infringing maps as follows: (1) during the damage period the infringer sold 150 different maps; (2) the three infringing maps represented 2 percent of this figure; and (3) 2 percent of the infringer's gross profits for the years 1976 through 1980 as shown on his federal income tax returns for those years was \$3,300. Regarding double counting, the court here observed that the owner's basic damage theory was that the infringer had sold maps on which the owner would have made \$19,300 in profits, yet the \$3,300 figure was the owner's estimate of the infringer's profits on the same maps. The court pointed out that if the profits that the owner would have made but for the infringement were equal to the profits that the infringer made by selling the copyrighted item, and the owner proved up his lost profits, the "not taken into account" clause of § 504(b)—eliminating any ambiguity with regard to the possibility of

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double recovery under the 1909 Act—barred the owner from receiving any additional award of damages based on the infringer's profits. The court noted that it is true that if an infringer makes greater profits than a copyright owner lost, because the infringer is a more efficient producer than the owner or sells in a different market, then the owner is allowed to capture the additional profit even though it does not represent a loss to him. The court stated that since the infringer's gain might exceed the owner's loss, especially as loss is measured by a court, limiting damages to the owner's loss would not effectively deter this kind of forced exchange. The court pointed out that this analysis also implied that some of the windfall might actually be profit that the owner would have obtained from licensing his copyright to the infringer had the infringer sought a license. The court however observed that the owner presented no evidence that selling the infringing maps was more profitable to the infringer than selling more of the original maps would have been to himself. The court said that it was true that the owner would not have had to present such evidence if he were seeking to recover the infringer's profits as the sole item of damages, as the statute permitted

him to do, but that since he was trying to recover both his lost profits and the infringer's profits he had to show what part of the infringer's profits he, the owner, would not have earned had the infringement not occurred; in other words, the court stated that the owner had to subtract his profits from the infringer's profits. The court said that the owner here did not do this, and that the fact that the owner's estimate of the infringer's profits was far lower than his estimate of his own lost profits showed the impossibility of what he was trying to do. The court affirmed the trial court's decision on liability, but reversed on damages, except for upholding the finding that the owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

[c] Not allowable

Applying and construing the 1909 Act in the following federal copyright infringement action, the court declared that actual damages and infringer's profits may not be awarded cumulatively.

☆ CAUTION: The court in this case applied and construed the 1909 Act. Under the 1976 Act, a cumulative award of actual damages is allowable (see § 3[a, b]).¹³

13. Additionally, see *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act), an action for infringement of a copyright related to siphon pumps mounted on cards, in which the court held that if the copyright infringer's unit profit on the infringement aspect of each transaction in which it engaged was a certain amount and the copyright

owner's profit on the same sale—if it had made such sale—would have been a greater unit amount, then the plaintiff would not be entitled to both recoveries but only to the greater of the two recoveries, notwithstanding the language of § 101(b), and the settled rule that the first two clauses of § 101(b) are cumulative.

Thus, in an action for alleged infringement of the copyrighted H.R. Pufnstuf children's television show by the production of the infringers' McDonaldland television commercials, the court held, in *Sid & Marty Krofft Television Productions, Inc. v McDonald's Corp.* (1977, CA9 Cal) 562 F2d 1157, 196 USPQ 97 (1909 Act), that if the infringers could render an accounting of their profits, then the copyright owners were entitled to the greater of either damages "or" profits, but not both damages "and" profits. Noting that courts generally have been unable to agree on the issue whether the copyright owner would be entitled to a cumulative recovery, or an alternative recovery, the court explained that this disagreement had its roots in the conflict between the statutory language which appeared to contemplate a cumulative recovery and the legislative history which indicated that Congress envisioned an alternative recovery. The court affirmed in part that part of the judgment finding infringement, reversed in part the trial court's denial of the copyright owners' motion for an accounting of profits, and remanded for an accounting.

See also *Frank Music Corp. v*

Metro-Goldwyn-Mayer, Inc. (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, an action for infringement of copyrights in musical scores written for the play, "Kismet," in which the court said that § 101(b) of the 1909 Act allows recovery of the greater of the copyright owner's damages or the infringer's profits.

§ 4. Cumulative award of infringer's profits and statutory damages

[a] Allowable

In the following federal statutory copyright infringement actions, the courts stated that infringer's profits and statutory damages may be awarded cumulatively.¹⁴

Second Circuit—*Peter Pan Fabrics, Inc. v Jobela Fabrics, Inc.* (1964, CA2 NY) 329 F2d 194, 140 USPQ 631 (1909 Act); *Lottie Joplin Thomas Trust v Crown Publishers, Inc.* (1978, CA2 NY) 592 F2d 651, 199 USPQ 449 (1909 Act); *MCA, Inc. v Wilson* (1981, CA2 NY) 677 F2d 180, 211 USPQ 577 (recognizing view under 1909 Act).

Thus, in an action to recover for

See also *Dealer Advertising Development, Inc. v Barbara Allan Financial Advertising, Inc.* (1979, WD Mich) 209 USPQ 1003 (1909 Act), an action for infringement of a copyright in an advertising campaign, in which the court held that while there is disagreement as to whether both damages and profits are to be included in an award for copyright infringement, there is agreement that

the prevailing party is entitled to at least the greater of damages or profits.

14. It should be noted that in each of the Second Circuit cases in this subsection the court was construing the 1909 Act when expressing its view. For a Second Circuit case in which the court was construing the 1976 Act when expressing a contrary view, see § 4[b].

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infringement of copyrights in an opera and two compositions originally contained in the opera, the court ruled, in *Lottie Joplin Thomas Trust v Crown Publishers, Inc.* (1978, CA2 NY) 592 F2d 651, 199 USPQ 449 (1909 Act), that the trial court properly awarded statutory "in lieu" damages in addition to the actual profits realized by the infringers from their sale of the infringing album. The court observed that a strict interpretation of the federal copyright statute might suggest that the remedies are mutually exclusive and that a trial court may award either actual damages and profits "or" statutory damages, pursuant to 17 USCS § 101(b). The court, however, declared that trial courts have broad discretion to make awards which serve the recognized compensatory and deterrent objectives of the federal copyright statute in accordance with *F. W. Woolworth Co. v Contemporary Arts, Inc.* (1952) 344 US 228, 97 L Ed 276, 73 S Ct 222, 95 USPQ 396 (1909 Act), *motion den* 350 US 810, 100 L Ed 727, 76 S Ct 37. Accordingly, the court held that where actual damages are not susceptible of precise calculation, it is error for a trial court not to consider the propriety of an award of statutory damages in addition to the actual profits shown to have been made by the infringer. Noting that in the present case it would have been virtually impossible to calculate the profits lost by the copyright owners or other damages sustained as a

result of the infringements, the court pointed out that under these circumstances to have limited the copyright owner to a choice between either statutory damages or profits realized by the infringers, would have diluted the deterrent effect of the award and only partially have compensated the copyright owner. The appellate court therefore held that the trial court did not err in awarding to the copyright owner the profits realized from the infringements plus statutory "in lieu" damages. Pointing out that the amount of the award against each codefendant infringer was within the statutory limits, the appellate court held that the trial court acted well within its discretion in its award. The court affirmed a judgment awarding statutory damages, infringer's profits, and further relief on other grounds.

[b] Not allowable

The court in the following federal statutory copyright infringement action stated that infringer's profits and statutory damages may not be awarded cumulatively.¹⁵

Accordingly, in an action to recover for infringement of a copyrighted song, "Boogie Woogie Bugle Boy," the court declared, in *MCA, Inc. v Wilson* (1981, CA2 NY) 677 F2d 180, 211 USPQ 577 (1909 Act), that although the 1976 Act was not controlling in the present case a copyright owner who elects to recover statutory "in lieu" damages pursuant to the 1976 Act,

15. It should be noted that in the Second Circuit case in this subsection the court was construing the 1976 Act when expressing its view. For Second

Circuit cases in each of which the court was construing the 1909 Act when expressing a contrary view, see § 4[a].

17 USCS § 504(c)(1), will be precluded from recovering any infringer's profits.

§ 5. Cumulative award of actual damages and statutory damages

In the following federal statutory copyright infringement actions, the courts stated that actual damages and statutory damages may be awarded cumulatively.

Second Circuit—Peter Pan Fabrics, Inc. v Jobela Fabrics, Inc. (1964, CA2 NY) 329 F2d 194, 140 USPQ 631 (1909 Act); Lottie Joplin Thomas Trust v Crown Publishers, Inc. (1978, CA2 NY) 592 F2d 651, 199 USPQ 449 (apparently recognizing view under 1909 Act).

Roy Export Co. Establishment etc. v Columbia Broadcasting System, Inc. (1980, SD NY) 503 F Supp 1137, 208 USPQ 580 (apparently recognizing view under 1909 Act), affd on other grounds (CA2 NY) 672 F2d 1095, 8 Media L R 1637, 215 USPQ 289, cert den 459 US 826, 74 L Ed 2d 63, 103 S Ct 60.

Seventh Circuit—F.E.L. Publications, Ltd. v Catholic Bishop of Chicago (1985, CA7 Ill) 754 F2d 216, 225 USPQ 278 (1909 Act), cert dismd 473 US 923, 87 L Ed 2d 674, 106 S Ct 11 and cert den 474 US 824, 88 L Ed 2d 64, 106 S Ct 79, later proceeding on other grounds (ND Ill) 1987 US Dist LEXIS 7179, reconsideration den on other grounds (ND Ill) 1987 US Dist LEXIS 10441 and on remand on other grounds (ND Ill) 1989 US Dist LEXIS 10119.

Thus, in Roy Export Co. Establishment etc. v Columbia Broad-

casting System, Inc. (1980, SD NY) 503 F Supp 1137, 208 USPQ 580 (1909 Act), affd on other grounds (CA2 NY) 672 F2d 1095, 8 Media L R 1637, 215 USPQ 289, cert den 459 US 826, 74 L Ed 2d 63, 103 S Ct 60, an action to recover for infringement of copyrights in Charlie Chaplin films, the court apparently recognized the view that actual damages and statutory damages may be awarded cumulatively. In addition to a jury award of \$7,280 in actual damages for statutory copyright infringement, the court granted the copyright owners' motion for an additional award of \$5,000 statutory damages. The court said that the compensatory, therapeutic, and deterrent purposes of the federal copyright statute would be served by an additional award of \$5,000 statutory damages. The court also pointed out that this would serve the statutory purposes of granting additional relief when an element of damages was incapable of actual ascertainment at trial while avoiding an indiscriminate application of the statutory multiplier which could lead to a ridiculous and injurious award (where, for example, the total verdict in the present case also included a large punitive damage award on a common-law copyright claim). The court had determined that the infringer's profits from its infringement could not be actually ascertained since the benefit retained by the infringer resulting from its presentation of the infringing work and the increased audience enjoyed by the network during that time period consisted of unmeasurable goodwill with its affiliates and increased stature and prestige among its competitors.

The court said that a statutory damage award was therefore appropriate.

B. Usual Measures of Actual Damages

§ 6. View that usual measure of actual damages is copyright owner's lost profits

In the following federal statutory copyright infringement actions, the courts expressly stated that a copyright owner's actual damages are usually measured by the copyright owner's lost profits.¹⁶

First Circuit—*Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act).

Second Circuit—*Lauratex Textile Corp. v Allton Knitting Mills, Inc.* (1981, SD NY) 519 F Supp 730, 215 USPQ 521 (1976 Act); *Pret-A-Printee, Ltd. v Allton Knitting Mills, Inc.* (1982, SD NY) 218 USPQ 150 (1976 Act); *Kenbrooke Fabrics, Inc. v Holland Fabrics, Inc.* (1984, SD NY) 602 F Supp 151, 225 USPQ 153 (1976 Act).¹⁷

Eighth Circuit—*Regents of University of Minnesota v Applied Innovations, Inc.* (1987, DC Minn) 685 F Supp 698, 5 USPQ2d 1689 (apparently applying 1976 Act).

For example, although awarding statutory damages to the owner of a copyrighted fabric design for the defendants' willful infringement, the court in *Lauratex Textile Corp. v Allton Knitting Mills, Inc.* (1981,

SD NY) 519 F Supp 730, 215 USPQ 521 (1976 Act), declared that a copyright owner's actual damages are usually measured in terms of lost profits. The court said, however, that it is often difficult to speculate what the copyright owner's sales would have been if there had been no infringement.

See also *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act), *affd* without op (CA2 NY) 862 F2d 304, an action to recover for infringement of a copyright in a magazine treating the history of prominent black people in a comic book format, in which the court declared that (1) the primary measure for the recovery of actual damages under 17 USCS § 504(b) is the extent to which the market value of the copyrighted work at the time of the infringement has been harmed or destroyed by the infringement; and (2) the best method available for measuring this diminution in market value is the profit lost by the copyright owner due to the infringements.

§ 7. View that usual or primary measure of actual damages is injury to or destruction of market value of copyright

In the following federal statutory copyright infringement actions, the courts expressly stated that the usual or primary measure of recovery of a copyright owner's actual damages is the extent to which the

16. For cases in which the courts applied this measure in determining actual damages under particular circumstances, see §§ 14-16.

17. For Second Circuit cases in which the courts expressed an apparently contrary view, see § 7.

market value of the copyrighted work at the time of the infringement has been injured or destroyed by the infringement.¹⁸

Second Circuit—Fitzgerald Pub. Co. v Baylor Pub. Co. (1986, CA2 NY) 807 F2d 1110, 1 USPQ2d 1261 (1976 Act), on remand Fitzgerald Pub. Co. v Baylor Pub. Co. (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (also expressly stating rule), affd without op (CA2 NY) 862 F2d 304.

Business Trends Analysts, Inc. v Freedomia Group, Inc. (1988, SD NY) 700 F Supp 1213, 10 USPQ2d 1481 (1976 Act), affd in part and revd in part on other grounds (CA2 NY) 887 F2d 399, 12 USPQ2d 1457.¹⁹

Ninth Circuit—Frank Music Corp. v Metro-Goldwyn-Mayer, Inc. (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321; United States v King Features Entertainment, Inc. (1988, CA9 Cal) 843 F2d 394, 6 USPQ2d 1873 (1976 Act).

Harper House, Inc. v Thomas Nelson Publishers, Inc. (1987, CD Cal) 4 USPQ2d 1897 (1976 Act).

Eleventh Circuit—Kent v Revere

18. For cases in which the courts applied this measure in determining actual damages under particular circumstances, see § 24.

19. For Second Circuit cases in which the courts expressed an apparently contrary view, see § 6.

20. On remand, the court declared, in Fitzgerald Pub. Co. v Baylor Pub. Co. (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act), affd with-

(1985, MD Fla) 229 USPQ 828 (1976 Act).

Accordingly, in an action to recover for infringement of a copyright in a magazine treating the history of prominent black people in a comic book format, the court declared, in Fitzgerald Pub. Co. v Baylor Pub. Co. (1986, CA2 NY) 807 F2d 1110, 1 USPQ2d 1261 (1976 Act), on remand Fitzgerald Pub. Co. v Baylor Pub. Co. (ED NY) 670 F Supp 1133, 4 USPQ2d 1958, affd without op (CA2 NY) 862 F2d 304,²⁰ that although the copyright statute itself does not define what constitutes actual damages, the primary measure of recovery is the extent to which the market value of the copyrighted work at the time of the infringement has been injured or destroyed by the infringement. The court said that failure to apply this measure in weighing actual damages requires reversal. The court pointed out that because the proper measure of damages is often difficult to ascertain, indirect evidence may be used to fix the amount of the damages. One example, observed the court, is the profits which the copyright owner might have earned were it not for the defendant's infringement. Ad-

out op (CA2 NY) 862 F2d 304, that (1) the primary measure for the recovery of actual damages under 17 USCS § 504(b) is the extent to which the market value of the copyrighted work at the time of the infringement has been harmed or destroyed by the infringement; and (2) the best method available for measuring this diminution in market value is the profit lost by the copyright owner due to the infringements.

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ditionally, the court noted that the copyright owner is competent to testify as to the extent to which the copyright's value has been injured or destroyed by the infringer's actions. The court also pointed out that in remanding for a reconsideration of the actual damages, it recognized that the magistrate declined to receive into evidence the copyright owner's past sales and its marketing strategy because it believed that this evidence was insufficient proof of damages to support the copyright owner's separate breach of contract claim against the co-infringer publisher. Also noting that the trial court did not find on the copyright claim that the co-infringer publisher had made a profit, the appellate court said that it was not clear from the magistrate's report how recently the sales of the copyrighted publication which the copyright owner cited had been made. Therefore, the court directed that on remand the copyright owner should not be limited to adducing evidence of past sales, and instead could present any relevant evidence bearing on the question of how much the value of the copyrights had been injured in order to prove its damages. The court reversed and remanded for a redetermination of actual damages and other claims.

III. Particular Measures of Copyright Owner's Actual Damages

A. Losses By Copyright Owner

§ 8. Business

[a] Supported

In the following federal statutory copyright infringement action, the

court ruled that the copyright owner's claim for damages for interference with his business supported an award of actual damages.

In *Atlantic Monthly Co. v Post Pub. Co.* (1928, DC Mass) 27 F2d 556 (1909 Act) (§ 22), an action to recover for infringement of a copyrighted article consisting of an open letter from the governor of New York in reply to an article published in the April 1927 issue of the copyright owner's "Atlantic Monthly" magazine, the court held that although the copyright owner claimed that the infringement interfered with its business in various ways and caused \$50,000 loss to it, this amount seemed an altogether excessive estimate. The court explained that the shrinkage in renewals for the plaintiff's May issue was quite as likely due to other activities of the magazine as to the infringement in question. The court observed that the premature publication of the article by the infringer undoubtedly impaired confidence in the copyright owner's ability to protect its releases to the press, and in other ways caused it substantial damages. Although noting that the amount of such damages was not easy to state, the court declared that it was satisfied that they were as much as \$10,000; and accordingly the court held that this \$10,000 sum in addition to certain other damages should be recoverable as actual damages in this proceeding.

[b] Not supported

The court, in the following federal statutory copyright infringement action, ruled that the copyright owner's alleged loss of busi-

ness did not constitute damage from an infringement of his copyright, was not a recoverable item in a copyright infringement suit, and thus did not support an award of actual damages against the defendant infringer.

In an action for infringement of a copyright in a lightweight, wild turkey decoy and a mold for the commercial production of these decoys, the court held, in *Streeter v Rolfe* (1980, WD La) 491 F Supp 416, 209 USPQ 918 (1976 Act), that the copyright owner's alleged loss of business did not constitute damage from an infringement of his copyright, and that notwithstanding any discussion of causation, this element did not appear to be a recoverable item in a copyright infringement suit. The court ruled that an award of damages against the defendant infringer, either statutory or actual, would be improper, since the copyright owner had not articulated any damages which the law considered actual damages flowing from a copyright infringement. The court noted that no profits had been realized by either party. The copyright owner argued that his business had been damaged by the imbroglio between the copyright owner and the infringer. Noting that neither the infringer nor the copyright owner had sold a decoy from the copyrighted mold, the court rejected the copyright owner's argument that he had not sold a decoy from the copyrighted mold allegedly because of the infringer's actions, since the copyright owner's decision not to sell a decoy might have been caused by the infringer's actions in general but not by any specific act of infringe-

ment. The court entered a summary judgment in favor of the alleged infringer on the owner's infringement claim.

§ 9. Commissions

In the following federal statutory copyright infringement action, the court ruled that the copyright owner was entitled to actual damages measured by commissions on sales made by the infringer, paid by the infringer to the copyright owner's agent in a prior contest conducted under a valid contract.

In *Gordon v Weir* (1953, DC Mich) 111 F Supp 117, 97 USPQ 387 (1909 Act), *affd per curiam* (CA6 Mich) 216 F2d 508, 104 USPQ 40, an action to recover for infringement of a copyrighted advertisement of a dot-counting contest that portrayed merchandise given as prizes in a picture made up of a large number of dots, in which the court ruled that with respect to one particular infringement the assessment of actual damages would be made on the basis of commissions—on sales made by the infringer—paid by the infringer to the copyright owner's agent in a prior contest conducted under a valid contract, since the infringer failed to disclose the amount of sales resulting from the publications of the infringing advertisement on this particular occasion. Concluding that the copyright owner was thus entitled to recover \$1,500 actual damages for this infringement, the court entered a judgment awarding the copyright owner actual damages for this and other infringements, statutory damages for other infringements, and additional relief on other claims.

§ 10. Goodwill

The court in the following federal statutory copyright infringement action ruled that the copyright owner was not entitled to any actual damages for alleged damage to its goodwill.

In an action for infringement of a company's copyright on its work, "The Executive Planner," which was a combined diary, appointment calendar and information book, the court held, in *Baldwin Cooke Co. v Keith Clark, Inc.* (1976, ND Ill) 420 F Supp 404 (1909 Act), that the copyright owner was not entitled to any actual damages for the alleged damage to its goodwill. Although recognizing that a layman is entitled to express an opinion as to the value of his or his employer's property and damage inflicted on the property, the court pointed out that the only evidence with respect to the alleged damage to goodwill was the copyright owner's nonexpert opinion testimony that the copyright owner's goodwill had been damaged \$300,000. The court concluded that the copyright owner had suffered no compensable injury to its goodwill, in light of the copyright owner's sales history during the period of infringement—increases of 9,000 orders one year and 4,000 the next and increases of 1,500 new orders one year and 1,000 the next. Nevertheless, the court entered a judgment

for the copyright owner awarding it other actual damages, profits and additional relief on other claims.

§ 11. Licensing fees

In the following federal statutory copyright infringement actions, the courts awarded copyright owners actual damages measured by licensing fees which the copyright owner would have received if there had been no infringement or upheld such an award.

In an action for copyright infringement and other alleged wrongs by the owners of the copyright on a former United States President's memoirs, who had sold the exclusive right to print prepublication excerpts to a national magazine publisher, against another magazine publisher that acquired a copy of the manuscript and rushed into print with an article consisting of quotes, paraphrases, and facts drawn from the manuscript, leading the first magazine publisher to cancel its contract with the copyright owners, the Supreme Court, in *Harper & Row, Publishers, Inc. v Nation Enterprises* (1985) 471 US 539, 85 L Ed 2d 588, 105 S Ct 2218, 11 Media L R 1969, 225 USPQ 1073 (1976 Act), evidently approved the trial court's award of actual damages to the copyright owners.²¹ Under the prepublication licensing agreement with the first magazine publisher, this publisher

21. This case was on appeal from the Second Circuit. For a case in which the Second Circuit Court of Appeals ruled that the trial court clearly erred in awarding actual damages based essentially on a contractual measure of damages, that is to say, in a way which purportedly placed the copyright

owner in as good a position as it would have been if a co-infringer publisher had performed its contract with the copyright owner, see *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1986, CA2 NY) 807 F2d 1110, 1 USPQ2d 1261 (1976 Act) (§ 29).

agreed to pay \$25,000 (\$12,500 in advance and the balance at publication) in exchange for the right to excerpt 7,500 words from President Ford's account of his pardon of President Nixon. As a result of the publication of the infringing article, the first publisher canceled its article and refused to pay the remaining \$12,500 under its contract to the copyright owners. The trial court had awarded actual damages of \$12,500, representing the amount they were damaged by the magazine's nonperformance.²² The United States Supreme Court reversed on other grounds the Court of Appeals decision, which had reversed the District Court's decision that the copyright had been infringed.

In a copyright infringement action by owners of a copyrighted poster, "Cube Solution," against their licensed distributor, and others, the court held, in *Abeshouse v Ultragraphics, Inc.* (1985, CA2 Conn) 754 F2d 467 (1976 Act) (§ 15), that the only actual damages for which the owners presented sufficient evidence were for the profits they would have earned on sales to their licensed distributor—the defendant—if this distributor had not sought out an alternative source of supply for the copyrighted posters. The court furthermore pointed out that on the expiration of their agreement the copyright owners granted another company a 2-year license to produce and market the poster. The court said that the owners failed to present any evidence that under these two agreements they would have

been allowed to make direct sales themselves or that even if permitted, they would have been equipped to do so; similarly, the owners failed to offer any evidence suggesting that they might actually have done business in foreign markets.

In a copyright infringement action arising out of the unauthorized use and copying of religious hymnals and song sheets, the court in *F.E.L. Publications, Ltd. v Catholic Bishop of Chicago* (1985, CA7 Ill) 754 F2d 216, 225 USPQ 278 (1909 Act), cert dismd 473 US 923, 87 L Ed 2d 674, 106 S Ct 11 and cert den 474 US 824, 88 L Ed 2d 64, 106 S Ct 79, later proceeding on other grounds (ND Ill) 1987 US Dist LEXIS 7179, reconsideration den on other grounds (ND Ill) 1987 US Dist LEXIS 10441 and on remand on other grounds (ND Ill) 1989 US Dist LEXIS 10119, upheld an award of actual damages based on the copyright owner's licensing scheme. The jury awarded the copyright owner the exact amount that it requested and the trial judge, in his order denying the copyright owner's posttrial motion for statutory damages, stated that the copyright owner's business was substantially made whole by the award. The court pointed out that infringer's profits from the unauthorized copying was not an issue, because the infringing music had been used for ecclesiastical purposes and not commercial purposes. The appellate court determined that the trial court acted within its discretion in determining that the jury's award was just and

22. See *Harper & Row, Publishers, Inc. v Nation Enterprises* (1983, SD

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that additional statutory damages were not necessary to deter future copyright infringement. Noting that the record contained testimony concerning the circumstances of the infringement, including testimony as to the structure of the copyright infringer—a Catholic Archdiocese, and its business relationship with the copyright owner, the way in which the infringement occurred, and the types of people who actually engaged in the infringement, the court explained that it was apparent that the trial court considered these circumstances in determining that it was just to allow only actual damages. The appellate court noted that the copyright owner's dissatisfaction with the amount of the award incongruously seemed to be based on the trial court's use of the licensing scheme which the copyright owner proposed as the method to calculate its actual damages; and that the copyright owner now claimed that this method of calculation did not adequately compensate it for its losses. Also rejecting the copyright owner's argument that it should be granted statutory damages because it would have elected statutory rather than actual damages if it could have sued under the 1976 Act which allows such election, the court affirmed a judgment awarding actual damages, and rendered additional relief on other claims.

In an action to recover for infringement of a copyrighted telephone directory, the court ruled, in *United Tel. Co. v Johnson Pub. Co.* (1987, **WD Mo**) 671 F Supp 1514 (1976 Act), *affd* on other grounds (CA8 Mo) 855 F2d 604, 8 USPQ2d 1058, that the copyright

owner was entitled to actual damages in the amount of \$13,149.89, representing \$13,014.89 for the loss of the licensing fee which the copyright owner normally charged for the use of its directories plus \$135 for administration fees and tape. Additionally noting that the copyright owner was entitled to the infringer's net profit, the court said, however, that under 17 USCS § 504(b), only profits of the infringer not taken into accounting in computing the actual damages may be considered. The court thus deducted the copyright owner's actual damages of \$13,149.89 from the infringer's net profit of \$15,764 to result in an additional award of \$2,614.11 representing the infringer's net profits. The court concluded, therefore, that the copyright owner was entitled to a total actual damage and profit award in the amount of \$15,764. The court also awarded additional relief on other claims.

In an action to recover for infringement of a copyright in a popular rhythm and blues composition, "Theme From Shaft," the court held, in *Cream Records, Inc. v Jos. Schlitz Brewing Co.* (1985, **CA9 Cal**) 754 F2d 826, 225 USPQ 896 (1976 Act) (§ 24[a]), later *app* on other grounds (CA9 Cal) 864 F2d 668, 9 USPQ2d 1568, that where the unauthorized use of the Shaft theme music in the infringer's beer commercial ended the copyright owner's opportunity to license the music for this purpose, the copyright owner was entitled to recover as damages the entire value of a license for use of the entire song for 1 year.

In an action to recover for in-

fringement of copyrights in works, "Day Runner" and "Running Mate," which were works prescribing a system for organizing daily life, the court in *Harper House, Inc. v Thomas Nelson Publishers, Inc.* (1987, CD Cal) 4 USPQ2d 1897 (1976 Act) (§ 30[a]), upheld a jury verdict award of actual damages measured by a "value of use" or license fee.

See also *Sherry Mfg. Co. v Towel King of Florida, Inc.* (1983, SD Fla) 220 USPQ 855 (1976 Act), later proceeding on other grounds (CA11 Fla) 753 F2d 1565, 225 USPQ 1005, later app on other grounds (CA11 Fla) 822 F2d 1031, 3 USPQ2d 1509, an action to recover for infringement of a copyrighted beach towel design, in which the court, although citing the statutory damages provision, 17 USCS § 504(c), declared that the copyright owner would recover from the infringer \$38,985.20 as actual damages representing a reasonable royalty for such a license, plus \$38,985.20 as the defendant's infringement profits. The court accordingly entered a judgment awarding the copyright owner the total amount of \$87,970.40 pursuant to § 504, and rendered additional relief on other claims.

§ 12. Personal health

The court in the following federal statutory copyright infringement action ruled that the copyright owner was not entitled to any actual damages measured by the copyright owner's alleged loss of health, since loss of health did not constitute damage from an infringement of his copyright, and was not a recoverable item in a copyright infringement suit.

In an action for infringement of a copyright in a lightweight wild turkey decoy and a mold for the commercial production of these decoys, the court held, in *Streeter v Rolfe* (1980, WD La) 491 F Supp 416, 209 USPQ 918 (1976 Act), that the copyright owner's alleged loss of health did not constitute damage from an infringement of his copyright, and that notwithstanding any discussion of causation, this element did not appear to be a recoverable item in a copyright infringement suit. The court ruled that an award of damages against the defendant infringer, either statutory or actual, would be improper, since the copyright owner had not articulated any damages which the law considered actual damages flowing from a copyright infringement. The court noted that no profits had been realized by either party. The copyright owner argued that his health had been damaged by the imbroglio between the copyright owner and the infringer. Noting that neither the infringer nor the copyright owner had sold a decoy from the copyrighted mold, the court rejected the copyright owner's argument that he had not sold a decoy from the copyrighted mold allegedly because of the infringer's actions, since the copyright owner's decision not to sell a decoy might have been caused by the infringer's actions in general but not by any particular act of infringement. The court entered a summary judgment in favor of the alleged infringer on the owner's infringement claim.

§ 13. Productive time

In the following federal statutory copyright infringement action, the

court awarded the copyright owner actual damages measured by the copyright owner's loss of productive time.

In an action to recover for infringement of copyrighted architectural and engineering drawings, the court ruled, in *Schuchart & Associates, Professional Engineers, Inc. v Soio Serve Corp.* (1983, **WD Tex**) 220 USPQ 170 (1976 Act), that based on the testimony of the copyright owner the court would award him actual damages in the sum of \$1,000 for time lost based on his lack of productivity when he learned of the infringers' copying of his work. The court entered a judgment awarding actual damages and infringer's profits, and additional relief on other claims.

See also *Runge v Lee* (1971, **CA9 Cal**) 441 F2d 579, 169 USPQ 388 (1909 Act), cert den 404 US 887, 30 L Ed 2d 169, 92 S Ct 197, 171 USPQ 322, an action for infringement of a copyright in a book regarding facial exercises, in which the court upheld an award of actual damages, apparently based in part on the copyright owner's testimony that the value of her labor in writing the sequel to the copyrighted book was \$20,000, computed at \$15 per hour; and evidence that the infringement severely damaged the value of the reissue and republication rights of the copyright owner's original book and her sequel.

§ 14. Profits—generally

[a] Supported

The courts in the following fed-

eral statutory copyright infringement actions held or apparently held that evidence of the copyright owner's lost profits, generally, supported an award of actual damages to the copyright owner.

In an action by a lingerie-lace manufacturer for infringement of a copyright on a pansy-lace design, the court held, in *Thomas Wilson & Co. v Irving J. Dorfman Co.* (1970, **CA2 NY**) 433 F2d 409, 167 USPQ 417 (1909 Act), cert den 401 US 977, 28 L Ed 2d 326, 91 S Ct 1200, 169 USPQ 65, that the trial court properly awarded the copyright owner, apparently as actual damages, \$22,593.34 representing the lost profit on sales that the owner would have made to its regular customer in the absence of the infringement, and \$61,618.20 representing the profit made by the copyright infringer on its sales of infringing lace to the same customer. The court affirmed an order granting the owner injunctive relief, its damages, and the infringer's profits after a nonjury trial.

On appeal from a judgment that a plaintiff fabric manufacturer's copyright in its upholstery fabric, "Chestertown," was infringed by two fabrics manufactured by a defendant fabric manufacturer, the court held, in *Stevens Linen Associates, Inc. v Mastercraft Corp.* (1981, **CA2 NY**) 656 F2d 11, 210 USPQ 865 (1976 Act),²³ that the trial court should have awarded damages measured either by (1) lost profits which the copyright owner would have realized from

²³ This case was distinguished in *Decorative Fabrics, Inc. v John Wolf*

Decorative Fabrics (1985, **SD NY**) 229 USPQ 418 (1976 Act), *supra*.

sales to customers who bought both the owner's fabric and the infringer's fabrics, or by (2) lost profits based on the difference between sales of "Chestertown" and the average sales of all of the owner's other fabrics, whichever sum proved to be larger. The court pointed out, as to the first theory, that admittedly it was uncertain that all of the purchases of the 22 customers—the owner's "Chestertown" customers who had also purchased the defendant's infringing fabrics—would have been made from the copyright owner rather than the infringer had no infringing products been offered by the defendant. Nevertheless, the court said that it was reasonable to believe that the customers of the copyright owner had a demand for this type of fabric and were shifting their purchasing to the cheaper infringing fabrics and away from "Chestertown." The "Chestertown" fabric was priced at \$5.40 per yard while the defendant's infringing fabrics sold for approximately \$3.50 per yard. Although noting that the copyright owner might not have made every one of the infringer's sales, the court said it believed that once the owner established that it had been damaged, and that its customers purchased both the infringed and the infringing products, the burden then shifted to the infringer to prove that if there had been no infringement the customers of "Chestertown" to whom the infringer had also sold would not have acquired from the copyright owner alone all of the yardage they had purchased from the infringer. Regarding the second theory, the court said it believed that at least

the copyright owner should be able to recover lost profits based on the difference between its actual sales of "Chestertown" during the period in which it was forced to compete with the infringing fabrics and the copyright owner's average sales figures for its remaining fabric products. The court noted that this approach had recently been applied in a copyright infringement action involving competing sales of infringing record albums, in *Big Seven Music Corp. v Lennon* (1977, CA2 NY) 554 F2d 504 (1909 Act), which compared sales of an infringed album with sales of contemporary albums by the same performer. The court said it believed that it was more appropriate to compare sales of "Chestertown" to the copyright owner's sales for all of its products not including "Chestertown," since the "Chestertown" figures were clearly affected by competition with the infringing items, and since the object of a copyright-damages inquiry is to determine what sales probably would have been made in the absence of an infringement. Therefore, the court concluded that under this theory the trial court could award the copyright owner its lost profits based on the difference between the 4-percent increase in "Chestertown" sales in 1979 and the 30-percent sales increase in the copyright owner's other fabric lines, and the difference between the 64-percent decline in "Chestertown" in the first 6 months of 1980 and the 12-percent decline in the copyright owner's other products during that period. The court said that it had to remand to the trial court to determine the amount of damages. It stated that under the first

of the two foregoing measures, damages would be awarded in the amount of the owner's lost profits for additional sales of "Chester-town" to those of its customers who also purchased the infringing fabrics, less profits on sales which the copyright infringer might prove that the owner would not have made. The court declared that the measure under the alternative theory would be lost profits based on the difference between "Chester-town" sales in the period in question and the copyright owner's average sales of its other fabric products. The court also stated that having calculated damages according to these two alternative measures, the trial court should award to the copyright owner whatever sum proved to be greater. The court accordingly modified the judgment of copyright infringement in favor of the copyright owner and remanded for a determination of actual damages consistent with its opinion.

In a copyright infringement action in which the trial court had found the owner's copyright infringed, the court in *Oboler v Goldin* (1983, CA2 NY) 714 F2d 211, 220 USPQ 166 (1976 Act), declared that it had articulated a test for measuring actual damages and profits in *Stevens Linen Associates, Inc. v Mastercraft Corp.* (1981, CA2 NY) 656 F2d 11, 210 USPQ 865 (1976 Act), *supra*. The court affirmed in part a judgment of infringement, vacated an award of punitive damages, and remanded for a determination of actual damages and profits in accordance with the test articulated in *Stevens Linen*.

In *Update Art, Inc. v Modiin*

Pub., Ltd. (1988, CA2 NY) 843 F2d 67, 6 USPQ2d 1784, 10 FR Serv 3d 877 (apparently 1976 Act), later proceeding on other grounds (SD NY) 1989 US Dist LEXIS 10461, an action to recover for infringement of a copyrighted art work known as "Ronbo," the court affirmed a summary judgment awarding damages for copyright infringement, which was apparently an award of the copyright owner's actual damages measured by its lost profits plus the infringers' profits. The magistrate accepted the copyright owner's calculation of the infringers' gross income of \$475,406 from the infringement based on documentary evidence. The court held that the magistrate did not abuse her discretion in awarding to the copyright owner damages of \$475,406 plus interest, by adding to the copyright owner's lost profits of \$380,686 that portion of the infringers' income from the infringement that was not duplicative of the copyright owner's lost profits (\$94,720).

In an action to recover for infringement of copyrighted fabric designs, the court held, in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act), that the copyright owner would be awarded actual damages for lost sales computed by multiplying 91,285 yards, the amount of infringing fabric sold by the infringer, by \$1.13, the copyright owner's expected profits, totaling \$103,152. Underlying this computation, the court said, was the assumption that but for the defendant's infringement, the copyright owner would have sold the copyright fabrics to the pur-

chaser of the infringing fabrics. The court pointed out that the copyright owner relied on the following evidence to support the computation utilized by the court in calculating the copyright owner's lost sales: (1) the purchaser of the fabric, the defendant's sole customer for the infringing pattern, was a customer of the plaintiff for the copyrighted patterns; (2) the defendant's infringing pattern was used on the same sofa as the plaintiff's samples of one of its copyrighted patterns; (3) the fabrics of both parties were substantially the same price; and (4) the purchaser had a demand for this pattern and shifted its purchases from the plaintiff to the defendant's infringing pattern. The court declined to apply either of the two formulas for determining actual damages dictated in *Stevens Linen Associates, Inc. v Mastercraft Corp.* (1981, CA2 NY) 656 F2d 11, 210 USPQ 865 (1976 Act), *supra*, reasoning that the facts in the present case were clearly distinguishable from those in *Stevens Linen*. The court explained that unlike the situation in *Stevens Linen*, the present defendant's infringing pattern was sold at a price only slightly lower than the copyright owner's patterns. The court said that it was therefore reasonable to assume that the copyright owner would have sold the same amount of the copyrighted fabric as the defendants sold of the infringing fabric. Additionally, the court pointed out that unlike the situation in *Stevens Linen*, here there was no problem with an inflation of sales volume caused by the sale of an infringing product at a greatly reduced price. Also awarding the copyright owner

the infringer's profits of \$62,986.65 for a total damage and profit award under 17 USCS § 504(b) totaling \$166,138.65, the court entered a judgment awarding actual damages and profits, and additional relief on other claims.

In an action to recover for infringement of a copyright on a stuffed toy lion known as Roarry lion, the court concluded, in *Gund, Inc. v Swank, Inc.* (1987, SD NY) 673 F Supp 1233, 5 USPQ2d 1070 (1976 Act), that the copyright owner was entitled to its lost profits on 39,000 infringing toy lions, and additional relief on other claims, and it entered a judgment accordingly.

See also *Lauratex Textile Corp. v Allton Knitting Mills, Inc.* (1981, SD NY) 517 F Supp 900, 214 USPQ 203 (1976 Act), in which the court evidently acknowledged that the copyright owner's own profit margin and the infringer's sales of the infringing design could be a measure of the copyright owner's actual damages. Reasoning that no evidence as to the infringer's sales was introduced, even though there was evidence generally establishing the copyright owner's profit on the copyrighted design, the court held that it could not be determined how much actual damage occurred to the copyright owner as a result of the infringement. The court ultimately ruled that statutory damages were appropriate because actual damages were difficult to ascertain and the infringement of the copyright in a design pattern for printing on fabric was willfully performed by the defendants.

Additionally, see *Lauratex Textile Corp. v Allton Knitting Mills,*

Inc. (1981, SD NY) 519 F Supp 730, 215 USPQ 521 (1976 Act), an action to recover for infringement of a copyrighted fabric design, in which the court declared that actual damages to the copyright owner usually are measured in terms of lost profits. The court said, however, that it is often difficult to speculate what the copyright owner's sales would have been if there had been no infringement. The court pointed out that in the present case computing the copyright owner's lost profits was complicated by the lower price which the copyright infringers charged for their infringing goods. At trial one of the infringers testified that he charged \$1.67 per yard; the copyright owner charged \$2.60 per yard. The court said that it was quite possible that the infringers' lower price resulted in more sales volume than would have been achieved by the copyright owner, and that therefore applying the infringers' sales volume to the copyright owner's price in order to compute lost profits would be misleading. Pointing out that it was also possible to compute the infringers' profits from the evidence presented at trial and to use that computation as an approximate measure of statutory damages, the court entered a judgment awarding statutory damages and attorneys fees to the copyright owner.

See also *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1986, CA2 NY) 807 F2d 1110, 1 USPQ2d 1261 (1976 Act), on remand *Fitzgerald Pub. Co. v Baylor Pub. Co.* (ED NY) 670 F Supp 1133, 4 USPQ2d 1958, *affd* without op (CA2 NY) 862 F2d 304, an action to recover

for infringement of a copyright in a magazine treating the history of prominent black people in a comic book format, in which the court stated that because the proper measure of damages is often difficult to ascertain, indirect evidence may be used to fix the amount of the damages. One example, observed the court, is the profits which the copyright owner might have earned if the defendant had not infringed.

In an action to recover for infringement of a copyright on a user's manual for a microcomputer program, "*Project Basic*," the court held, in *Evans Newton, Inc. v Chicago Systems Software* (1986, CA7 Ill) 793 F2d 889, 230 USPQ 166 (1976 Act), cert den 479 US 949, 93 L Ed 2d 383, 107 S Ct 434, that the copyright owner presented sufficient evidence to support the trial court's award of \$16,000, and that the copyright owner was limited to recovering its actual damages for the infringement pursuant to 17 USCS § 504(b). The appellate court pointed out that the trial court awarded damages apparently either measured by the copyright owner's loss of profits pursuant to 17 USCS § 504(b) as actual damages, or as statutory damages pursuant to 17 USCS § 504(c). Although noting that the trial court did not make it clear whether the damages it awarded were actual or statutory or on what basis the \$16,000 was determined, the appellate court ruled that there was sufficient evidence in the record to hold that the trial court did not err in awarding \$16,000 to the copyright owner. It pointed out that there was evi-

dence that dealers paid the copyright owner between \$10,000 and \$25,000 for exclusive sales territories in which to market the "Project Basic" program. The copyright owner's president testified that the copyright owner had an overall market penetration of approximately 20 percent but was unable to make a single sale in the midwestern region where the infringer was operating. He also testified that in his opinion the copyright owner's sales of "Project Basic," although they increased substantially each year, would have grown even more rapidly if there had been no infringement. The appellate court said that the trial court evidently gave some weight to this testimony, although the trial court clearly did not grant the copyright owner the substantial damages suggested by its president. The appellate court said that the trial court instead chose a more modest estimate, perhaps based on the profits that the copyright owner would have made if one dealer in the Midwest had purchased an exclusive sales territory for \$10,000 to \$25,000, depending on the size of the metropolitan area. Although noting that the trial court found that the copyright owner "suffered damages for the actual dealer sales or licenses made by" the infringer, an amount which the trial court recognized the parties had stipulated to being approximately \$1,400, and that the trial court

went on to find that "the total amount of the [copyright owner's] loss attributable to the [infringer's] wrongful acts was not more than \$16,000," the appellate court rejected the infringer's claim that the trial court contradicted itself. The appellate court explained that it was more likely that the trial court intended "the total amount of the plaintiff's loss" to include more than just the damages for the infringer's sales, since the trial court in these particular findings of fact referred back to both the parties' stipulation to approximately \$1,400, and to the market penetration of the "Project Basic" program and the licensing of dealers. Pointing out that the copyright owner had not registered its copyright before the infringement began, thereby precluding an award of statutory damages pursuant to 17 USCS § 412, the appellate court concluded that the copyright owner was limited to recovering its actual damages pursuant to 17 USCS § 504(b). The court reversed in part on other grounds and otherwise affirmed that part of a judgment awarding actual damages and injunctive relief.

[b] Not supported

The court in the following federal statutory copyright infringement action ruled that there was no evidence to support an award of actual damages measured by alleged profits lost by the copyright owner.²⁴

24. Additionally, see *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act), an action for infringement of a copyright in a book, "Who's Who in New England," in which the court declared

that liability of an infringer for its profits is not by way of rough and ready reparation to the copyright owner for the damages which he is presumed to have suffered from the infringement. The court explained that

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On remand in an action to re-
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history of prominent black people
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Supp 1133, 4 USPQ2d 1958 (1976
Act), affd without op (CA2 NY)
862 F2d 304, that there was no
evidence that the copyright owner
suffered any lost profits caused by
the infringement itself. The court
rejected the copyright owner's ar-
gument that every infringing copy
of the magazine received by a co-
infringer publisher was a sale lost
to the copyright owner, as in *RSO
Records, Inc. v Peri* (1984, SD NY)
596 F Supp 849, 225 USPQ 407
(1976 Act) (§ 18). The court said
that the principle underlying *Peri*
was inapplicable here because at
trial the copyright owner failed to
prove that it was in direct competi-
tion with the co-infringer publisher
or that the co-infringer publisher
sold all the infringing copies of the
magazine delivered to him. Noting
that the Court of Appeals permit-
ted the copyright owner to offer
new evidence on these issues on
remand,²⁵ the court said that the
copyright owner's evidence was in-
sufficient to alter the findings of
the Court of Appeals. The court

even if a copyrighted book and an
infringing book are competing at the
same market level, there might be sub-
stantial differences in the respective
costs of the copyright proprietor and
the infringer, in the effectiveness of
their respective sales organizations and
advertising, or in many other factors,
all of which would render the profits
made by the infringer wholly unreliable
as an indication of the copyright own-
er's damages—that is, the profits he

explained, first, that although there
was testimony about this co-in-
fringer publisher's activities, there
was no testimony showing that this
co-infringer had sold all copies in
his possession, and there was no
evidence of this co-infringer's gross
revenue. The court explained, sec-
ond, that although there was testi-
mony that the copyright owner had
some customers interested in mak-
ing purchases of unspecified
amounts, there was no indication
that the copyright owner could
have provided clients with the nec-
essary magazines without a licens-
ing contract that had been entered
into by these two parties. The
court expounded that the copyright
owner had taken no steps to obtain
a fresh supply of magazines after
terminating this contract, either be-
fore or after the copyright owner
learned that this co-infringer was
selling infringing magazines. The
court said that the copyright owner
had not been marketing the copy-
righted magazine series in any
meaningful way since 1982. Based
on these facts, the court concluded
that the copyright owner did not
prove any actual damages caused
by the infringement. The court
also pointed out that even if it
were to assume that every infring-
ing copy sold was a sale lost to the

would have made but for the infringe-
ment. The court noted that if a copy-
righted book is in an expensive deluxe
edition and the infringing work is in a
cheap edition, the profits from in-
fringement might come from sales in a
market that the copyright owner would
not have tapped.

25. *Fitzgerald Pub. Co. v Baylor Pub.
Co.* (1986, CA2 NY) 807 F2d 1110, 1
USPQ2d 1261 (1976 Act) (§ 29).

copyright owner, the actual damages were too speculative to calculate. The court explained that the copyright owner produced no proof of this co-infringer's gross revenue; and that although the copyright owner described its historic sales levels, it provided no evidence of its prior revenues or profits from the copyrighted magazine series. Without this data, the court said, there was no feasible method available for estimating its actual damages. The court instructed that in order to determine actual damages the court required evidence of (1) the volume of diminished sales during or after the infringement; (2) the profit per unit sold; and (3) the actual prices received for the copyrighted product by the copyright owner or the infringing product by the infringer, among other evidence. Although disallowing actual damages against this co-infringer, the court entered a judgment awarding the copyright owner this co-infringer's profits attributable to the infringement, and statutory damages against this and another co-infringer.

See also *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, in which the appellate court held that the trial court had erred in calculating and awarding the copyright owner \$22,700 in damages for the owner's losses totaling \$19,300 and the infringer's profits totaling \$3,300. Finding that neither the \$19,300 estimate of lost profits, nor the \$3,300 estimate of the infringer's profits was computed correctly, the court explained that the \$19,300 was, at best, an estimate of lost sales, not

of lost profits, and that even as an estimate of lost sales it was questionable. Although finding that the copyright owner adequately demonstrated his lost sales, the court stated that a loss of revenue is not equivalent to a loss of profits. Concluding that it therefore could not uphold the award of damages or impose a remittitur, the court affirmed the trial court's decision on liability but reversed on damages, except for upholding the finding that the owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

§ 15. —Net profits

In the following federal statutory copyright infringement actions, the courts awarded copyright owners actual damages measured by the copyright owners' net profits, or what were apparently net profits, that were lost due to infringement of their copyrights, or ruled that actual damages would be awardable based on a determination of the copyright owner's lost net profits rather than a determination of the owner's lost sales.

In a copyright infringement action by owners of a copyrighted poster, "Cube Solution," against their licensed distributor, a firm hired by the distributor to print infringing posters, the distributor's president, and the sole beneficiary of a trust that owned all of the distributor's stock, the court held, in *Abeshouse v Ultragraphics, Inc.* (1985, CA2 Conn) 754 F2d 467 (1976 Act), that the only actual damages for which the owners presented sufficient evidence were for the profits they would have earned on sales to their distributor—the

defendant—if this distributor had not sought out an alternative source of supply for the copyrighted posters. The court said that if the owners had supplied the distributor with 21,500 posters pursuant to their exclusive distribution agreement the owners would have received \$.75 per poster. The court calculated that out of this sum the owners would have had to pay printing costs that the jury could have found to be as low as \$.22 per poster, leaving the owners with damages in the form of lost profits of \$11,395. The owners argued that the jury's award of \$55,368 against the distributor represented actual damages, in the form of compensation for profits that the owners would have earned by selling 20,000 of their own posters directly to the public for between \$4.50 and \$5.50. The court pointed out, however, that during the period in which the distributor had sold most of the infringing posters, the copyright owners were bound by their agreement with the distributor making the distributor the exclusive distributor of poster in North America. The court furthermore pointed out that on the expiration of their agreement the copyright owners granted another company a 2-year license to produce and market the poster. The court said that the owners failed to present any evidence that under these two agreements they would have been allowed to make direct sales themselves or that even if permitted, they would have been equipped to do so; similarly, the owners failed to offer any evidence suggesting that they might actually have done business in foreign markets. The court therefore modified

a judgment in favor of the copyright owners, and remanded for a new trial limited to the issue of damages unless the copyright owners would agree to a remittitur.

See also *Gross v Van Dyk Gravure Co.* (1916, CA2 NY) 230 F 412 (1909 Act), an action to recover damages for infringement of the plaintiff's copyright in his photograph, "Grace of Youth," by the photograph, "Cherry Ripe," which had been made, printed, and sold by the defendants, in which the court upheld a determination that the copyright owner's lost net profits were the measure of his damages. Although the damages awarded were apparently statutory damages and not actual damages, the trial judge stated that he would try to estimate the copyright owner's actual damages, "without observing the rules of evidence, as though the issue had to be proved like other such issues, and allowing myself considerable latitude in speculation." The appellate court referred to the trial court's having "reached his 'estimated' damages (in lieu of actual damages)."

In *Robert R. Jones Associates, Inc. v Nino Homes* (1988, CA6 Mich) 858 F2d 274, 8 USPQ2d 1224, 26 Fed Rules Evid Serv 1245, 100 ALR Fed 241 (1976 Act), an action by a custom house builder against another builder to recover for infringement of copyrighted architectural drawings, the court held that the measure of actual damages in the present action was the profits, apparently net profits, that the copyright owner would have made on houses that it would have sold if the infringer

had not duplicated the copyrighted house plan without authorization and used its infringing copy to build its houses. Therefore, the appellate court ruled that the trial court's decision to award the copyright owner \$212,550 for profits that it would have earned if the infringer had not sold seven houses built pursuant to the infringing plans was correct. Apparently awarding the copyright owner's lost net profits, the trial court found the most credible indication of actual damages to be the "owner's profit" on the sale of a copyrighted plan house, after allowance for all direct and indirect costs.²⁶ The infringements occurred during 1983-1984. The copyright owner's 1983 records established that the direct costs attributable to the construction of a copyrighted plan house were 61 percent of the sales price, and the indirect costs were 23 percent. Thus, the copyright owner, a closely held corporation, earned approximately 16 percent of the total price on each sale. The 1984 records established that the direct costs were 65 percent, the indirect costs were 21 percent, and the profits to the copyright owner were 14 percent. Based on this evidence, the trial court had concluded that the best measure of actual damages sustained by the copyright owner was an amount equal to 15 percent of the gross profit on the average sale of a copyrighted plan house. Using the average sales price of a copyrighted plan house in 1983-1984, \$218,000, the trial court awarded

\$32,700 for each of six sales that had to be presumed lost by the copyright owner due to the infringement; and \$16,350 for one lost sale, where only 50 percent of the design of one of the infringer's homes was attributable to the copyrighted plan. Although noting that the copyright owner might not have made every one of the infringer's seven sales, the trial court pointed out that after the copyright owner established that it had been damaged by the defendant's infringement, the burden shifted to the infringer to prove that the purchasers of the houses built pursuant to the infringing plans would not have purchased copyrighted plan houses in the same geographic vicinity. The infringer did not meet this burden, and so the trial court said that actual damages would be determined based on seven houses built by the infringer that it had to be presumed the copyright owner would have sold if there had been no infringement. The appellate court accordingly affirmed an award of actual damages, reversed an award of infringer's profits because they constituted a double recovery, and rendered further relief on other claims.

In an action for infringement of a copyright in maps, the appellate court held, in *Taylor v Meirick* (1983, CA7 III) 712 F2d 1112, 219 USPQ 420 (1976 Act), that the trial court erred in calculating and awarding the copyright owner \$22,700 in damages consisting of two items the owner's losses totaling \$19,300, and the infringer's

26. The facts concerning the calculation of lost profits are taken from the trial court's opinion at Robert R. Jones

Associates, Inc. v Nino Homes (1987, ED Mich) 686 F Supp 160, 4 USPQ2d 1391.

six sales that lost by the to the in- 350 for one 50 percent of he infringer's ble to the ough noting er might not e of the in- he trial court the copyright t it had been fendant's in- en shifted to that the pur- built pursu- plans would copyrighted same geo- infringer did a, and so the ctual damages d based on the infringer resumed the d have sold if infringement. accordingly af- ctual damages, of infringer's constituted a rendered fur- aims.

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Homes (1987, 160, 4 USPQ2d

profits totaling \$3,300. The court held that neither the \$19,300 estimate of lost profits, nor the \$3,300 estimate of the infringer's profits was computed correctly. The court explained that the \$19,300 was, at best, an estimate of lost sales, not of lost profits, and that even as an estimate of lost sales it was questionable. The losses were calculated as follows: (1) in 1974 the owner's gross revenue from sales of the maps infringed by the infringer beginning in 1976 was \$4,700, and in 1975 it was \$4,900; (2) the average revenue for the 2 years—the preinfringement period—was thus \$4,800; (3) the owner assumed that but for the infringement he would have continued to gross this amount every year throughout the damage period—until the end of 1980 (he dropped his original contention that the infringer had infringed beyond then); and (4) this made the owner's projected revenue for the 5-year period 1976 through 1980, \$23,900. The owner's actual revenue was \$4,600, and \$19,300 was the difference between projected and actual revenue. The copyright owner calculated the infringer's profits from selling the infringing maps as follows: (1) during the damage period the infringer sold 150 different maps; (2) the three infringing maps represented 2 percent of this figure; and (3) 2 percent of the infringer's gross profits for the years 1976 through 1980 as shown on his federal income tax returns for those years was \$3,300. Noting that the use of before-and-after comparisons is a hallowed but coarse-grained and often abused method of estimating lost sales, the court said that the fact that the

copyright owner's sales of the three maps that were infringed fell by 45 percent in the first infringing year (1976), and another 88 percent the next year, was only slight evidence of the extent of the loss in sales caused by the infringement. Although it was unclear when in 1976 the infringer had begun selling the infringing maps, the court said that presumably it had not been on the first of the year, and even if it had been, it would have taken a while to divert substantial sales from the copyright owner. The court pointed out that the evidence of declining sales was enough to shift to the infringer the burden of producing some contrary evidence which she attempted but failed to do. The infringer showed that there was a substantial price difference between the owner's maps and his maps which could be powerful evidence that the maps were in different markets and therefore that the infringement was unlikely to hurt the copyright owner. The infringing maps sold at retail for \$2.50 to \$3, while the copyright owner's maps sold for \$10. The court pointed out that people who were buying the copyright owner's maps for \$10 would be delighted to be able to buy the same map for one fourth as much, although part of the difference in price reflected a difference in the quality of the materials used in making the maps. The infringer also showed that the copyright owner drastically reduced his advertising in 1977. The court observed that if this had happened in 1976 it might be significant, but after the owner's sales nosedived in 1976 it was prudent for him to curtail his advertising. The court

ruled that the copyright owner adequately demonstrated his lost sales, but that a loss of revenue was not equivalent to a loss of profits. The court explained that if you sell less of your product you will have lower costs, and the cost savings is a gain that must be offset against the loss of revenues in computing lost profit. The court pointed out that the owner did not subtract a penny from the \$19,300 that he estimated to be his lost sales revenues. The court said that this implied, improbably, that he could have made all the lost sales at zero cost. Rejecting the owner's testimony that he had printed a large batch of the maps before 1976 and would not have had to print anymore in order to make the lost sales, the court explained that if this were true, the copyright owner either destroyed the maps after determining that he could not sell them or he still had them; but there was no evidence to support either theory. Furthermore, the court said that the owner's maps were an asset on which he could still realize a profit—now that the infringer had finally ceased infringing—which would have to be subtracted from his sales revenue in estimating his net loss from infringement. The court said that when a plaintiff contends that lost sales revenue would have been all profit, the contention is sufficiently improbable to require him to come forward with substantiating evidence, which the copyright owner here failed to do. The court said that since it did not know what fraction of the copyright owner's \$19,300 in lost sales represented lost profit, it could not uphold the award of damages in this amount

or even impose a remittitur. The court affirmed the trial court's decision on liability, but reversed on damages, except for upholding the finding that the owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

In an action for infringement of a company's valid copyright on a combined diary, appointment calendar and information book, the court held, in *Baldwin Cooke Co. v Keith Clark, Inc.* (1976, ND Ill) 420 F Supp 404 (1909 Act) (§ 16), that the copyright owner had reached the point in its production where its gross profit on each unit sold was its net profit, and that the copyright owner was entitled to recover from the copyright infringer as the copyright owner's lost profit during the years of infringement, the amount of \$145,925.

In an action to recover for infringement of copyrighted automotive parts-package designs, and other claims, the court ruled, in *Ford Motor Co. v B & H Supply, Inc.* (1986, DC Minn) 646 F Supp 975, 1 USPQ2d 1094 (1976 Act), later proceeding on other grounds (DC Minn) 2 USPQ2d 1870, that the copyright owner was entitled to recover its actual damages in the amount of \$331,300 measured by the profits the copyright owner would have made from the sales of its packaged parts bearing the copyrighted designs if there had been no sales of infringing parts and packaging; in other words, based on the actual economic profit the copyright owner would have made if the sales lost to the infringers had instead been made

tatur. The court's de- versed on olding the lost sales , and re- l to dam-

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by the copyright owner. Noting that a court necessarily engages in some degree of speculation in establishing lost sales due to sales of an infringing product, the court rejected the infringers' argument that a copyright owner could not prove its claim of damages with the requisite specificity on the asserted basis that the copyright owner could not establish that it would have made the calculated sales if there had been no infringing activity, and the court concluded that it was convinced that the copyright owner would have realized profits on the number of infringing parts and packages sold by the infringers. The court also rejected the defense argument that the copyright owner's damage calculations were unreasonably high and did not account for the various discounts offered to automotive warehouses and dealers, since this argument was directly refuted by the testimony of the copyright owner's supervisor of pricing within the copyright owner's controllers office, and by the information contained in the copyright owner's "Product Line Profitability Analysis" (PLPA) which was prepared annually to determine the performance and profitability of the copyright owner's automotive parts by-product line. The court noted that the variable costs considered in the PLPA included freight, handling, warranty, and trade discounts and promotional costs. The copyright owner's supervisor of pricing testified with respect to the calculations of lost profits, utilizing a prepared summary of the sales and gross profits of the various automotive parts involved in the litigation and testified according to

that summary. The court noted that (1) the summary included the number of individual automotive parts purchased by the infringers from December 1980 through June 1984; (2) using these unit numbers, the supervisor applied the prices charged by the copyright owner to arrive at gross revenues for each automotive part; (3) from the revenues the supervisor deducted the material costs for the parts to calculate the gross profits; (4) the supervisor then deducted variable costs related to the sale of the various parts to arrive at the final figure of \$404,300 for the copyright owner's economic profit on such parts; and (5) from this figure the copyright owner subtracted approximately \$73,000 representing the amount of economic profit of the parts previously seized by the United States marshall from the infringers. The court accordingly entered a judgment awarding actual damages and additional relief on other claims.

In an action against a computer software developer to recover for infringement of a copyrighted psychometric test, the court held, in *Regents of University of Minnesota v Applied Innovations, Inc.* (1987, DC Minn) 685 F Supp 698, 5 USPQ2d 1689 (apparently applying 1976 Act), that the copyright owners were entitled to receive actual damages in the amount of \$227,023 representing their total lost net profits from the infringement. The court noted that actual damages are typically determined by considering the net profits which the copyright owner would have earned if there had been no infringement. The court determined that the average per customer rev-

enue for the noninterpretive micro test computer programs for 1986 for the copyright owner was \$1,104, which was determined by dividing a total revenue of \$157,888 by 143 customers. The court also determined that the copyright owners lost 227 customers as a result of the infringement, determining this figure by making several adjustments to the copyright owner's suggested figure of 584 customers. First, the court subtracted 16 customers from the infringer's customer list of 584 to reflect 12 duplicate customers on the list, and 4 sales to foreign customers. Second, the court reduced the infringer's customer base by 20 percent to reflect the number of customers of the infringers that would not have used the copyright owner's micro test computer programs even if the infringer did not infringe because of the significant difference in cost between the copyright owner's programs and the infringer's programs. Finally, the court reduced the infringer's customer base by 50 percent to reflect the percentage of customers of the infringer who owned or used computers that were incompatible with the copyright owner's programs. The court observed that it was reasonable to conclude that the customers of the infringer with incompatible computer systems would not have used the copyright owner's programs even if the infringer did not infringe. The court then multiplied the number of customers the copyright owner lost as a result of the infringer's infringement (227) by the average per customer revenue for the copyright owner (\$1,104) to obtain a resulting yearly lost gross

revenue of \$250,608. Explaining that there was insufficient reliable information regarding the actual costs that the copyright owner would have incurred as a result of the increased sales, the court concluded that it would be reasonable for the copyright owner to realize a 20-percent net profit on gross sales, which was the projected divisional profit objective for the micro test product for 1987. The court then multiplied the lost gross revenue (\$250,608) by 20 percent to obtain a resulting yearly lost net revenue of \$50,121. The court pointed out that the copyright owner would incur this lost revenue for 5 years which was the average time the customers of the infringer would continue to use their current computer systems. The court determined that the copyright owner's lost net revenue was therefore \$250,608 (\$50,121 multiplied by 5 years). Relying on a 5.2-percent discount rate adopted by the applicable state court pursuant to the applicable state statute for calculating the present value of a damages award, the court concluded that the present value of the copyright owner's damages award was \$227,023. The court pointed out that the initial year of lost income was not reduced to a present value because it reflected the lost income from August 1986 to August 1987. The court also observed that the remaining 4 years of lost income were reduced to present value by the above-mentioned discount rate. The court accordingly entered judgment awarding actual damages of \$227,023, and additional relief on other claims.

In an action for infringement of

a copyright in instruction sheets— used with automatic transmission valve-body kits for guiding rebuilders in the installation of replacement parts, and various other claims, the court in *Transgo, Inc. v Ajac Transmission Parts Corp.* (1985, CA9 Cal) 768 F2d 1001, 227 USPQ 598, 82 ALR Fed 97 (1976 Act), cert den 474 US 1059, 88 L Ed 2d 778, 106 S Ct 802, affirmed a judgment awarding the copyright owner actual damages, apparently measured by lost net profits, for copyright infringement and other relief. Noting that the copyright owner presented evidence allegedly showing its total damages on all the claims were over \$2 million, including testimony that its lost profits were approximately \$222,000, the court pointed out that this calculation based on one of the copyright infringers' gross sales for 3 years was a conservative figure since it did not include sales in the first year of infringement. Although the infringers argued that this method of estimating net profits using these figures was speculative, the court pointed out that (1) the infringers agreed that the copyright owner did use the dollar amount of gross sales of the infringers' kits for 3 years; (2) the copyright owner's burden was only to show the gross revenue from the sales of the infringers' imitation kits; and (3) it was the infringers' burden to prove their deductible expenses and elements of profit attributable to factors other than infringement of the copyright owner's product. The court ruled that since the copyright owner introduced evidence that sales of the imitation kits exceeded \$200,000 an award of \$40,000 was

not excessive. The jury had assessed special and general compensatory damages of approximately \$40,000 against the various defendants, of which \$15,004 constituted actual damages for copyright infringement.

In an action to recover for infringement of a copyrighted fabric design, the court in *JBj Fabrics, Inc. v Mark Industries, Inc.* (1987, CD Cal) 5 USPQ2d 1414 (1976 Act), held that the copyright owner was entitled to recover \$42,725.70 representing its lost (apparently net) profit. The court said that if a copyright owner measures its damages by its lost sales to a particular customer and the infringer's profits by the infringer's sales to the same customer, then the remedy for the copyright owner can be either its lost profit, plus the amount by which the infringer's profits exceeded that amount, or, what amounts to the same thing, the greater of the copyright owner's lost profit or the infringer's gained profit from the sales. Having determined the infringer's costs of sale, \$123,650.10, from the infringer's total sales of \$164,087.200, the court arrived at the infringer's net profit of \$40,437.10. The court said that due to the defendant's infringement the copyright owner failed to sell the same number of yards of its copyrighted fabric that the infringer had sold of its infringing fabric for a total of \$191,529 in lost gross sales. Determining that the copyright owner's costs of sale would have been \$148,803.30, and that therefore its lost profit was \$42,725.70, the court awarded the copyright owner its actual damages measured by its lost net profit. The court also ren-

dered additional relief on other claims.

See also *Universal Pictures Co. v Harold Lloyd Corp.* (1947, CA9 Cal) 162 F2d 354, 73 USPQ 317 (1909 Act), an action for infringement of a copyright in the motion picture, "Movie Crazy," by the defendants' production and distribution of the motion picture, "So's Your Uncle," in which the court stated that the copyright owner's past profits and cost of production were proper elements to consider in determining actual damages.

§ 16. —Gross profits

The court in the following federal statutory copyright infringement action awarded a copyright owner actual damages measured by its gross profit lost due to the infringement of its copyrights.

In an action for infringement of a company's valid copyright on its work, "Executive Planner," which was a combined diary, appointment calendar and information book, the court held, in *Baldwin Cooke Co. v Keith Clark, Inc.* (1976, ND Ill) 420 F Supp 404 (1909 Act), that the copyright owner had reached the point in its production where its gross profit on each unit sold was its net profit, and that the copyright owner was entitled to recover from the copyright infringer as the copyright owner's lost profit during the years of infringement, the amount of \$145,925. The court noted that unlike the copyright infringer, the copyright owner was a single product business. During the period of time that it first distributed and then manufactured and distributed the "Executive Planner," the copyright

owner had kept meticulous records with respect to its sales per customer, repeat sales, discontinued sales, lost customers, and the like. On the basis of these records, the copyright owner offered expert testimony that virtually all of the infringer's sales were sales lost by the copyright owner, that is, but for the infringement the copyright owner would have sold an additional 118,892 copies of its "Executive Planner," that being the number of copies the infringer sold of its infringing "Executive Weekly Minder." The court recognized that in cases of this kind lost sales and their resultant lost profit may be based on opinion and probable estimate, but a finding that the infringer has unlawfully taken sales from the copyright owner has to be based on something other than conjecture. Although noting that there was no evidence of the probability that the copyright owner would acquire a particular new customer, that is, one to whom it had not previously sold, the court pointed out that there was evidence of the probability that an old customer who had discontinued buying from the copyright owner would not return. According to one witness, only 10 percent of the customers who had departed from the copyright owner for 1 year returned, only 4 percent of those who had departed for 2 years returned, and only 2 percent of those who had departed for 3 years returned. Consequently, the court concluded that the only sales made by the infringer which it could reasonably infer would have been made by the copyright owner but for the infringer's infringement were those who were purchasing

from the copyright owner either in the year immediately preceding the infringer's sales, or simultaneously with the infringer's sales. The court found that the sales attributable to the customers in these sub-categories totaled 53,302 or 44.9 percent of the infringer's sales and not all 118,892 copies sold by the infringer. Therefore, although the copyright owner's expert concluded based on the copyright owner's experienced margin of profit that the copyright owner's lost income during the years of infringement was \$325,000, the court concluded that applying the necessary percentage ratio the copyright owner's compensable lost profit was \$145,925. Rejecting the copyright infringer's argument that the copyright owner had to allocate to and deduct from this profit figure additional administrative expense and overhead, the court explained that the evidence showed that the copyright owner would not have incurred additional administrative expenses and overhead. There was credible and unequivocal testimony that except for a \$2 per order handling expense, the copyright owner would not have incurred additional overhead and administrative expense in regard to these additional sales. Since the copyright owner sold in excess of 1,850,000 "Executive Planners" during the years of infringement, the court determined that it was a fair conclusion that the copyright owner had reached the point in its production where its gross profit on each unit sold was its net profit. The court entered a judgment for the copyright owner awarding actual damages, profits, and other relief.

§ 17. Revenues

In the following federal statutory copyright infringement action, the court ruled that the copyright owner was not entitled to actual damages for alleged loss of revenues.

In an action for infringement of copyrights in a commodities-market floor trader's manual and a floor trader's commodity method, the court held, in *Williams v Arndt* (1985, DC Mass) 626 F Supp 571, 227 USPQ 615 (1976 Act), that the copyright owner was not entitled to an award of any damages, pursuant to 17 USCS § 504(b), for its claim of lost revenues from reduced attendance at his seminars, or fewer purchases of his written material. The court determined that there was no basis for any such claim and any such award would be uncertain and speculative, given the dissemination of the plaintiff's own manuals, as well as other programs. Noting that pursuant to 17 USCS § 504(b) a copyright owner is entitled to recover actual damages suffered plus any profits of the infringer, the court awarded compensatory damages in the amount of \$291,000, representing the total gross profit realized by the infringing defendants.

See also *Vane v Fair, Inc.* (1987, ED Tex) 676 F Supp 133, 4 USPQ2d 1333 (1976 Act), a copyright infringement action by a photographer claiming damages in the amount of his lost revenue for the use of his copyrighted photographic slides in television advertisements, in which the court awarded the copyright owner \$60,000 actual damages, measured by

the value to the infringer of the use of the copyrighted slides.

Additionally, see *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, in which the appellate court held that the trial court erred in calculating and awarding the copyright owner \$22,700 in damages consisting of the owner's losses totaling \$19,300, and the infringer's profits totaling \$3,300. Although finding that the copyright owner adequately demonstrated his lost sales, the court stated that a loss of revenue is not equivalent to a loss of profits. Concluding that it therefore could not uphold the award of damages or impose a remittitur, the court affirmed the trial court's decision on liability but reversed on damages, except for upholding the finding that the owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

§ 18. Sales—generally

In the following federal statutory copyright infringement actions, the courts explicitly or impliedly ruled that the evidence did not support an award of actual damages measured by lost sales.

In an action for infringement of a copyright relating to siphon pumps mounted on cards, the court held, in *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act), that the copyright owner failed to prove actual damages by lost sales; but then awarded infringer's profits and statutory "in lieu" damages, for an aggregate award of \$15,404.48, plus interest.

Responding to the copyright owner's attempt to prove actual damages in the form of lost sales, the court said that damages from infringement can take many forms but when the damages from infringement take the form of claiming the entire profit on the infringer's sale, on the lost-sale-to-plaintiff theory, the amount so claimed is inclusive of both damages and profits under the cumulative language of § 101(b). The court noted that necessarily the presence of the infringer's article and other manufacturers' articles in the market affected the copyright owner's sales, and the evidence afforded no ground for inferring that the copyright owner's flattening sales curve was due to anything other than its high costs, stern competition, different customer list, and different sales emphasis. The court said that the infringers' activities could certainly not account for the owner's poor overall success when the infringers sold to less than 10 percent of the copyright owner's customers. The court rejected as not supported by the copyright owner's evidence its contention that the infringer's sales represented not merely infringements, the profits from which it was entitled to claim, but also represented sales lost to the copyright owner through the infringement and that the infringement occasioned the loss to the copyright owner of the whole profit-value of the unmade sales as measured by the copyright owner's own profits on such sales. The court observed that the difficult question here was whether there was any substantial foundation for the conclusion that part of the copyright owner's damages from

infringement consisted in a loss or diversion of sales to the infringer. The court found that the evidence did not warrant any inference that the infringer's copyright infringement was the proximate cause of the copyright owner's losses of sales to the infringer and to others, since the owner's price of 89 cents was in the significant trade paths substantially in excess of the owner's selling list price of 60 cents and actual average sale price of 55 cents. Pointing out that the differential in price between the copyrighted article and the infringing article was the dominant difference between the two articles contributing to their respective trade successes, the court concluded there was no reason to doubt that the infringer's article would have commanded a substantial share of the market whether presented on a display card or in a sack under a header. The court said it was speculation to seek to locate some measurable quantum of sales diversion that could fairly be traced to the use of the copyright material on the card rather than to other marketability factors. The court said that while the infringer may have taken customers from the copyright owner, and vice versa, the evidence did not warrant a finding that the use of the infringing copyrighted material proximately caused any measurable diversion of customers. Moreover, the court stated that the inferences were that the infringers obtained business from their own regular customers, and that if they took business from the copyright

owner on the siphon pump it was by reason of nothing other than their offering an adequate self-service merchandiser package of the same general type as that of the copyright owner, with about the same retail sales value, and at a drastically lower price. The court also pointed out that one approach would be to recognize separately the sales value of the product and the functional value of the infringing use of the card. The court noted that the infringing card was not a product sold to the consumer as such, but it was something that functioned as a silent salesman of the product—to use an expression employed by more than one witness in the case; the card was not the only sales stimulant, for the product had to sell itself—to some extent—if it had recognizable visibility in the store. The court also noted that broadly the card functioned to effect a sale much as a demonstrator or a salesman would aggressively make a sale. The court also awarded attorney's fees and additional relief on other claims.

In an action to recover for infringement of copyrighted sound recordings, the court held, in *RSO Records, Inc. v Peri* (1984, SD NY) 596 F Supp 849, 225 USPQ 407 (1976 Act),²⁷ that although the copyright owners had not attempted to demonstrate their own damages directly, it would be reasonable to assume that for every counterfeit copy of the copyrighted records and tapes sold by the infringers the copyright owners lost a corresponding sale, since the in-

27. This case was distinguished in *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4

USPQ2d 1958 (1976 Act) (§ 14[b]), affd without op (CA2 NY) 862 F2d 304.

fringers' copies were presumably sold for the same retail price as the copyright owners' records and tapes, and the infringers' sales volume would not have been inflated. The court, however, pointed out that the copyright owners were stymied in any attempt to calculate actual damages by this method, because the infringers' refused on Fifth Amendment grounds to turn over any further production records or to assist in the interpretation of the records which had already been seized from them. The court also pointed out that the actual damages arising from certain color separations were even less susceptible to accurate quantification. It said that these color separations contributed to the production of counterfeit records and tapes, each sale of which cost the copyright owners a sale. It noted, however, that there was absolutely no information on the number of color separation sales that had been made, to whom the separations had been sold, or how many infringing recordings those buyers had sold using labels printed with the separations. The court determined an award of "actual damages plus profits" to which the copyright owners would be entitled under 17 USCS § 504(b), which was apparently a calculation of infringers' profits awardable as profits. Also determining an award of statutory damages to which the copyright owners would be entitled under 17 USCS § 504(c), the court ordered the copyright owners to file a notice of election stating which type of damages they preferred.

On remand in an action to recover for infringement of a copy-

right in a magazine treating the history of prominent black people in a comic book format, the court rejected the copyright owner's argument that every infringing copy of the magazine received by a co-infringer publisher was a sale lost to the copyright owner, in *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act) (§ 14[b]), *affd* without op (CA2 NY) 862 F2d 304. Discussing the copyright owner's lack of evidence of alleged lost sales and lost profits, the court ruled that the copyright owner failed to prove any actual damages due to the infringement.

In an action for infringement of a copyright in maps, the appellate court held, in *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), that the trial court erred in calculating and awarding the copyright owner \$22,700 in damages consisting of two items—the owner's losses totaling \$19,300, plus the infringer's profits totaling \$3,300. The court stated that since it did not know what fraction of the copyright owner's \$19,300 in lost sales represented lost profit, it could not uphold the award of damages in this amount or even impose a remittitur. The court held that neither the \$19,300 estimate of lost profits, nor the \$3,300 estimate of the infringer's profits was computed correctly. The court explained that the \$19,300 was, at best, an estimate of lost sales, not of lost profits, and that even as an estimate of lost sales it was questionable. The court ruled that the copyright owner adequately demonstrated his

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lost sales, but that a loss of revenue was not equivalent to a loss of profits. The court explained that if you sell less of your product you will have lower costs, and the cost savings is a gain that must be offset against the loss of revenues in computing lost profit. The court pointed out that the owner did not subtract a penny from the \$19,300 that he estimated to be his lost sales revenues. The court said that this implied, improbably, that he could have made all the lost sales at zero cost. Rejecting the owner's testimony that he had printed a large batch of the maps before 1976 and would not have had to print anymore in order to make the lost sales, the court explained that if this were true, the copyright owner either destroyed the maps after determining that he could not sell them or he still had them; but there was no evidence to support either theory. Furthermore, the court said that the owner's maps were an asset on which he could still realize a profit—now that the infringer had finally ceased infringing—which would have to be subtracted from his sales revenue in estimating his net loss from infringement. The court said that when a plaintiff contends that lost sales revenue would have been all profit, the contention is sufficiently improbable to require him to come forward with substantiating evidence, which the copyright owner here failed to do. The court affirmed the trial court's decision on liability, but reversed on damages, except for upholding the finding that the owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

In Deltak, Inc. v Advanced Sys-

tems, Inc. (1985, CA7 Ill) 767 F2d 357, 226 USPQ 919 (1976 Act), an action for infringement of a copyright in a data-processing tasks list—used for teaching programmers data-processing and other computer related skills, the appellate court apparently approved the trial court's rejection of the lost sales measure of damages. The appellate court explained that since the trial court was convinced that there had been no lost sales it did not have to consider what any lost sales were worth. The court awarded actual damages measured by the value of the infringer's use of the copyright.

But see Design Resources, Inc. v John Wolf Decorative Fabrics (1985, SD NY) 229 USPQ 418 (1976 Act), an action to recover for infringement of copyrighted fabric designs, in which the court held that the copyright owner would be awarded actual damages for lost sales computed by multiplying 91,285 yards, the amount of infringing fabric sold by the infringer, by \$1.13, the copyright owner's expected profit per yard, totaling \$103,152.

See also JBJ Fabrics, Inc. v Mark Industries, Inc. (1987, CD Cal) 5 USPQ2d 1414 (1976 Act), an action to recover for infringement of a copyrighted fabric design, in which the court said that if a copyright owner measures its damages by its lost sales to a particular customer and the infringer's profits by the infringer's sales to the same customer, then the remedy for the copyright owner can be either its lost profit, plus the amount by which the infringer's profits exceeded that amount, or, what

amounts to the same thing, the greater of the copyright owner's lost profit or the infringer's gained profit from the sales. The court said that due to the defendant's infringement the copyright owner failed to sell the same number of yards of its copyrighted fabric that the infringer had sold of its infringing fabric for a total of \$191,529 in lost gross sales. Determining that the copyright owner's costs of sale would have been \$148,803.30, and that therefore its lost profit was \$42,725.70, the court awarded the copyright owner its actual damages measured by its lost net profit.

§ 19. —Future

The courts in the following federal statutory copyright infringement actions ruled that the copyright owners' claims for actual damages measured by future sales allegedly lost by the copyright owners due to the copyright infringement, or by alleged damage to the copyright owners' ability to sell the copyrighted goods in the future due to the copyright infringement were not supported by the evidence.

In an action for infringement of a copyright in a poster, the court held, in *Abeshouse v Ultragraphics, Inc.* (1985, CA2 Conn) 754 F2d 467 (1976 Act) (§ 15), that the copyright owners' claim for damage to their ability to sell the copyrighted posters in the future caused by the absence of a copyright notice on the infringing posters was too speculative to support any award of actual damages. Noting that the copyright owners had granted a nonparty company a 2-year license to produce and market

the poster effective on the expiration of the 2-year term specified in their exclusive licensing agreement with the infringing distributor, the court pointed out that the copyright owners failed to present any evidence that (1) under either of these two agreements the copyright owners would have been allowed to make direct sales themselves or that even if permitted, they would have been equipped to do so; (2) they might actually have done business in foreign markets; or (3) the copyright owners had made any efforts to assess the marketability of their copyright during any time following the expiration of the agreements.

In an action for infringement of a company's valid copyright on its work, "The Executive Planner," which was a combined diary, appointment calendar and information book, the court held, in *Baldwin Cooke Co. v Keith Clark, Inc.* (1976, ND Ill) 420 F Supp 404 (1909 Act), that with respect to the copyright owner's future sales, the copyright owner had failed to sustain its burden and accordingly was not entitled to any damages in this regard. Regarding the copyright owner's alleged lost future sales, the owner's expert inferred first that the owner would have made the sales taken away by the infringer through its infringement, and then inferred that those sales would repeat for the owner in accordance with the owner's repeat sales history. The court said that while it had no doubt as to the credibility of the copyright owner's sale records, it could not attribute to them the force that the copyright owner did. Pointing out that the copyright owner was engaged

in the sale of a sales promotion or goodwill gift item, the court concluded that just as fashions change so also did this type of business-gift giving. The court also determined that while intentional commercial infringers such as the defendant infringer should be sternly brought to book and made to pay for their depredations, damages could not be assessed on the basis of speculation. The court, however, entered a judgment for the copyright owner on other grounds, awarding it other actual damages, profits and other relief.

B. Expenditures by Copyright Owner

§ 20. Administrative fees and tape

In the following federal statutory copyright infringement action, the court awarded the copyright owner actual damages, which included as an element moneys it expended on administration fees and tape.

In an action to recover for infringement of a copyrighted telephone directory, the court ruled, in *United Tel. Co. v Johnson Pub. Co.* (1987, **WD Mo**) 671 F Supp 1514 (1976 Act), *affd* on other grounds (CA8 Mo) 855 F2d 604, 8 USPQ2d 1058, that the copyright owner was entitled to actual damages in the amount of \$13,149.89 representing \$13,014.89 for the loss of a licensing fee which the copyright owner normally would have charged for the use of its directories plus \$135 for administration fees and tape. The court also awarded infringer's profits and additional relief on other claims.

§ 21. Investigation and prosecution of lawsuit expenses

The court, in the following federal statutory copyright infringement action, held that the copyright owner was not entitled to actual damages for its losses incurred in its investigation and prosecution of the copyright infringement lawsuit.

In an action to recover for infringement of copyrighted house plans and drawings, the court in *Kent v Revere* (1985, **MD Fla**) 229 USPQ 828 (1976 Act), rejected the copyright owner's claim for actual damages measured by its expenditures incurred in its investigation and prosecution of this lawsuit. The court declared that the usual measure of recovery of actual damages is the injury to the market value of the copyrighted work. Pointing out that the copyright owner had cited no authority in support of its assertion that its personal "losses" incurred in its investigation and prosecution of this lawsuit were compensable as actual damages, the court concluded that on independent research it also found no authority to show that the copyright owner's personal losses in the investigation and prosecution of this lawsuit were recoverable as actual damages.

§ 22. Remedial or extra costs

In the following federal statutory copyright infringement action, the court ruled that moneys expended for extra costs reasonably incurred by the copyright owner to change a magazine issue that was supposed to have contained the first appearance of a copyrighted article that

was infringed would be recoverable as actual damages.

Although dismissing without prejudice a copyright infringement action on the basis that when the bill was filed the plaintiff had no existing copyright, the court nevertheless aware of the possibility of an appeal made findings on the evidence of damages, in *Atlantic Monthly Co. v Post Pub. Co.* (1928, DC Mass) 27 F2d 556 (1909 Act). The allegedly copyrighted article was an open letter from the governor of New York in reply to an article published in the April 1927, issue of the "Atlantic Monthly" magazine (the plaintiff's publication). Inasmuch as the governor's letter constituted not merely a magazine article but also important political news for which the widest possible publicity was desirable, the plaintiff copyrighted the article, and informed the inquiring defendant that all the papers would have the article for publication on the date that the plaintiff's magazine containing the article would be published. The defendant, however allegedly infringed the plaintiff's copyright by printing a copy of the letter in its own newspaper and circulating 400,000 copies about 1½ weeks before the plaintiff was supposed to have first published the article. The court said that the copyright owner had been justified in going ahead on the assumption that its rights would be respected and in arranging its business on that basis. The court pointed out that the infringement rendered reasonably necessary a change of plans with respect to the plaintiff's May issue of its magazine, and that the extra cost of this amounting to \$3,500

was recoverable if the plaintiff was entitled to damages. Although the plaintiff claimed that the infringement interfered with its business in other ways and caused money lost to it, offering testimony that this loss amounted to \$50,000, the court declared that this amount seemed an altogether excessive estimate. The court explained that the shrinkage in renewals for the plaintiff's May issue was quite as likely to have been due to other activities of the magazine as to the infringement in question. The court observed that the premature publication of the article undoubtedly impaired confidence in the plaintiff's ability to protect its releases to the press, and in other ways caused it substantial damages. Although noting that the amount of such damages was not easy to state, the court declared that it was satisfied that they were as much as \$10,000; and accordingly the court held that this \$10,000 sum in addition to the \$3,500 representing the extra cost of the plaintiff's change of plans with respect to its May issue should be recoverable as actual damages in this proceeding. Concluding that the fact that damages could not be recovered in equity did not mean that they were not recovered at law, the court decided that the copyright owner could move within 30 days to amend the present equity bill into an action at law.

C. Injury to Reputation or Value of Copyright

§ 23. Actual value or value to copyright owner

The court, in the following federal statutory copyright infringe-

ment action, ruled that the copyright owner was entitled to actual damages measured by the extent of destruction of the actual value, or value to the copyright owner, of the copyrighted work due to the infringement.

In an action for infringement of a copyright in the motion picture, "Movie Crazy," by the defendants' production and distribution of the motion picture entitled, So's Your Uncle, the court held, in *Universal Pictures Co. v Harold Lloyd Corp.* (1947, CA9 Cal) 162 F2d 354, 73 USPQ 317 (1909 Act), that evidence including conflicting testimony as to the extent of destruction of value of the copyrighted work due to the infringement supported an award of \$40,000 actual damages. The court rejected the infringers' argument that where personal property has been injured that unless a market value can be shown damages cannot be recovered. The court said that the fact that personal property which is injured or destroyed by the wrongful or negligent act of another has no market value does not restrict the recovery to nominal damages only, and that its value or the copyright owner's damages must be ascer-

tained in some other rational way from whatever evidence is available. The court stated that in such cases the proper measure of damages is generally its actual value or its value to the owner. Concluding that a \$40,000 actual damage award for infringement of the present copyright, by the misappropriation of a vitally important 57-scene sequence from the motion picture, was supported by evidence, the court affirmed a judgment awarding actual damages, an injunction, and additional relief on other claims.

§ 24. Market value or fair market value

[a] Supported

In the following federal statutory copyright infringement actions, in which the evidence apparently supported an award of actual damages measured by injury to the value of the copyright, the courts ruled that a copyright owner was entitled to what were apparently actual damages measured by the extent to which the market value of its copyrighted work at the time of the infringement had been injured or destroyed by the infringement.²⁸

28. Additionally, see *Deltak, Inc. v Advanced Systems, Inc.* (1985, CA7 Ill) 767 F2d 357, 226 USPQ 919 (1976 Act), an action for infringement of a copyrighted data-processing tasks list used in teaching programmers data-processing and other computer related skills, in which the court held that the value of use approach as a measure of a copyright owner's actual damages required a determination of the fair market value of the infringed document, and that while list price was some evidence of fair market value, it

was not conclusive. The appellate court ruled that the trial court's acceptance that the value of use of each infringing educational kit was \$5,000 did not constitute a finding of fair market value for purposes of determining the copyright owner's actual damages, since the trial court did not apply the saved acquisition cost measure of value of use, and thus it had no need to distinguish between list price and average sales price or fair market value.

See also Aitken, Hazen, Hoffman,

In an action to recover for infringement of a copyright in a popular rhythm and blues composition, "Theme From Shaft," the court held, in *Cream Records, Inc. v Jos. Schlitz Brewing Co.* (1985, CA9 Cal) 754 F2d 826, 225 USPQ 896 (1976 Act), later app on other grounds (CA9 Cal) 864 F2d 668, 9 USPQ2d 1568, that where the unauthorized use of the "Shaft" theme music in the infringer's beer commercial ended the copyright owner's opportunity to license the music for this purpose, the copyright owner was entitled to recover as damages the entire value of a license for use of the entire song for 1 year. The trial court had found and the copyright owner conceded at trial that the market value of such a license was \$80,000. The appellate court pointed out that the only evidence before the court was that unauthorized use of the "Shaft" theme music in the infringer's commercial ended the copyright owner's opportunity to license the music for this purpose. The court pointed out that there was no evidence that the infringer sought, or that the copyright owner was willing to grant, a license for use of less than the entire copyrighted work, that a license limited to the portion used in the commercial would have had less value, or that use limited to this portion would have had a less

devastating effect on the copyright owner's opportunity to license to another. The infringer had applied to the copyright owner for a 1-year license to use the "Shaft" theme music in its commercial; the copyright owner had quoted a fee of \$100,000; after the infringer failed to take a license, another manufacturer approached the copyright owner for a license but withdrew when the infringer's commercial was aired. The court pointed out that there was testimony that use of a well known popular song in a commercial destroys its value to other advertisers for that purpose. The court reversed a judgment that had awarded the copyright owner a total of \$17,000 in damages and remanded.

In an action for infringement of a copyright in a motion picture, "Tonight or Never," which was infringed by exhibition of the picture on television, the court in *Pickford Corp. v De Luxe Laboratories, Inc.* (1958, DC Cal) 169 F Supp 118, 120 USPQ 521 (1909 Act), awarded to the copyright owner, apparently as actual damages, an amount representing the total value of the picture on the market, which value had been destroyed or at least rendered negligible by the infringement. Initially noting that the copyright owner's evidence concerning damages and the value of the copyrighted mo-

Miller, P. C. v Empire Constr. Co. (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), an architectural firm's action against both the owner and the contractor of multiunit apartment complex projects for infringement of the firm's copyrighted architectural plans for apartment complexes, in which the court held that in

determining actual damages measured by the value of the infringers' use of the copyrighted goods, the copyright owner was entitled to the fair market value of its architectural plans (originally created for a first project for the defendants) as revised for use in constructing a second real-estate project.

the copyright to license to or had applied for a 1-year "Shaft" theme; the copy-ial; the copy-ied a fee of rfringer failed her manufac-ie copyright out withdrew commercial pointed out ny that use ar song in a ts value to at purpose. t judgment t copyright 00 in dam-

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tion picture was wholly unsatisfactory, unconvincing, and of no probative force, the court explained that an expert witness, produced by the copyright owner, testified as to the value of the motion picture on or about the time of the acts of the copyright infringer in first showing the picture on television, although this expert had never seen the motion picture. The copyright infringer's testimony, however, concerning the total value of the picture was that it was between \$2,000 and \$3,000 in the years 1951 and 1952. The court pointed out that the copyright infringer's expert had seen the picture, and was engaged in the business of selling motion pictures for exhibition on television. The evidence showed that one of the reasons why the picture did not have greater value was that it had a series of scenes in which a male gigolo appeared to be carrying on an affair with an older woman, and that the female consummated an illicit sexual union with the male star and spent the night with him, and for that reason a lot of television stations would object to projecting such a picture by television into the homes of viewers, which would thus reduce its saleability and value. The court concluded from the whole evidence that the evidence preponderated heavily in favor of the copyright infringers as to the total value of the picture to be not less than \$2,000 and not to exceed \$3,000 in the years 1951 and 1952. Noting that it made little difference in the assessment of "such damages as the copyright proprietor may have suffered due to the infringement," pursuant to 17 USCS § 101(b), whether each

showing was a separate infringement or not, the court ruled that the total value of the picture did not exceed \$3,000 and therefore the sum of the parts (separate showings) could not exceed the whole. Thus, the court said that the damages to the copyright owner under the copyright statute could not under the circumstances exceed \$3,000. Noting that the evidence was insufficient to show exactly where between \$2,000 and \$3,000 the value of the picture did lie, the court pointed out that even though there still might be value in the picture for a showing in motion picture theaters to paying audiences, that possible value was negligible. Concluding that it was just to find that the damage to the copyright owner was the total value of the picture, namely \$3,000, the court accordingly entered a judgment for the copyright owner in that amount.

Additionally, see *County of Ventura v Blackburn* (1966, CA9 Cal) 362 F2d 515, 150 USPQ 160, 4 ALR Fed 454 (1909 Act), an action for infringement of a copyright in a county map, in which the appellate court held that the trial court erred in its determination of the (apparently actual) damages due to the copyright owner for the infringement by the infringer county. The county, which had contractual rights to duplicate, use, and sell copies of the copyrighted map, had infringed the copyright by failing to affix a notice of copyright to the copies that it had sold. The appellate court ruled that the trial court erred by determining that the damage due to the copyright owner for the infringement was the fair market value of the copyright unen-

cumbered by the contract granting the county rights to reproduce, use, and sell copies of the copyrighted map. The appellate court explained that the trial court should have taken into consideration the extent to which the fair market value of the copyright had been necessarily affected by the rights granted to the county under the agreement.

See also *Runge v Lee* (1971, CA9 Cal) 441 F2d 579, 169 USPQ 388 (1909 Act), cert den 404 US 887, 30 L Ed 2d 169, 92 S Ct 197, 171 USPQ 322, an action for infringement of a copyright in a book regarding facial exercises, in which the court upheld an award of what were apparently actual damages. The appellate court ruled that the trial court did not abuse its discretion in determining pursuant to the parties' stipulation that infringing profits amounted to \$64,253 but then electing to award the copyright owner the jury's determination of \$80,000 for compensatory damages from the infringement. The award of damages was supported by evidence that the infringement severely damaged the value of the reissue and republication rights of the copyright owner's original book and her sequel. The copyright owner testified that the value of her labor in writing the sequel was \$20,000, computed at \$15 per hour, and that the "value of publication rights for reissuance or continuation of her exercises" was at least \$100,000, based on past experience.

[b] Not supported

The courts, in the following federal statutory copyright infringe-

ment actions, explicitly or impliedly ruled that the evidence did not support an award of actual damages measured by the extent to which the market value, or fair market value, of their copyrighted works at the time of the infringement had been injured or destroyed by the infringement.

In *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, an action for infringement of copyrights in musical scores written for the play, "Kismet," the court held that actual damages for copyright infringement are the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement. Noting that the trial court declined to award actual damages on the basis that it was unconvinced that the market value of the copyright owners' work was in any way diminished as a result of the defendant's infringement, the appellate court upheld this finding as being not clearly erroneous. The appellate court also upheld as being not clearly erroneous the trial court's finding that the copyright owners failed to establish any damages attributable to the infringement. Noting that the copyright owners had offered no disinterested testimony showing that the infringing production precluded the copyright owners from presenting "Kismet" at some other hotel in Las Vegas, the appellate court said that it was not implausible to conclude, as the trial court apparently had done, that a production presenting

6 minutes of music from "Kismet," without telling any of the story of the play, would not significantly impair the prospects for presenting a full production of that play. The appellate court concluded that based on the record presented, the trial court was not clearly erroneous in finding that the plaintiffs' theory of damages was uncertain and speculative. The appellate court affirmed the trial court's finding that the copyright owners failed to prove actual damages, vacated an award of infringers' profits, and remanded.

In a copyright infringement action by a copyright owner against a licensee to recover for infringement of various copyrighted cartoon films ("Beatles," "Barney Google," "Krazy Kat," "Popeye," "Flash Gordon," and "Cool McCool,") the court in *United States v King Features Entertainment, Inc.* (1988, CA9 Cal) 843 F2d 394, 6 USPQ2d 1873 (1976 Act), declared that actual damages are defined as the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement, and that the test for market value in the Ninth Circuit is what a willing buyer would have been reasonably required to pay to a willing seller for the copyright owner's work. The appellate court ruled that the trial court failed to analyze the true extent to which the copyrighted cartoons had been destroyed or injured by the infringer licensee's infringement. The licensee breached its agreement with the copyright owner and infringed the copyrights by selling the cartoons to an American military radio and television service, pursuant to a contract, for

viewing on its closed-circuit televisions. The trial court found that the copyright owner sustained actual damages in 1983 because the licensee-military agreement precluded the copyright owner from a viable market. The trial court concluded that the price of the licensee-military agreement, \$137,240, was prima facie evidence of what a willing buyer would have been reasonably required to pay to a willing seller for the cartoons. The appellate court explained that while the trial court correctly decided that two separate markets for military bases were involved (non-television in the United States and its territories, and television outside the United States and its territories), no evidence indicated the length of time the latter market, which the licensee exploited, was available. Furthermore, the court said that assuming the licensee precluded the copyright owner from this market in 1983, no evidence showed the copyright owner was precluded from later sales, particularly since the cartoons were never seen on television on overseas bases. Concluding, therefore, that a material issue of fact remained regarding actual damages, the court reversed a summary judgment award of \$137,240 actual damages, remanded for a determination of the copyright owner's actual damages, if any, from the infringement, and otherwise affirmed the summary judgment on other issues.

See also *Universal Pictures Co. v Harold Lloyd Corp.* (1947, CA9 Cal) 162 F2d 354, 73 USPQ 317 (1909 Act), an action for infringement of a copyright in the motion

picture, "Movie Crazy," by the infringers' production and distribution of the motion picture, "So's Your Uncle," in which the court rejected the infringers' argument that where personal property has been injured, unless a market value can be shown damages cannot be recovered. The court said that where personal property has been injured or destroyed by the wrongful or negligent act of another and has no market value, its value or the plaintiff's damages must be ascertained in some other rational way from whatever elements are available.

In *Kent v Revere* (1985, MD Fla) 229 USPQ 828 (1976 Act), an action to recover for infringement of copyrighted house plans and drawings, the court declared that the usual measure of recovery of actual damages is the injury to the market value of the copyrighted work, and that because it is often difficult to determine the market value, courts generally measure the value by using indirect evidence such as the profits that the copyright owner might have accrued if the infringement had not occurred. Although noting that the copyright owner apparently attempted to prove actual damages at trial through this profits-on-lost-sales method since he offered evidence of his average profit on the copyrighted model homes, the court determined that this method of proving actual damages was inappropriate in the present case. The court explained that because the infringer had planned to build his home, it was conjecture that the copyright owner, a building contractor, had lost the sale of a home because of the defendant's infringement. Concluding

that the evidence at trial did not prove actual damages, the court entered a judgment awarding statutory damages and additional relief on other claims, since the copyright owner's counsel indicated that the copyright owner would accept statutory damages if actual damages were not proved.

§ 25. Reputation

In the following federal statutory copyright infringement action, the court held that the evidence did not support an award of actual damages measured by the alleged damage to the reputation of the copyrighted items due to the infringement.

Thus, in *Abeshouse v Ultragraphics, Inc.* (1985, CA2 Conn) 754 F2d 467 (1976 Act) (§ 15), an action for infringement of a copyright in a poster, the court held that the copyright owners' claim for damage to the reputation of the copyrighted posters resulting from the inferior quality of the infringing posters was too speculative to support any award of actual damages.

D. Gains By Copyright Infringer

§ 26. Commissions

The court in the following federal statutory copyright infringement action awarded the copyright owner actual damages measured by the commissions collected by the infringer in certain infringing contests.

In an action to recover for infringement of a copyrighted advertisement of a dot-counting contest that portrayed merchandise given as prizes in a picture made up of a

large number of dots, the court ruled, in *Gordon v Weir* (1953, DC Mich) 111 F Supp 117, 97 USPQ 387 (1909 Act), affd per curiam (CA6 Mich) 216 F2d 508, 104 USPQ 40, that with respect to certain contests and incidental publications constituting infringement, the copyright owner was entitled to recover from the infringer the commissions collected by the infringer in the particular contests. The court thus entered a judgment awarding the copyright owner actual damages based on the infringer's commissions, statutory damages for other infringements, and additional relief on other claims.

§ 27. Profits

[a] Supported

In the following federal statutory copyright infringement actions, the courts held or apparently held that an award of actual damages measured by the copyright infringer's profits was supported by the evidence.²⁹

In an action for infringement of a copyright in a song, "You Made Me Like It, Daddy (That's Why I Love It So)," the court in *Davilla v Brunswick-Balke Collender Co.* (1938, CA2 NY) 94 F2d 567 (1909 Act), cert den 304 US 572, 82 L Ed 1536, 58 S Ct 1040, apparently used the copyright infringer's profits as a measure of the copyright owner's actual damages in

rendering a judgment for the copyright owner. The appellate court declared that on the issues as framed, there was ample evidence "to make an award of damages on the basis of actual profits," and that therefore the special master and the trial court had erred in granting statutory damages. Noting that the copyright infringer produced sales sheets that were the original sales records, and that they appeared to be genuine and to cover all sales for the period from the date of the infringement until the infringer went out of the recording business, the court concluded that there was no basis for an award of statutory damages since the amount of the sales was sufficiently proved. The court pointed out that a statutory damage award should not be based on the idea of punishment, but rather should depend on the absence of proof of actual profits and damages. The court pointed out that the special master's report was based on the theory that (1) there was an inadequate explanation of the copyright infringer's failure to produce certain books; (2) there was error in the first statement made to the copyright owner as to the number of infringing sales; and therefore (3) the infringer probably had sold or disposed of more than 5,285 records. Concluding that actual profits were sufficiently established before the master so as to

29. Additionally, see *Williams v Arndt* (1985, DC Mass) 626 F Supp 571, 227 USPQ 615 (1976 Act), an action for infringement of copyrights in a commodities-market floor trader's manual and a floor trader's commodity method, in which the court although apparently awarding infringers' profits

as profits rather than as a measure of actual damages pursuant to 17 USCS § 504(b), concluded that it would award the copyright owner compensatory damages in the amount of \$291,000, representing the total gross profit realized by the infringers.

preclude the recovery of statutory damages, the court modified a decree so as to award to the copyright owner the infringer's profits of \$1,057.53 instead of statutory damages.

On remand in an action to recover for infringement of a copyright in a magazine treating the history of prominent black people in a comic book format, the court in *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act) (§ 38[b]), affd without op (CA2 NY) 862 F2d 304, entered a judgment awarding the copyright owner \$866.50 against a co-infringer publisher in "actual damages for his profits," and rendering further relief on other claims.

Additionally, see *Schroeder v William Morrow & Co.* (1977, CA7 III) 566 F2d 3, 198 USPQ 143 (1909 Act), an action for infringement of a copyright in a gardening directory, in which the appellate court held that contrary to the copyright owners' contention at oral argument before the appellate court, damages did not need to be measured by the entire profit earned by the copyright infringers on the infringing directory book but rather could be measured by an amount commensurate with the value of the infringing material in relation to the book as a whole. Pointing out that without independent checking or verification the compilers of the infringers' book copied the names and addresses but not the other information appearing on 27 of the 63 pages of the copyright owners' book, the court reversed a judgment ruling there was no copyright infringe-

ment, and remanded for a determination of damages for the infringement.

See also *United Tel. Co. v Johnson Pub. Co.* (1987, WD Mo) 671 F Supp 1514 (1976 Act), affd on other grounds (CA8 Mo) 855 F2d 604, 8 USPQ2d 1058, an action to recover for infringement of a copyrighted telephone directory in which in determining the damage award to which the copyright owner was entitled under 17 USCS § 504(b), the court subtracted the copyright owner's actual damages from the infringer's net profits to arrive at an additional award of infringer's profits which when added together with the copyright owner's actual damages resulted in a total damage award under § 504(b) in an amount equal to the copyright infringer's net profits.

In an action for infringement of a copyright in a course apparently for learning to play the organ, the court held that up to the time of trial the copyright owners were entitled to damages in the sum of \$24,511.80, based on the infringer's profits, in *Neal v Thomas Organ Co.* (1965, SD Cal) 241 F Supp 1020, 145 USPQ 315 (1909 Act) (§ 37[a]).

See also *Twentieth Century—Fox Film Corp. v Stonesifer* (1944, CA9 Cal) 140 F2d 579, 60 USPQ 392 (1909 Act), an action for infringement of a copyright in a play, "Women's Hotel," by an infringing motion picture, "Hotel for Women," in which the appellate court held that the trial court properly awarded \$3,960 in damages, which constituted 20 percent of the net profits of the infringing motion picture. Although the court re-

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ferred to the award as "damages," the award apparently constituted an award of infringer's profits as profits rather than as a measure of the copyright owner's actual damages.

In an action for infringement of a broadcaster's copyright in live television news broadcasts by off-the-air videotaping of the broadcasts by a television news monitoring service followed by the marketing and sale of news tapes to interested members of the public, the court held, in *Pacific & Southern Co. v Duncan* (1983, ND Ga) 572 F Supp 1186, 9 Media L R 2468 (1976 Act), affd in part on other grounds and revd in part on other grounds (CA11 Ga) 744 F2d 1490, 11 Media L R 1135, 224 USPQ 131, reh den, en banc (CA11 Ga) 749 F2d 733 and cert den 471 US 1004, 85 L Ed 2d 161, 105 S Ct 1867 and on remand on other grounds (ND Ga) 618 F Supp 469, 12 Media L R 1221, 228 USPQ 141, affd on other grounds (CA11 Ga) 792 F2d 1013, 230 USPQ 330, that the news broadcaster's actual damages, including the copyright infringer's profits, were de minimis. By its own admission, the

copyright owner had suffered virtually no actual damage from the sale of one infringing copy of a particular fitness-trail news segment. Noting that the copyright owner—although making tapes available—did not actively attempt to market tapes and admitted that it had no real concern that it ever would sell any tapes, the court determined that its actual damages in the present case therefore were trivial. Additionally, the court ruled on other grounds pursuant to 17 USCS §§ 411(b) and 412, that the copyright owner was not entitled to statutory damages under 17 USCS § 504(c). Concluding that the copyright infringer had sold one infringing copy of the fitness-trail segment for \$55, and that its court-estimated profit on this tape was \$35, the court awarded the copyright owner actual damages in the amount of \$35.

[b] Not supported

The courts in the following federal statutory copyright infringement actions held or apparently held that an award of actual damages measured by the copyright infringer's profits was not supported by the evidence.³⁰

30. Additionally, see *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act), an action for infringement of a copyright in a book, "Who's Who in New England," in which the court declared that liability of an infringer for profits is not by way of rough and ready reparation to the copyright owner for the damages that he is presumed to have suffered from the infringement. The court pointed out that the profits that were made by the infringer may bear no relation to the damages suffered by the copyright proprietor; for

instance, if a copyright owner had made no effort to exploit his copyright, then he would not have been deprived of a gain he otherwise would have made but for the infringement. The court emphasized that even if a copyrighted book and an infringing book are competing at the same market level, there might be substantial differences in the respective costs of the copyright proprietor and the infringer, in the effectiveness of their respective sales organizations and advertising, or in many other factors, all of which would render the profits made by the

In *Pret-A-Printee, Ltd. v Allton Knitting Mills, Inc.* (1982, SD NY) 218 USPQ 150 (1976 Act), an action to recover for infringement of a copyrighted fabric design, the court said that actual damages can be estimated by computing the infringer's profits and using that as an approximate measure of the copyright owner's damages. Although noting that the parties stipulated that the infringer received \$31,878 in gross revenue from the two sales, the court concluded that it was not possible to determine the infringer's profits with any degree of certainty, since there was no evidence as to the infringer's costs and expenses related to these sales. The court accordingly entered a judgment for the copyright owner awarding it \$30,000 statutory damages and additional relief on other claims.

On remand in an action to recover for infringement of a copyright in a magazine series treating the history of prominent black people in a comic book format, the court held, in *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act) (§ 38[b]), *affd* without *op* (CA2 NY) 862 F2d 304, that it could not increase "[the copyright owner's] actual damages due to [a co-infringer publisher's] profit" on certain sales. Noting that the copyright owner only proved that 3,000 sets of infringing magazines had been sold for this co-infringer by a

nonparty witness, the court expounded that the copyright owner failed to show that this co-infringer sold all the infringing magazine copies delivered to it by a co-infringer-printer, and the copyright owner presented no proof of gross revenue for these 3,000 sets.

See also *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, in which the appellate court held that the trial court erred in calculating and awarding the copyright owner \$22,700 in damages consisting of the owner's losses totaling \$19,300, plus the infringer's profits totaling \$3,300 (all rounded off by the appellate court here to the nearest \$100). The appellate court affirmed the trial court's decision on liability, but reversed on damages, except for upholding the finding that the copyright owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

In addition to ruling that the copyright owner failed to prove actual damages by showing injury to the market value of his copyrighted plans and drawings, in *Kent v Revere* (1985, MD Fla) 229 USPQ 828 (1976 Act) (§ 24[b]), an action to recover for infringement of copyrighted house plans and drawings, the court declared that no evidence of the infringer's profits, the other component of

infringer wholly unreliable as an indication of the copyright owner's damages—that is, the profits which he would have made but for the infringement. The court stated that the test of liability is not the extent of benefit

received but rather the extent of wrong done and that the total profits resulting from the wrongful appropriation is a measure of the wrong done, although, admittedly, it is not an entirely accurate measure.

actual damages, was produced at trial.

Additionally, see *Blackman v Hustler Magazine, Inc.* (1986) 255 App DC 135, 800 F2d 1160, 231 USPQ 51 (1909 Act), an action to recover for infringement of a copyrighted series of nude photographs of a Congressman's secretary, in which the court awarded the infringer's unapportioned gross profits as infringer's profits rather than as a measure of actual damages and stated that this "measure of damages" is not designed to compensate the copyright holder for his losses. The court pointed out that as in the present case, the infringer's profits may greatly exceed whatever actual damage the copyright holder may have suffered. The court said that the copyright owner is nevertheless allowed to reap a windfall to further the policy of the copyright statute that infringers shall not profit from their wrongdoing.

§ 28. Revenues

In the following federal statutory copyright infringement actions, the courts ruled that the copyright owner was entitled to actual damages measured by the copyright infringer's revenue.

On appeal from a judgment that a plaintiff fabric manufacturer's copyright in its upholstery fabric, "Chestertown," was infringed by two fabrics manufactured by a defendant fabric manufacturer, the court held, in *Stevens Linen Associates, Inc. v Mastercraft Corp.* (1981, CA2 NY) 656 F2d 11, 210 USPQ 865 (1976 Act) (§ 14[a]), that on remand the trial court should consider an additional

award of (apparently actual) damages based on the infringer's invoices, introduced by the copyright owner, which bore dates after the entry of a preliminary injunction against the infringer. The appellate court rejected the infringer's argument that the copyright owner did not ask the trial court to award these damages, since the trial record clearly refuted this position. The owner offered these invoices into evidence and asked questions of the infringer's employees concerning them. The court said that the infringer obviously saw the potentially damaging nature of these invoices for it had responded by eliciting testimony suggesting that the dates on the invoices were billing dates rather than dates of delivery. The appellate court, however, observed that the trial court made no findings as to the sales. The court pointed out that with respect to any sales referred to in these invoices that the infringer could not establish as having been made prior to the preliminary injunction, the total amount of the revenues received by the infringer from the sales should be awarded to the copyright owner.

In an action to recover for infringement of a copyright in the work, "Peter Pan," the court held, in *National Broadcasting Co. v Sonneborn* (1985, DC Conn) 630 F Supp 524, 231 USPQ 513 (1976 Act), that the copyright owner was entitled to actual damages pursuant to 17 USCS § 504(a) and (b), and that its actual damages were \$2,118, representing the infringer's gross revenues from the sale of 40 VHS format tapes at \$52.95 per tape. The court explained that the infringer testified that he sold 30

to 40 videotape copies of the program at the price of \$49.95 for Beta-format videotapes and \$52.95 for VHS-format videotapes, that the infringer was unable to allocate the sales to their respective formats, and that he presented no evidence of his costs. The court pointed out that § 504(b) clearly required him to shoulder the burden of proving his costs once the copyright owner showed his gross sales. The court accordingly entered a judgment awarding \$2,118 in damages, and additional relief on other claims.

E. Other or Unspecified Measures

§ 29. Contract

The court in the following federal statutory copyright infringement action ruled that the copyright owner was not entitled to actual damages based essentially on a contractual measure of damages.

Thus, in an action to recover for infringement of a copyright in a magazine treating the history of prominent black people in a comic book format, the court held, in *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1986, CA2 NY) 807 F2d 1110, 1 USPQ2d 1261 (1976 Act), on remand *Fitzgerald Pub. Co. v Baylor Pub. Co.* (ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (§ 38[b]), that the trial court clearly

erred in awarding actual damages based essentially on a contractual measure of damages, that is to say, in a way that purportedly placed the copyright owner in as good a position as it would have been had the co-infringer publisher performed its contract with the copyright owner.³¹ The court pointed out that although the copyright statute itself does not define what constitutes actual damages, the primary measure of recovery is the extent to which the market value of the copyrighted work at the time of the infringement has been injured or destroyed by the infringement. The court said that failure to apply this measure in weighing actual damages requires reversal. The court pointed out that because the proper measure of damages is often difficult to ascertain, indirect evidence may be used to fix the amount of the damages. One example, observed the court, is the profits which the copyright owner might have earned were it not for the defendant's infringement. Additionally, the court noted that the copyright owner is competent to testify as to the extent to which the copyright's value has been injured or destroyed by the infringer's actions. The court also pointed out that in remanding for a reconsideration of the actual damages, it recognized that the magistrate declined to receive into evidence the copyright owner's past sales and its

31. For a federal statutory copyright infringement action on appeal from the Second Circuit in which the United States Supreme Court upheld an actual damages award that was based essentially on a contractual measure of damages, although couched in terms of lost licensing fees, see *Harper & Row, Pub-*

lishers, Inc. v Nation Enterprises (1985) 471 US 539, 85 L Ed 2d 588, 105 S Ct 2218, 11 Media L R 1969, 225 USPQ 1073 (1976 Act; actual damages measured by portion of contract with noninfringing publisher that was unpaid due to infringement by defendant publisher) (§ 11).

marketing strategy because it believed that this evidence was insufficient proof of damages to support the copyright owner's breach of contract claim against the co-infringer publisher. Also noting that the trial court did not find on the copyright claim that the co-infringer publisher made a profit, the appellate court said that it was not clear from the magistrate's report how recently the sales of the copyrighted publication that the copyright owner cited had been made. Therefore, the court directed that on remand the copyright owner should not be limited to adducing evidence of past sales, and instead could present any relevant evidence bearing on the question of how much the value of the copyrights had been injured in order to prove its damages. The court reversed and remanded for a re-determination of actual damages and other claims.

§ 30. Value of infringer's use of copyright

[a] Supported or supportable

In the following federal statutory copyright infringement actions, the courts explicitly or impliedly held that the copyright owner was entitled to actual damages measured by the value of the use of the copyright by the copyright infringer, or that an award of actual

damages measured by the value of use approach was supportable.³²

In an action to recover for infringement of copyrighted photographic slides, the court held, in *Vane v Fair, Inc.* (1987, ED Tex) 676 F Supp 133, 4 USPQ2d 1333 (1976 Act), affd on other grounds *Estate of Vane v Fair, Inc.* (CA5 Tex) 849 F2d 186, 7 USPQ2d 1479 (§ 36[c]), reh den (CA5) 1988 US App LEXIS 18019 and cert den 488 US 1008, 102 L Ed 2d 783, 109 S Ct 792, that the copyright owner was entitled to recover from the infringer \$60,000 actual damages, an amount representing the value of the use of the copyrighted slides by the infringer. The court determined that the value of the slides taken by the copyright owner photographer and used by the infringer in television advertising commercials without the permission of the copyright owner, in addition to the value of such slides for their use in advertising mailers totaled \$60,000. The court entered a judgment awarding actual damages, and rendering additional relief on other claims.

Vacating a judgment that a copyright owner suffered no actual damages as a result of an infringement of its copyright in a data-processing tasks list used in teaching programmers data-processing and other computer related skills, the

³². See also *Business Trends Analysts, Inc. v Freedonia Group, Inc.* (1989, CA2 NY) 887 F2d 399, 12 USPQ2d 1457 (1976 Act), an action to recover for infringement of a copyrighted robotics-industry study, in which the court stated that there was no legal barrier to an award of actual damages based on the "value of use"

approach pursuant to 17 USCS § 504(b), so long as the amount of the award is based on a factual basis rather than on undue speculation. The court, however, held that the evidence in the present case did not support an award of actual damages measured by the "value of use" of the copyright by the infringer.

court held, in *Deltak, Inc. v Advanced Systems, Inc.* (1985, CA7 Ill) 767 F2d 357, 226 USPQ 919 (1976 Act), that it would apply the "value of use" measure of actual damages. The appellate court noted that the trial court accepted value of use as a permissible basis for estimating actual damages, and that the copyright infringer on appeal concurred. Further noting that actual damages are not defined either in the federal copyright statute or in the accompanying legislative reports, the court stated that damages calculated on the value of use method should not vary with the number of copies that the copyright infringer produced, at least where that number differed from the number of copies used by the infringer. For example, the court explained that in the present case the infringer ran off 50 copies of the copyrighted list, but distributed only 15 to customers of the copyright owner; presumably, if the infringer had run off 2,000 copies and kept all but the distributed 15 copies in a locked warehouse, then the copyright owner could claim \$10 million dollars even though the effect would be no different from the actual infringement before the court. Therefore, although concluding that this was a sufficiently absurd conclusion of the copyright owner's assertion that the infringer profited by the value of use of all 50 copies, the court pointed out that it did not preclude consideration of the value to the infringer of the 15 copies that it distributed to customers. The court said that the primary value of the data-processing tasks lists when in the hands of customers was to increase sales by the copyright in-

fringer to the customers by way of inducing them to switch their purchases from the copyright owner to the copyright infringer. However, the appellate court indicated that the trial court had found that there was insufficient evidence on which it could base a finding that any of the infringer's sales during the infringement period were due to the infringing copies. Since the copyright owner did not appeal this finding, the court ruled that it was constrained to hold that the value of use to the copyright owner of the 15 distributed infringing copies was, in this primary sense, zero. However, the court declared that the value of use of a marketing tool such as the data-processing tasks list is not identical to the profits that it generates, since marketing and advertising campaigns are not all successful and even unsuccessful campaigns cost money to undertake. The court ruled that the value of use of an infringing product amounts to a determination of what a willing buyer would have been reasonably required to pay to a willing seller for the copyright owner's work. The court noted that it was presumably rare for the costs of an advertising campaign to vary, after the fact, in proportion to its success, and that here the distributed copies were essential components of the unsuccessful campaign undertaken by the copyright infringer. The court pointed out that if the infringer had wanted to undertake its campaign legally, it could have purchased copies of the copyright owner's task list; each of the copies that the infringer distributed had a value of use to it equal to the acquisition cost saved by infringe-

ment instead of purchase, which the infringer was then free to put to other uses. The appellate court observed that application of the value of use measure of damages, even when based on saved acquisition cost, did not require it to hold the trial court's finding—that the owner did not lose any sales to the infringer—to be clearly erroneous, since this finding was based on actual savings, not on counterfactual lost sales. Although noting that the infringer clearly received the value of use of the 15 copies it had distributed, and that the alleged value of use of each of these copies was \$5,000 (the list price of the kit containing the list), the court held that the value of use approach required a determination of the fair market value of the infringed document, and that while list price was some evidence of fair market value, it was not conclusive. Rejecting the owner's argument that by the trial court's accepting \$4,925 as a reasonable estimate of the owner's profit per kit, and by the trial court's not quarreling with \$5,000 as the price of the kit, the trial court made a finding of fact that the value of use of each kit was \$5,000, the appellate court explained that the trial court's remarks came at the beginning of its rejection of the lost sales measure of damages. The appellate court pointed out that since the trial court was convinced that there had been no lost sales, it did not have to consider what any lost sales were worth. The appellate court ruled that the trial court's acceptance that the value of use of each infringing educational kit was \$5,000 was not a finding of fair market value for purposes of determin-

ing the copyright owner's actual damages. It explained that the trial court did not apply the saved acquisition cost measure of value of use, and therefore it had no need to distinguish between list price and average sales price or fair market value. Concluding that the value of use approach required a determination of the fair market value of the infringed document, the appellate court vacated the trial court's judgment and remanded for further proceedings on the issue of the fair market value of the 15 data-processing tasks lists.

In an architectural firm's action against both the owner and the contractor of multiunit apartment-complex projects for infringement of the plaintiff firm's architectural plans for apartment complexes, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), that the copyright owner was entitled to the fair market value of its architectural plans (originally created for a first project for the defendants) as revised for use in constructing a second real-estate project. Although noting that generally there was no ready market for apartment-complex architectural plans, the court pointed out that one potential market for the architectural plans from the first project did exist, namely the infringing contractor. The court reasoned therefore that the amount this contractor would reasonably have paid to the copyright owner and the copyright owner would reasonably have expected to receive for the revision and use of the original plans in conjunction with the second project was the fair market

value of those plans at the time of the contractor's infringement. The contractor had paid the copyright owner \$13,440.93 for the copyright owner's services in preparing the architectural plans for use in the construction of the first project. The court noted that this charge was based on an hourly rate for each of the copyright owner's employees; however, by a letter dated November 24, 1978, the copyright owner notified the contractor and the infringing real-estate owner that as of December 1, 1978, payment on any project would be based on a firm percentage rate. In accordance with this notification, by a letter dated March 28, 1980, the copyright owner billed \$35,973 for "services rendered in connection with apartments at [the second project]" based on an estimated construction cost of \$479,643 and a 7.5-percent fee. The president of the copyright owner firm testified that a 7.5-percent fee was selected because that was the percentage fee utilized by the copyright owner in connection with similar projects. However in each of the exemplary contracts introduced by the copyright owner, the architectural services to be provided by the copyright owner for a 7.5-percent fee entailed not only preparation of design drawings and specifications but also supervision of the contract bidding, supervision of construction, and payment of the contractor. The court pointed out that these latter activities were not performed by the copyright owner in connection with the first project and would not have been required in connection with the second project, because the copyright owner had been engaged by both the

infringing real-estate owner and contractor. Furthermore, the court pointed out that with respect to the second project the copyright owner would not have been required to develop the plans from the schematic design stage through the construction design stage, but would only have had to revise the final working drawings it had already prepared. The court found, therefore, that a 7.5-percent fee was inappropriate as a measure of the value of use of the copyright owner's plans. The copyright owner's expert witness estimated the fair market value of the architectural services reflected in the second project plans to be in the range of \$23,750 to \$37,500 based on a 4.75- to 7.5-percent fee. However, on cross examination this witness admitted that he was unaware, in making his estimation, that the contractor had paid only \$13,440 for the preparation of the original set of plans; he stated that architects sometimes worked on an hourly, rather than a percentage, basis, and that the manner of computing fees on an hourly basis varied a great deal. The court stated that even utilizing this witness' lowest estimated percentage base, the value of the second project plans was almost twice what the contractor had paid for the design and use of the plans for the first project. The court declared that it was inconceivable that the contractor would have been willing to pay or that the copyright owner would reasonably have expected to be paid \$23,750 for the revision and use of plans for which the defendant contractor had originally paid only \$13,440 to have developed from scratch. The court further

noted that by preparing the original design plans for a price of \$13,440 the copyright owner itself set the value of those plans. Accordingly, the court determined that \$13,440.93 was the highest reasonable value which could be assigned to the plans for the second project or their use. The court noted that it was conceivable that if the contractor had had the opportunity to negotiate with the copyright owner concerning the amount to be paid for the revision and use of the plans from the first project the contractor may have paid less than the amount it paid for the design and use of the plans for the first project. The court, however, pointed out that a copyright infringer cannot expect to pay the same price in damages as it might have paid after freely negotiated bargaining, or there would be no reason to obey the copyright law scrupulously. The court also held that in determining the actual damages suffered by the copyright owner as a result of the infringement of its copyright there had to be a deduction from the gross amount the copyright owner would have realized if the contractor infringer had paid for use of the plans whatever costs the copyright owner would have incurred in revising those plans. The copyright owner's president testified that it would have taken two to three eight man-hour days per sheet to trace the plans of the first project to produce the plans of the second project, and that the plaintiff firm would pay its employees from \$5 to \$15 an hour for this drafting work. Inasmuch as the plans of the first project consisted of 18 sheets, and allowing 2.5 8 man-hour days

per sheet at an average hourly rate of \$10, the court determined that it would have cost the copyright owner \$3,600 to reproduce the plans from the first project. Deducting this figure from \$13,440.93, the court concluded that the actual damages sustained by the copyright owner amounted to \$9,840.93. The court accordingly entered a judgment finding the infringers jointly and severally liable for the actual damages, and rendered further relief on other claims.

In an action for alleged infringement of the plaintiffs' copyrighted children's television show, "H.R. Pufnstuf," by the production of the defendants' McDonaldland television commercials, the court in *Sid & Marty Krofft Television Productions, Inc. v McDonald's Corp.* (1977, CA9 Cal) 562 F2d 1157, 196 USPQ 97 (1909 Act), approved, in theory, an award of actual damages measured by a value of use approach. The court noted that a court in making an award for federal statutory copyright infringement must determine both actual damages suffered by a copyright owner and profits from the infringement made by the infringer. The court determined that based on the record the issue of profits was neither submitted to nor considered by the jury, and that the infringers' profits were thus not ascertained at trial. The infringers claimed that the value of use provided in a jury instruction was equivalent to the infringers' profits from the infringement. The pertinent jury instruction provided, "in arriving at any such damages [for copyright infringement], you may take into consideration the

reasonable value, if any, of plaintiffs' work including the publication and republication rights therein, and the value, if any, to defendants of the use of plaintiffs' works." The court noted that the value of use reference in this instruction was defined as a part of the reasonable value of the plaintiffs' work, and that it amounted to a determination of what a willing buyer would have been reasonably required to pay to a willing seller for the plaintiffs' work. The court said that this was a different measure than the determination of the infringers' actual profits from the infringement; it explained, for example, that an author might license the use of his copyright either for a lump-sum based on the reasonable value of the work or for a royalty derived from the licensee's profits, or for a combination of both. The appellate court declared that it agreed with the trial court's conclusion that there was a difference between profits and value of use. At trial the jury assessed \$50,000 damages based on the value of use approach. The appellate court affirmed in part that part of the judgment finding infringement, reversed in part the trial court's denial of the plaintiffs' motion for an accounting of profits, and remanded for an accounting. The appellate court said that the trial court's first task on remand would be to determine if possible the infringers' profits. The appellate court also said that if the infringers' profits were not ascertainable, then the copyright owners were entitled to the compensatory damages assessed by the jury, unless the trial court in its discretion were

to award statutory "in lieu" damages on remand.

In an action to recover for infringement of a copyright in a popular rhythm and blues composition, "Theme From Shaft," the court held, in *Cream Records, Inc. v Jos. Schlitz Brewing Co.* (1985, CA9 Cal) 754 F2d 826, 225 USPQ 896 (1976 Act) (§ 24[a]), later app on other grounds (CA9 Cal) 864 F2d 668, 9 USPQ2d 1568, that where the unauthorized use of the Shaft theme music in the infringer's beer commercial ended the copyright owner's opportunity to license the music for this purpose, the copyright owner was entitled to recover as damages the entire value of a license for use of the entire song for 1 year.

In an action to recover for infringement of copyrights in works, "Day Runner and Running Mate," which prescribed a system for organizing daily life, the court in *Harper House, Inc. v Thomas Nelson Publishers, Inc.* (1987, CD Cal) 4 USPQ2d 1897 (1976 Act), upheld a jury verdict award of actual damages measured by a "value of use" or license fee. Rejecting the defense argument that the jury's award of damages as measured by "value of use" was impermissible, the court reasoned that (1) the jury was carefully instructed at all stages of computing damage awards not to count sums that were already taken into account in previous calculations; (2) the infringers failed to argue to the jury that a reasonable use damage award should be deducted as a direct expense from the jury's calculation of profits; and (3) the infringers also failed to show conclusively that a double-recovery re-

sulted from the jury's award of a reasonable use royalty. Pointing out that the primary measure of recovery of actual damages is based on the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement, the court said that a trial court is entitled to reject a proffered measure of damages in a copyright action if it is too speculative. The court, however, noted that uncertainty as to the amount of damages will not preclude recovery; only uncertainty as to the fact of damages may preclude recovery. Additionally, the court explained that the entire concept of a reasonable use royalty fee is fictional. Since no such fee actually was paid in the present case, the court said the infringers requested a deduction for an expense that they never incurred. The court pointed out that while it was true that the infringers were now forced to bear that expense, it was not clear that if the infringers had paid a reasonable use royalty to the copyright owner in the first place they would have incurred the same direct costs that they were allowed already to deduct from their profits. The court said that it was likely that some costs which had already been deducted, for example, design and creation expenditures, would have been foregone if the infringers had actually obtained a license to use the copyright owner's materials. Moreover, the court said that there was nothing inconsistent with the concept of a reasonable use award and the proscription of the federal copyright statute against double recovery of profits and damages measuring the same harm to a plaintiff. The court

explained that a reasonable use royalty fee attempts to measure the harm to a plaintiff from the reduced value of his copyright occasioned by an infringing defendant's use; it is not used as a proxy for measuring a defendant's ill-gotten profits. The court pointed out that the value of use amounts to a determination of what a willing buyer would have been reasonably required to pay to a willing seller for the copyright owner's work, and that that is a different measure than the determination of the infringers' actual profits from the infringement. Additionally regarding value of use, the court said that the copyright owner presented sufficient evidence of what a reasonable royalty or value of use might have been in the present case. The court explained that the copyright owner suggested that a license fee of 15 percent of the infringers' wholesale sales would have been a fair price, and that the jury had an opportunity to consider this testimony and any contrary evidence or inferences which the infringers were able to provide. The court accordingly entered a judgment awarding the copyright owner \$6,037,807 actual damages for copyright infringement and additional relief on other claims.

[b] Not supported

The court in the following federal statutory copyright infringement action held that the evidence did not support an award to the copyright owner of actual damages measured by the value of the use of the copyright by the copyright infringer.

In an action to recover for infringement of a copyrighted robot-

ics-industry study, the court held, in *Business Trends Analysts, Inc. v Freedonia Group, Inc.* (1989, CA2 NY) 887 F2d 399, 12 USPO2d 1457 (1976 Act), that the evidence did not support an award of actual damages measured by the "value of use" of the copyright by the infringer. The trial court had found, noted the appellate court, that the infringer received profits in the form of a market advantage or value of use from the goodwill established by using the robotics study (which it discounted) as a means of familiarizing potential customers with the infringer's products. The appellate court stated that there was no legal barrier to an award of actual damages based on the value of use approach pursuant to 17 USCS § 504(b), so long as the amount of the award is based on a factual basis rather than on undue speculation. The court said that it was unpersuaded that the difficulty in proving the value received from an infringing product used to enhance commercial reputation was so universal that an award for such gains could never be made as a matter of law. Although noting that some gain in market recognition was conceded by the infringer's president, the court said that such gain could not be attributed to the robotics study alone because other noninfringing studies were discounted as part of the same market strategy by the infringer. Moreover, the appellate court noted that the trial court had found that the infringing study had not affected sales of the copyrighted study, even though the infringing study had been distributed at a price that was only 10 percent of the price of the copyrighted study. The appellate court rejected the trial court's holding that the

value of enhanced market recognition could be quantified as "the difference between the prevailing market price of the study, \$1,500, and the actual sales price of \$150," multiplied by the number of copies sold by the infringer. The court explained that there was no reason to believe that the infringer would have sold, at a price of \$1,500, the same number of robotics studies as it sold at the cut-rate price of \$150. Noting that the evidence was overwhelmingly to the contrary, the court pointed out that the infringing study was not selling at all, and that continuing to offer it at \$1,500 was a profitless gesture. Moreover, the court observed that the discounted price of \$150 was not arrived at by calculating present losses on discounted sales against hoped-for future profits. Rather, the court observed that the price of \$150 was a nominal price designed solely to insure that purchasers were seriously interested in industry studies and were thus potential customers. The court accordingly vacated an award of actual damages measured by the value of use approach, and affirmed in part on other grounds a judgment also awarding infringer's profits.

§ 31. Unspecified measures

The court in the following federal statutory copyright infringement action held that the copyright owner was entitled to actual damages, but did not specify how these damages were measured.

Granting a copyrighted map owner's motion for a summary judgment finding infringement of the copyright, the court in *Champion Map Corp. v Twin Printing Co.* (1971, ED NC) 350 F Supp

1332, 175 USPQ 185 (1909 Act), ruled without discussion that the copyright owner was entitled to \$1,500 for actual damages and additional relief on other claims.

IV. Particular Determinations of Amount of Copyright Infringer's Profits

A. Gross Profits³³

§ 32. "House" advertising space

In the following federal statutory

33. See *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act) (§ 38[b]), *affd* without op (CA2 NY) 862 F2d 304, an action to recover for infringement of a copyright in a magazine series treating the history of prominent black people in a comic book format, in which the court on remand declined to increase an award of what was apparently infringer's profits as profits (rather than as a measure of actual damages) due to a failure to show the infringer's gross revenue. Nevertheless, the court held that it could not increase "[the copyright owner's] actual damages due to [a co-infringer publisher's] profit" on certain sales. Noting that the copyright owner only proved that 3000 sets of infringing magazines had been sold for this co-infringer by a nonparty witness, the court expounded that the copyright owner failed to show that this co-infringer sold all the infringing magazine copies delivered to it by a co-infringer printer, and the copyright owner presented no proof of gross revenue for these 3,000 sets.

Additionally, see *Gaste v Kaiserman* (1988, SD NY) 683 F Supp 63, 7 USPQ2d 1332 (1976 Act), *affd* on other grounds (CA2 NY) 863 F2d 1061, 9 USPQ2d 1300, an action to recover for infringement of the copyrighted musical composition "Pour Toi," by the infringer's song "Feel-

ings," in which the court granted the infringer's motion to amend a judgment by eliminating from the award of actual damages all income earned by foreign performances on radio and television of recorded versions of "Feelings." Although noting that royalties from foreign performances are recoverable when the infringement in the United States permits further exploitation abroad, the court pointed out that the copyright owners presented no evidence at trial indicating that the foreign performances resulted from the reproduction of recordings originally made in the United States or any other recorded versions. Further noting that it was clearly the copyright owner's burden to show that the foreign performances resulted in a violation of the United States copyright, the court concluded that the jury award had to be reduced by whatever amount was awarded for foreign performances, since the copyright owner failed to adduce any evidence to support that contention.

In an action to recover for infringement of a copyrighted series of nude photographs of a Congressman's secretary, the court in *Blackman v Hustler Magazine, Inc.*

ings," in which the court granted the infringer's motion to amend a judgment by eliminating from the award of actual damages all income earned by foreign performances on radio and television of recorded versions of "Feelings." Although noting that royalties from foreign performances are recoverable when the infringement in the United States permits further exploitation abroad, the court pointed out that the copyright owners presented no evidence at trial indicating that the foreign performances resulted from the reproduction of recordings originally made in the United States or any other recorded versions. Further noting that it was clearly the copyright owner's burden to show that the foreign performances resulted in a violation of the United States copyright, the court concluded that the jury award had to be reduced by whatever amount was awarded for foreign performances, since the copyright owner failed to adduce any evidence to support that contention.

See also *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, in which the court held that the copyright owner's method of computing the infringer's profits was deficient, since although the item was labeled "gross profits," the item was actually sales revenue minus cost of goods sold.

(1985, DC Dist Col) 620 F Supp 792, 228 USPQ 170 (1976 Act), affd in part on other grounds and revd in part on other grounds 255 App DC 135, 800 F2d 1160, 231 USPQ 51, rejected the copyright owner's contention that whether payments for house advertising space (the infringer's own advertising space) were actually passed between the various defendant enterprises the value of house advertising space should be accounted for in the present action at the same rate as space that was actually sold to outside advertisers. The parties stipulated to all elements of revenues generated by the infringing July 1979 magazine issue (one of three infringing issues) except advertising revenues. The court approved the infringer's response that house advertisements produced no revenue for the infringer, and that the magazine's inability to sell (and outside advertisers' unwillingness to pay for) house advertising space indicated that it was valueless as a revenue source. The court concluded that the infringer's argument was more persuasive

than the copyright owner's argument, and that the infringer had therefore properly included in its accounting of advertising revenues only those moneys actually paid into the infringer's coffers by purchasers of advertising space in the magazine.

§ 33. Indirect profits

The court in the following federal statutory copyright infringement action held that under the 1909 Act indirect profits may be recovered if ascertained, and that under the circumstances some portion of the infringer's indirect profits had to be included in the infringer's gross profits.³⁴

In an action for infringement of copyrights in musical scores written for the play, "Kismet," the appellate court held that the trial court erred by not including in the infringers' gross profits some portion of the infringers' earnings on its hotel and gaming operations, in *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687

34. But see *Estate of Vane v Fair, Inc.* (1988, CA5 Tex) 849 F2d 186, 7 USPQ2d 1479 (1976 Act), reh den *Estate of Vane v Fair, Inc.* (CA5) 1988 US App LEXIS 18019 and cert den *Estate of Vane v Fair, Inc.* 488 US 1008, 102 L Ed 2d 783, 109 S Ct 792, an action to recover for infringement of copyrighted photographic slides, in which the appellate court held that there was ample basis for the trial court to conclude that expert testimony introduced by the copyright owner was inadequate to establish the infringer's profits. The trial court ruled that the copyright owner did not sufficiently prove the infringer's gross reve-

nue attributable to the infringement, and that therefore the infringer was consequently relieved of proving its deductible expenses and the elements of its profit attributable to factors other than the copyrighted works. However, affirming a judgment which in part denied an award of infringer's profits, the appellate court explained that the copyright owner's expert testimony yielded only a lump-sum figure for profits attributable to the television commercials which contained the copyrighted slides as a whole without accounting for the fact that the infringed material constituted only a fraction of any given commercial.

(1909 Act), later app (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412,³⁵ cert den (US) 108 L Ed 2d 496, 110 S Ct 1321. Noting that whether a copyright proprietor may recover "indirect profits" was an issue never before decided in the Ninth Circuit, the court concluded that under the 1909 Act indirect profits may be recovered. The appellate court observed that the trial court received evidence concerning the infringers' total net profit during the relevant time period, totaling \$395 million, but that its memorandum decision did not mention these indirect profits and computed recovery based solely on the revenues and profits earned on the infringing production of "Hallelujah Hollywood," approximately \$24 million and \$2.5 million respectively. The appellate court surmised from this that the trial court determined the copyright owners were not entitled to recover indirect profits, but that there was no hint as to the trial court's reasons. Pointing out that the 1909 Act provides that a copyright owner is entitled to "all the profits which the infringer shall have made from such infringement," the court declared that the language of the statute is broad enough to permit recovery of indirect profits as well as direct profits. The court said that the infringers' "Hallelujah Hollywood" had promotional value. Although the infringers maintained that they endeavored to

earn profits on all their operations and that "Hallelujah Hollywood" was a profit center, the court held that these facts did not detract from the promotional purposes of the show—to attract people to the infringers' hotel and gaming tables. The court observed that the infringers' 1976 annual report stated that the hotel and gaming operations of the MGM Grand Las Vegas continued to be materially enhanced by the popularity of the hotel's entertainment, including "Hallelujah Hollywood." Given the promotional nature of the show, the court concluded that indirect profits from the infringers' hotel and gaming operations, as well as direct profits from the infringing show itself, were recoverable if ascertainable. The court affirmed in part a judgment finding infringement and also finding that the copyright owner failed to prove actual damages, vacated that part of the judgment awarding infringers' profits derived from the infringement, rendered additional relief on other claims, and remanded.

§ 34. Interest on purchase price

In the following federal statutory copyright infringement action, the court ruled that certain interest payments to be paid in conjunction with the purchase price of an infringing real-estate project were not includible in the revenues com-

35. In this later appeal following remand, the court in *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1989, CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412 (1909 Act), upheld as not clearly erroneous the trial court's conclusion that 2 percent of the in-

fringer's indirect profits was attributable to the infringing performance of "Hallelujah Hollywood," in light of the general promotion and the wide variety of attractions available at the infringer's hotel.

prising the infringer's gross revenues from the infringement.

In an architectural firm's action for copyright infringement against a developer and the construction company he employed to build an infringing multiunit apartment complex, the court in *Aitken, Hazen, Hoffman, Miller, P.C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), rejected the copyright owner's contention that the co-infringer developer's total gross revenue from the sale of the infringing project included both the total purchase price of \$587,250, and also the interest in the amount of \$1,195,264 to be paid by the purchaser on \$391,500 of the purchase price—a total asserted profit of \$1,782,414. The court explained that the interest payments paid by the purchaser would not inure to the benefit of the developer, because both the principal and interest payments owing from the purchaser would be paid—pursuant to the parties' real-estate contract—to a savings and loan association as monthly installments on the developer's mortgage indebtedness of \$391,000 plus interest incurred in connection with the infringing project. The court determined that the developer did not need to recognize the interest paid by the purchaser as revenue, since the developer did not take an expense deduction for the interest accruing on his own borrowing of working capital as a direct cost of the project. Therefore, the court concluded that the total profit realized by the developer on the infringing

project was \$587,250. The court awarded actual damages, the co-infringer construction company's profits, and additional relief on other claims.

B. Apportionment of Profits³⁶

§ 35. Where profit-apportionment formula was offered by infringer

[a] Apportioned profits awarded— infringer's formula used for apportionment

In the following federal statutory copyright infringement action in which a profit-apportionment formula was offered by the infringer, the court awarded the copyright owner the copyright infringer's profits apportioned pursuant to the infringer's profit-apportionment formula.

In *Malsed v Marshall Field & Co.* (1951, DC Wash) 96 F Supp 372, 88 USPQ 552 (1909 Act), an action for infringement of a copyright in a label known as "Round the Table" used on candy boxes, the court held that the infringer's profit which amounted at most to \$100 was shown with as much precision as was possible, whether computed on the basis of the actual amount earned per box, or as computed by the infringer's expert accountant on the basis of cost accounting and the revenues and profits of the department in which the candy had been sold in relation to the profits of the entire store. The parties stipulated to the exact number of labels used by the copyright infringer after the expiration of a

³⁶ For cases in which the courts discussed apportionment formulas for

particular claimed business expenses, see §§ 39-71.

license held by the infringer, and to the price which had been added to each candy box when the label had been used by the infringer. The court noted that in giving the copyright owner the benefit of all this profit she was getting all that she was entitled to, namely all the detriment she had suffered by the infringement. The court accordingly entered a judgment awarding the copyright owner the infringer's profits from the use of the copyrighted material totaling \$100, and additional relief on other claims.

[b] —Court's or master's formula used for apportionment

The courts in the following federal statutory copyright infringement actions in which a profit-apportionment formula was offered or apparently offered by the infringer awarded the copyright owner the copyright infringer's profits that were apportioned pursuant to or apparently pursuant to the court's or a master's profit-apportionment formula or upheld such an award.

In an action to recover for infringement of a copyright in a play, "Dishonored Lady," by an infringing motion picture, "Letty Lynton," the court held, in *Sheldon v Metro-Goldwyn Pictures Corp.* (1940) 309 US 390, 84 L Ed 825, 60 S Ct 681, 44 USPQ 607 (1909 Act),³⁷ that the fact that an in-

fringer of copyrighted material has been found guilty of deliberate plagiarism does not affect his right to have the profits apportioned where not all of the profits are due to the use of the copyrighted material. The court noted that the infringers voluntarily assumed the burden of apportionment at trial, and that the witnesses were in complete agreement that the portion of profits attributable to the use of the copyrighted play under the circumstances was small. The witnesses' estimates in percentages of receipts ranged from 5 to 12 percent, and the estimate apparently most favored was 10 percent as the limit. Noting, however, that the trial court was unwilling to accept the experts' testimony "at its face value," and that the trial court felt it had to make an award "which by no possibility shall be too small," the Supreme Court upheld the trial court's award of 20 percent of the infringers' net profits. The Supreme Court expounded that this 20-percent net-profit allowance for the contribution of the copyrighted play served the trial court's objective of giving the copyright owners the benefit of every doubt. The Supreme Court stated that the trial court was entitled to avail itself of the experience of those best qualified to form a judgment in the particular field of inquiry and come to its conclusion aided by their testimony, especially when con-

37. The "principle of apportionment" that was announced by the Court of Appeals and upheld by the Supreme Court in this case was distinguished in *Orgel v Clark Boardman Co.* (1962, CA2 NY) 301 F2d 119, 133 USPQ 94, 2 ALR3d 1203 (§ 36[a]). The attention of the reader is also

directed to *Sheldon v Moredall Realty Corp.* (1939, DC NY) 29 F Supp 729, 43 USPQ 81, *infra*, a related case involving the same play in which the court applied the standard of apportionment upheld by the Supreme Court in the *Metro-Goldwyn* case.

fronted with the manifest injustice of giving to the copyright owners all the profits made by the infringing motion picture. The court concluded that the 20-percent apportionment award was supported by evidence that (1) the infringing motion picture did not bare the title of the play and was not presented or advertised as having any connection whatever with the play; (2) the profits from the motion picture were shown to have been due in large part to the popularity of the motion-picture stars employed in the picture and to other factors, such as the artistic conceptions and expert direction involved in the various processes necessary to produce the picture; and (3) the uniform opinion of the expert witnesses that only a small portion of the profits were attributable to the use of the copyrighted material. Noting that the purpose of the federal copyright statute is to provide just compensation for the wrong, and not to impose a penalty by giving to the copyright owner profits not attributable to the infringement, the court affirmed a judgment awarding the copyright owner a 20-percent apportioned share of the net profits from the infringing motion picture.

In an action to recover for infringement of copyrights in an opera and two compositions originally contained in the opera, the court ruled, in *Lottie Joplin Thomas Trust v Crown Publishers, Inc.* (1978, CA2 NY) 592 F2d 651, 199 USPQ 449 (1909 Act), that the trial court properly apportioned profits and awarded the copyright owner 50 percent of the profits of the infringing five-record set as being attributable to the use of the

copyrights. The court explained that (1) copyright infringers have the burden of proving what portion of their total profits resulted from the noninfringing records; (2) placing the apportionment burden on copyright infringers best comports with judicial precedent admonishing that in apportioning profits every indulgence should be granted to the copyright owner in an attempt to arrive at an adequate sum; (3) the revised copyright law now provides in 17 USCS § 504(b) that infringers are required to prove the elements of profit attributable to factors other than the copyrighted work; and (4) placing the apportionment burden on infringers is sensible since all information regarding profits is in most cases exclusively in the possession of the infringer. The appellate court ruled that the trial court properly rejected the infringers' assertion that since the copyrighted opera filled one side of the infringing five-record set the copyright owners were entitled to only 10 percent of the profits. Pointing out that the inclusion of the compositions in question made the infringers' record set the only complete set of Scott Joplin's works, and that it was advertised as such, the court held that the award of 50 percent of the profits from the complete set was not unreasonable absent evidence by the infringers to dispute the contributions of the copyrighted compositions to the marketability of the album. The court affirmed a judgment awarding infringers' profits plus statutory "in lieu" damages, and further relief on other claims.

In an action to recover for the

infringement of a copyright in a play, "Dishonored Lady," against the theater owner who exhibited the infringing motion picture, "Letty Lynton," the court held, in *Sheldon v Moredall Realty Corp.* (1939, DC NY) 29 F Supp 729, 43 USPQ 81 (1909 Act), that where a Federal Court of Appeals, in a separate copyright infringement action by the present copyright owners against motion-picture producers and distributors,³⁸ had fixed a standard of apportionment of 20 percent of the profits of the infringing motion picture to the copyright owner, that standard would be applied in the present case against the infringing motion-picture exhibitor. The court also held that the apportionment of profits realized by the exhibitor from the exhibition of the infringing motion picture could not be based on the cost of the infringing picture compared with the cost of the entire performance. The court ruled to be unreasonable a method—apparently offered by the exhibitor—for calculating the profits for which the exhibitor was liable to the copyright owner, whereby all the expenses of the exhibitor's theater during the 2 weeks in which the motion picture had been shown would be deducted from the gross receipts, and then the resulting net profits would be divided according to the percentage that the infringing motion picture contributed to the profits as opposed to the percentage that other attractions contributed to the profits. The court explained that this method was un-

reasonable since the effect of it would be to charge the profits earned by the picture, not only with its own cost but also with part of the cost of the other attractions of the program. The court held that the federal income taxes that had been held chargeable against gross receipts should have been apportioned after the net profits of the infringing motion picture and the net profits of the other attractions of the program had been determined. The court also ruled that other particular actual costs were properly charged separately to the infringing motion picture and to the balance of the program, after the general and fixed charges had been deducted from the gross receipts. The court accordingly entered a judgment for the copyright owner awarding it apportioned profits, and additional relief on other grounds.

In an action for infringement of a copyright relating to a package card on which siphon pumps were mounted for marketing display purposes, the court in *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act), awarded to the copyright owner the infringers' profits apportioned pursuant to the court's estimates of card profits and number of infringements. The court rejected the apportionment formulas offered by the copyright owner and by the copyright infringers, since the copyright owner's figures were too high and the infringers' figures were too low. The court said that although an

38. For discussion of this separate case on appeal to the Supreme Court, see *Sheldon v Metro-Goldwyn Pictures*

Corp. (1940) 309 US 390, 84 L Ed 825, 60 S Ct 681, 44 USPQ 607 (1909 Act), *supra*.

infringer has to account for the profits that it has derived from its egregious persistence in the use of infringing material, it clearly is only the profit on the infringing material that the copyright owner may recover. The court pointed out that the fact that infringers cannot separate out exactly the profits certainly apportionable to the copyright material does not mean that the entire sales value less costs, or even one half of it, goes over to the copyright owner where manifestly much—quite separate from the copyright material—has passed in the sales involved. The court assumed a 4.45 cents card profit gleaned from the various figures offered by the parties, including figures for average unit-sales value, total cost of sales, overall labor-costs percentages, and overhead costs. The court, however, stated that the whole profit of the card was not due to the infringing material. The court concluded that two-thirds of the computed card profit of 4.45 cents ascribed to the use of the infringing cards, or 3 cents, had to be ascribed to each infringement. In making this 3 cents per infringement finding, the court declared that all final uncertainties had to be resolved against the infringers, because of the infringers' responsibility for the confusion of values, the nature of these infringements, and the incompleteness of the infringers' accounting data evidence. The court also ruled that since the genuine uncertainties as to number of infringements that persisted arose out of the infringers' misconduct as both tortfeasor and then as party litigant, there was no fair ground for limiting the recovery to

the number of sales admitted and demonstrably established from the records the infringers produced. Finding that 400,000 infringing uses of cards was the nearest estimate that could be formed, allowing for substantial errors in reporting sales and a substantial overrun after the date on which noninfringing cards were available, the court ruled that the infringers had to account for this number of infringing uses. Concluding that the basic profits which the infringers made from the infringement through use of the display cards were therefore \$12,000, the court awarded these profits, certain other unapportioned profits, and statutory "in lieu" damages for an aggregate award of \$15,404.48 plus interest. The court also awarded additional relief on other claims.

In an action to recover for infringement of a copyrighted series of nude photographs of a Congressman's secretary, the court held, in *Blackman v Hustler Magazine, Inc.* (1986) 255 App DC 135, 800 F2d 1160, 231 USPQ 51 (1909 Act), that the trial court did not err in allocating as much as 60 percent of the profits from one infringing (September 1976) issue and 35 percent of the profits from the other infringing issue, "The Best of Hustler Number Two." Noting that not all of the profit from the infringing issues of the defendant's magazine were attributable to the infringing photographs, the appellate court found no merit to the infringer's argument that the trial court's allocation percentages were incorrect on the asserted basis that the infringing photographs comprised six pages of the 136-page September 1976 issue and of the

128-page "Best of Hustler Number Two" issue and that the photographs made up only a small percentage of the total pictorials in each issue. The appellate court explained that the trial court correctly noted that the relative number of photographs and pages involved had little bearing on the importance of the infringing feature or the profits it generated. Noting that the trial court found that the infringing photographs were the highlight of the September 1976 issue and a prominent part of the "Best of Hustler Number Two" issue, the appellate court concluded that there was no basis in the record for second-guessing the trial court on this fact-bound inquiry. The trial court apportionments, while well above the infringer's 15-percent per issue conservative estimates, fell far short of the 80-percent and 50-percent apportionments proposed by the copyright owner. The court affirmed in pertinent part the trial court's apportionment of profits, reversed on other grounds and remanded.

In an action to recover for infringement of a copyrighted series of nude photographs, the court held, in *Blackman v Hustler Magazine, Inc.* (1985, DC Dist Col) 620 F Supp 792, 228 USPQ 170 (1976 Act), *affd* in part on other grounds and *revd* in part on other grounds 255 App DC 135, 800 F2d 1160, 231 USPQ 51, *supra*, that where the copyright owner acknowledged that the infringing photographs comprised only a small portion of the infringing 1979 magazine issue and proposed a 5-percent apportionment figure, but the copyright infringer argued that half of that

(2.5 percent) was appropriate, the court ruled that in consideration of both parties' arguments and the fact that the newsworthiness of the infringing photographs had diminished considerably by 1979, a 3-percent apportionment figure was reasonable.

But see *Update Art, Inc. v Mo-diin Pub., Ltd.* (1988, CA2 NY) 843 F2d 67, 6 USPQ2d 1784, 10 FR Serv 3d 877 (apparently 1976 Act), later proceeding on other grounds (SD NY) 1989 US Dist LEXIS 10461, an action to recover for infringement of a copyrighted art work known as *Ronbo*, in which the court affirmed a summary judgment awarding damages for copyright infringement, which was apparently an award of the copyright owner's actual damages measured by its lost profits plus the infringers' profits. The court rejected the infringers' argument that there should be an apportionment of damages (actually profits), on the asserted basis that the infringing material comprised only one page of a newspaper, since the infringers conceded at oral argument that they did not raise this claim before the magistrate to whom the issue of damages was referred and it was therefore waived. The magistrate accepted the copyright owner's calculation of the infringers' gross income of \$475,406 from the infringement based on documentary evidence. The court held that the magistrate did not abuse her discretion in awarding to the copyright owner damages of \$475,406 plus interest, by adding to the copyright owner's lost profits of \$380,686 that portion of the infringers' income from the infringe-

ment that was not duplicative of the copyright owner's lost profits (\$94,720).

[c] —Jury's formula used for apportionment

In the following federal statutory copyright infringement action in which a profit-apportionment formula was offered by the infringer, the court upheld an award to the copyright owner of the copyright infringer's profits that were apportioned pursuant to the jury's profit-apportionment formula.

In an action to recover for infringement of the copyrighted musical composition "Pour Toi," by the infringing song "Feelings," the court in *Gaste v Kaiserman* (1988, CA2 NY) 863 F2d 1061, 9 USPQ2d 1300 (1976 Act), upheld a judgment awarding the infringer's profits apportioned according to the jury's formula for apportionment. There had been no dispute at the trial that the infringer wrote the lyrics to the infringing song "Feelings," and that those lyrics were noninfringing. The infringer had argued to the jury that as much as 80 percent of the income from the song should be attributed to the lyrics. Noting that the evidence on the value of the lyrics was decidedly mixed, the court found that there were no grounds to reject the jury's decision to apportion no more than 12 percent for the lyrics. Noting that this was not an area susceptible to precise measurement, the court observed that the jury had an opportunity to judge for itself the independent appeal of the lyrics and of the music. The court pointed out that the evidence of the varied success of the three songs with the same

music—"Feelings," "Pour Toi," and a third song (a French version of "Feelings") entitled "Dis Lui"—could reasonably have been interpreted as favoring either side. Given this mix of evidence, the court concluded that the jury's decision to rank the lyrics of the infringing song "Feelings" at the low end of the scale was not so unreasonable as to require reversal.

§ 36. Where profit-apportionment formula was not offered by infringer

[a] Apportioned profits awarded pursuant to court's formula for apportionment

In the following federal statutory copyright infringement actions in which the infringer did not or apparently did not offer a profit-apportionment formula, the courts awarded the copyright owner the copyright infringer's profits that were apportioned pursuant to or apparently pursuant to the court's or a master's apportionment formula or upheld such an award.

In an action to recover for infringement of a copyright in a lawbook regarding valuation of property in condemnation proceedings, the court held, in *Orgel v Clark Boardman Co.* (1962, CA2 NY) 301 F2d 119, 133 USPQ 94, 2 ALR3d 1203 (1909 Act), cert den 371 US 817, 9 L Ed 2d 58, 83 S Ct 31, 135 USPQ 502, that it was reasonable to allocate 50 percent of the profits to the infringing material even though the infringing material comprised only about 35 percent of the infringer's complete lawbook, since the topic of the infringing material, valuation, was

the single most important issue in the bulk of condemnation litigation. The court expounded that the treatment of the nature and exercise of the power of eminent domain, parties, pleadings, jurisdiction and venue, methods of trial and review, and the sample forms provided in the infringing work were in some cases useful and important, but they were ancillary to the central issue in the vast majority of condemnation actions, namely valuation. The court said that practitioners in the field of condemnation law would find the balance of the infringing book necessary and useful in approximately the same degree as the single most important portion on valuation which had been plagiarized. The infringer apparently did not offer an apportionment formula; and the trial court, which awarded the copyright owner 100 percent of the infringer's profits, initially denied a motion to confirm a special master's report awarding profits of 35 percent to the copyright owner, since no evidence had been offered to show that any portion of the profit was due to that part of the book not appropriated from the copyright owner. The appellate court said it was not persuaded that the principle of apportionment announced in *Sheldon v Metro-Goldwyn Pictures* (1939, CA2 NY) 106 F2d 45, 42 USPQ 540 (1909 Act), *affd* 309 US 390, 84 L Ed 825, 60 S Ct 681, 44 USPQ 607 (§ 35[b]), had to be limited to cases in which experts testified with respect to the relative contributions of the plagiarized and original portions. The court pointed out that although the testimony of experts is often helpful it is at best

little more than an educated guess and not of such compelling force that it is an essential element in every case. The court stated that in arriving at an appropriate figure, every indulgence should be granted to the copyright owner in an attempt to arrive at a sum which is assuredly adequate; however, a lump-sum addition was not the proper approach in the present case. The court noted that no method would give mathematical accuracy, but that in dealing with material designed primarily for use by the bench and bar in legal contests a reasonable estimate of the relative contribution of the plagiarized material could be made on the record. The court modified a judgment by reducing the award to 50 percent of the infringer's profits, granting relief on other claims and affirmed the judgment as modified.

In an action to recover for infringement of a copyrighted song, "Boogie Woogie Bugle Boy of Company B," the court held, in *MCA, Inc. v Wilson* (1981, CA2 NY) 677 F2d 180, 211 USPQ 577 (1909 Act), that the trial judge did not err in allocating one-twentieth of the gross receipts from an erotic nude show to the infringing song that was performed during the show. Although noting that if it had been the trier of fact it might have been less generous, the appellate court nevertheless upheld the trial judge's allocation of gross revenue. The court reasoned that (1) the copyright owner offered proof of the infringers' gross receipts; (2) the infringers then failed to meet their burden of establishing what portion of the gross receipts was not profit gained from their use of the infringing song;

and (3) the special master was required to give every indulgence to the copyright owners. The court affirmed the special master's award of approximately \$244,000 representing 5 percent of the infringers' total profits from the infringing show.

In an action to recover for infringement of a copyrighted photograph of a movie star, the court held, in *Syigma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the trial court's finding of an allocation of 75 percent of the infringer's gross profits attributable to the infringement was clearly erroneous and therefore had to be overturned. In determining the infringer's profits attributable to the infringement, and therefore for which the infringer was liable to the copyright owner,³⁹ the appellate court ruled that the highest percentage of sales "and hence profits" attributable to the infringing photograph on the cover of the infringer's sex-oriented magazine that the trial court could reasonably and correctly have awarded was 50 percent. The infringer apparently offered no apportionment formula. The appellate court held that although the trial court concededly was influenced by the photograph of Ms. Welch, referring to it as "infringed" and "impressive," the trial court gave too much

weight to the impulse nature of a purchase of a sex-oriented magazine of this sort and to the copyright owner's sole witness' testimony. This witness testified that magazine covers are designed to attract a consumer's attention, that the consumer looks first at the subject on the cover then to the cover lines, and then in the case of a sex-oriented magazine to the center or centerfold if one exists, and that the decision to buy or not to buy is then made as an emotional response usually in a matter of seconds. The appellate court pointed out that the trial court did not make reference to or give any weight to the fact that the magazine cover itself, in addition to containing the star's photograph referred to numerous other celebrities of not inconsiderable fame whose nude photos were also contained within the magazine. The appellate court also said that the trial court's 75-percent allocation was radically inconsistent with the expert testimony. Various defense experts testified to the effect that (1) it would not make much difference to an impulse buyer whether there was a female celebrity on the cover; and (2) men's magazines generally are not purchased impulsively in an emotional response to the cover but rather are purchased by a repeat purchaser who is generally predisposed to purchase a particular magazine knowing the range of its contents, the degree of

39. The trial court pointed out that no claim was being made under 17 USCS § 504(b) for actual damages, and that the copyright owner was therefore entitled to recover the infringer's profits under § 504(b). Thus, the copyright owner was apparently awarded

infringer's profits as profits, rather than actual damages measured by infringer's profits. See *Syigma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, SD NY) 603 F Supp 829, 226 USPQ 94 (1976 Act).

explicitness, the quality of the photographs, the nature of the text, and any special qualities that are connected with the magazine. The court modified the judgment so as to award 50 percent of the infringer's profits of \$51,395.50, or \$25,697.75, otherwise affirmed the judgment, and remanded for entry of the modified judgment.

In an action to recover for infringement of a copyrighted play, the court ruled, in *Harris v Miller* (1943, SD NY) 57 USPQ 103 (1909 Act), that the case was plainly one for the apportionment of the infringers' profits. The infringer apparently offered no formula for apportioning profits. Noting that on this branch of the case the master made a fair approximation of the values of the different factors entering into the production of the infringing play, the court pointed out that the percentage values arrived at were 50 percent for the acting of the star of the performance; 35 percent for the script; 10 percent for the services of the director; and 5 percent for other factors. Pointing out that these values were determined for the different factors after careful consideration of the expert and other testimony and were reasonably accurate, the court confirmed the master's report awarding the copyright owner 35 percent of the infringer's profits attributable to the script, and 10 percent of the profits attributable to the services of the director. The court explained that the 10 percent attributable to the director's services was allowed on the theory that the director was a co-infringer, and that no credit could be given for his time.

See also *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act), mod on other grounds, and remanded (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, an action to recover for infringement of a copyright in the 1963 hit song, "He's So Fine," which was subconsciously plagiarized in arriving at the melody of the song, "My Sweet Lord," in 1971, in which the court apportioned the infringer's profits, but then declined to award these apportioned profits because of the plaintiff copyright owner's wrongdoing. The copyright infringer apparently offered no apportionment formula. First, the court determined that a conservative 70 percent of the total profits of a single record, which contained the infringing song on one side and a noninfringing song on the flip side, was attributable to the infringing song, based on the popularity of the infringing song as evidenced by its frequency of play by disc jockeys. Similarly, the court determined that a conservative 50 percent of the total profits of a record album, which contained the infringing song and 21 other songs, was attributable to the infringing song. The court also determined the appropriate portion of profits attributable to the infringing song from other income sources. After then deducting appropriate expenses, the court held that although it could not be precisely determined what portion of the infringer's income was attributable to factors other than the plagiarized music, 75 percent of the success of the

infringing song would be deemed attributable to the plagiarized music and 25 percent to other factors, such as the lyrics of the infringing song, and the popularity and stature of the infringer in this particular field of music. The court noted that a much-touted introductory musical motif used by the infringer was a minimal factor. Also pointing out that several matters had to be considered, and that the infringer was an artist with an international name, supplying his own text, the court stated that it weighed the music heavily in the present situation because the music had already demonstrated its outstanding catchiness in 1963 when it carried the rather unexceptional, romantic text of "He's So Fine," to first place on the Billboard charts in the United States for 5 weeks. The court concluded that nearly \$1.6 million dollars of the earnings from "My Sweet Lord" was reasonably attributable to the infringed music. However, since the plaintiff copyright owner, who was the infringer's former general manager and also the purchaser of the rights in the copyrighted song from its original owner, interfered with settlement efforts in the present lawsuit between the infringer and the original copyright owner, the court concluded that the plaintiff copyright owner was not entitled to profit from his purchase of the rights in the copyrighted song. The court thus entered a judgment ordering the plaintiff copyright owner to transfer to the infringer title to the copyrighted music and ordering the infringer to pay to the plaintiff \$587,000 (representing the purchase price of the copyright by the plaintiff from the original copy-

right owner) plus interest from the date of acquisition of the copyright by the plaintiff from the original copyright owner.

In an action to recover for infringement of copyrighted architectural and engineering drawings and specifications for a store, the court in *Schuchart & Associates, Professional Engineers, Inc. v Solo Serve Corp.* (1983, WD Tex) 220 USPQ 170 (1976 Act), awarded 33.3 percent of the co-infringer architectural firm's estimated profits to the owner of the copyright in the architectural plans and specifications. The infringer apparently provided no apportionment formula. Noting that this infringer testified that a profit of 20 cents per square foot would be a normal profit on the shopping center project in which the infringing store was built, the court assumed that this profit figure meant gross profit, since this infringer also testified that it actually lost money on the infringing store portion of the shopping center. The infringing store measured 36,250 square feet. The court figured that this infringer's profit for the infringing store portion of the shopping center should have been \$7,250. The court determined that this infringer copied 7.7 percent of the copyrighted architectural drawings and 58.8 percent of the copyrighted architectural specifications, or 33.3 percent of the whole job, "if one considers the drawings as one half of the work and the specifications as the other half." Accordingly, the court awarded the owner of the copyright in the architectural drawings and specifications 33.3 percent of \$7,250, or \$2,414.25. The court then determined that the co-infringer engi-

neering firm copied 25 percent of the copyrighted engineering drawings and 40 percent of the copyrighted engineering specifications, or 32.5 percent of the whole job, using the same formula as with the architectural drawings and specifications. Based on evidence that this infringer's net profit totaled \$2,684.82, the court awarded the owner of the copyright in the engineering drawings and specifications 32.5 percent of \$2,684.82, or \$872.57. The court also awarded actual damages to the copyright owners, and additional relief on other claims.

See also *Schroeder v William Morrow & Co.* (1977, CA7 Ill) 566 F2d 3, 198 USPQ 143 (1909 Act), an action for infringement of a copyright in a gardening directory, in which the appellate court held that contrary to the copyright owners' contention at oral argument before the appellate court, damages did not need to be measured by the entire profit earned by the copyright infringers on the infringing directory book but rather could be measured by an amount commensurate with the value of the infringing material in relation to the book as a whole. The court noted that without independent checking or verification the compilers of the infringers' book copied the names and addresses but not the other information appearing on 27 of the 63 pages of the copyright owners' book. The court reversed a judgment that had ruled there was no copyright infringement, and remanded for a determination of damages for the infringement.

In an action to recover for infringement of a computer fishing-

resort program, the court ruled, in *Fishing Concepts, Inc. v Ross* (1985, DC Minn) 226 USPQ 692 (1976 Act), that pursuant to 17 USCS § 504(b) the copyright owner was entitled to recover 45 percent of the infringer's gross revenue of \$11,885.85 for the period in question, even though the infringer did not supply the court with his deductible expenses, since the record showed that 55 percent of the infringer's gross revenue for the period in question could be attributed to factors other than the copyrighted computer program. The court explained that these factors included, among other things, group sales made through the infringer's personal contacts, legitimate use of advertisements, and sales made through sports shows. Accordingly, the court entered a judgment awarding the copyright owner \$5,348.63 for copyright infringement, and additional relief on other claims.

In an action for infringement of a copyright in a play, "Women's Hotel," by an infringing motion picture, "Hotel for Women," the appellate court held, in *Twentieth Century—Fox Film Corp. v Stone-sifer* (1944, CA9 Cal) 140 F2d 579, 60 USPQ 392 (1909 Act), that the trial court properly awarded \$3,960 in damages which constituted 20 percent of the net profits of the infringing motion picture, where the approximate total cost of the infringing film, including costs of production, prints, and distribution, amounted to \$842,400, and the film rentals amounted to \$862,200, or a net profit of \$19,800. Although the court referred to the award as "damages," the award apparently constituted an award of

infringer's profits as profits rather than as a measure of the copyright owner's actual damages. Citing *Sheldon v Metro-Goldwyn Pictures* (1939, CA2 NY) 106 F2d 45, 42 USPQ 540 (1909 Act), affd 309 US 390, 84 L Ed 825, 60 S Ct 681, 44 USPQ 607 (§ 35[b]), the court explained that the law is settled that where a portion of the profits of an infringing work is attributable to the appropriated work, to avoid an unjust course by giving the copyright owner all profits where the infringer's labor and artistry have also to an extent contributed to the ultimate result, there may be a reasonable approximation and apportionment by the court of the profits derived therefrom. The trial court apparently decided on the 20 percent of net profits figure without the aid of a profit-apportionment formula offered by the infringer. The appellate court affirmed a judgment awarding the apportioned net profits and additional relief on other claims.

In a copyright infringement action involving the sale of what is known in the trade as a "fake book" containing 12 copyrighted songs owned by the plaintiff among about 1,000 total songs, the court held, in *Shapiro, Bernstein & Co. v 4636 S. Vermont Ave., Inc.* (1966, CA9 Cal) 367 F2d 236, 151 USPQ 231, 10 FR Serv 2d 1309 (1909 Act), that the trial court's finding that the copyright infringer's profit from the infringement was 22 cents was not clearly erroneous. This 22-cents profit figure represented the proportionate share of the infringer's profits on the sale of the fake book attributable to the 12 copyrighted songs

owned by the plaintiff. Although noting that the trial court's method of apportioning the profits among the 1,000 songs in the book was questionable in terms of accuracy, the appellate court declared that it was reluctant to overturn the apportionment in light of the copyright owner's failure to show that its 12 songs were any more valuable or conducive to sale than were the other 988 songs in the book. The infringer apparently offered no apportionment formula. Concluding that the trial court did not err in electing to award actual damages and profits—which he found to be *de minimis*—rather than statutory damages, the court affirmed in pertinent part a judgment denying the copyright owner statutory damages and awarding it *de minimis* profits, and reversed in part on other grounds.

In an action for infringement of copyrights in musical scores written for the play, "Kismet," the court in *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1989, CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412 (1909 Act), cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, concluded, on appeal following remand for apportionment by the trial court, that proper apportionment entitled the copyright owners to 9 percent of the direct profits from the infringing production of "Hallelujah Hollywood." Determining that the copyright owners were therefore entitled to \$551,844.54 as their share of direct profits and nearly \$700,000 as their share of indirect profits, the court again remanded to the trial

court for further proceedings on other grounds.⁴⁰

See also *Universal Pictures Co. v Harold Lloyd Corp.* (1947, CA9 Cal) 162 F2d 354, 73 USPQ 317 (1909 Act), an action for infringement of a copyright in a motion picture, "Movie Crazy," by the defendants' production and distribution of a motion picture, "So's Your Uncle," in which the appellate court held that the trial judge did not err in apportioning 20 percent of the infringer's profits to its copyright infringement. Rejecting the claim that the trial court erred in arbitrarily setting 20 percent as a proper apportionment on the asserted basis that both parties agreed that there was no basis or measure of apportionment, the appellate court pointed out that the trial court had suggested that if the infringer felt that 20 percent was

inadequate it could have offered evidence to that effect, but that the infringer still maintained that no apportionment was possible. The appellate court said that there was adequate testimony on which to base an apportionment, where the trial court viewed both of the motion pictures and heard testimony on values of both of the motion pictures, and that it was within the trial court's jurisdiction and discretion to determine that 20 percent was a fair figure. The trial court, however, had refused to award the 20-percent profit figure since the copyright owner's actual damages exceeded the infringer's profits. Concluding that the trial court did not err in refusing to award any of the profits realized by the infringer to the copyright owner, the court affirmed a judgment awarding ac-

40. In an earlier proceeding, *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), this same appellate court had ruled that the trial court's apportionment of \$22,000 attributable to the infringement—amounting to less than 1 percent of the \$2.5 million profit from the infringing show or roughly \$13 for each of the 1,700 infringing performances—was grossly inadequate, given the nature of the infringement, the character of the infringed property, the success of the infringing show, and the magnitude of the infringers' profits. Citing several cases, the court had observed that apportionment percentages in similar cases were markedly higher. Pointing out that the difficulty in the present case stemmed from the fact that the trial court did not provide any reasoned explanation of or formula for its apportionment, the appellate court had directed the trial court on remand to reconsider its apportionment of profits,

and to explain fully on the record its reasons and the resulting method of apportionment it uses. The infringers argued in favor of the trial court's award, but they apparently offered no separate apportionment formula. The court had rejected the infringers' contention that the relative unimportance of the "Kismet" music was proved by its omission from the infringing show in 1976 and the show's continued success thereafter. Reasoning that the infringing show was a revue comprised of many different entertainment elements and that each element contributed significantly to the show's success, but that no one element was the sole or overriding reason for that success, the court had concluded that the presentation of the show with the omission of one element did not prove that this one element was not important in the first instance and did not contribute to establishing the show's initial popularity.

tual damages, and additional relief on other claims.

In an action to recover for infringement of a copyrighted article, the court in *Washingtonian Pub. Co. v Pearson* (1944) 78 App DC 287, 140 F2d 465, 60 USPQ 224 (1909 Act), affirmed a judgment awarding 10 percent of the profits received by the infringers to the copyright owner. Although the infringers apparently offered no apportionment formula, the appellate court noted that the trial court made findings with respect to the infringers' profits that were liberal to the copyright owner. Even though the copyrighted article furnished material for only a few pages of the infringing book, the trial court found that 10 percent of all profits on the book were fairly attributable to the copyrighted article. The appellate court said that the copyright owner could not complain of the fact that the apportionment of profits between infringing and noninfringing parts of the book that contained the infringing article was not mathematically exact. The court thus affirmed a judgment awarding apportioned profits.

[b] Unapportioned profits awarded

The courts in the following federal statutory copyright infringement actions in which the copyright infringer did not or apparently did not offer any profit-apportionment formula awarded to the copyright owner certain unapportioned infringer's profits or upheld such an award.

In an action against a publisher and a printer for infringement of a

copyright in a book, "Who's Who in New England," the court held, in *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd, in part on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, that even though the evidence showed that of the total 7,700 biographies in the infringing book about 4,000 were in the copyrighted book, under the circumstances no portion of the publisher infringer's profits could be allowed in the publisher infringer's favor for any contribution made by his own labor to the infringing book. The court pointed out that there was a commingling of gains in the infringing book but that the publisher infringer introduced no evidence to show what portion of the profits from the infringing book were due to his own efforts. The court stated that where there is a commingling of gains, the infringer has to abide by the consequences unless he can make a separation of the profits so as to assure to the injured party all that justly belongs to him. The court said that it did not believe that all the profits received by the publisher infringer were attributable to material copied from the copyrighted book, but that the difficulty was that the publisher infringer made no attempt to show the extent of his contribution so that the profits could not be separated. Thus, subtracting the publisher infringer's proved costs from its gross profits the court concluded that the publisher infringer was liable to the copyright owners for his unapportioned net profit.

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The court rendered additional relief on other claims.

In an action to recover for infringement of a copyrighted art work known as Ronbo, the court in *Update Art, Inc. v Modiin Pub., Ltd.* (1988, CA2 NY) 843 F2d 67, 6 USPQ2d 1784, 10 FR Serv 3d 877 (apparently 1976 Act), later proceeding on other grounds (SD NY) 1989 US Dist LEXIS 10461, affirmed a summary judgment awarding damages for copyright infringement, which was apparently an award of the copyright owner's actual damages measured by its lost profits plus the infringers' profits. The court held that the magistrate to whom the issue of damages was referred did not abuse her discretion in awarding to the copyright owner damages of \$475,406 plus interest, by adding to the copyright owner's lost profits of \$380,686 that portion of the infringers' income from the infringement that was not duplicative of the copyright owner's lost profits (\$94,720). Concluding that the infringers were acting in bad faith in the damages hearing, that their production of evidence was deficient despite numerous discovery orders, and that their precise profits and their alleged deductible expenses could not be determined from their limited production, the magistrate imposed sanctions against the infringers and granted the copyright owner's motion for summary a judgment on the issue of copyright infringement damages. The magistrate accepted the copyright owner's calculation of the infringers' gross income of \$475,406 from the infringement based on documentary evidence. This \$475,406 figure was calcu-

lated as follows: 245,604 copies shipped of newspapers containing infringing material multiplied by \$1.50 income per copy equaling \$368,406 total sales income added to \$107,000 advertising income from the weekend edition of the newspaper containing the infringing material equaling \$475,406. Rejecting the infringers' belated offer of evidence on the amount of damages, the court declared that they were precluded from claiming such evidence on appeal after sanctions were imposed by the magistrate. Furthermore, the court stated that it was not shifting the burden of proving damages to the infringers, contrary to their suggestion. The court held that the magistrate made her calculation of damages on the best documentary evidence available to her. The court pointed out that its affirmation of the damage award as not clearly erroneous was based on the recognition that the infringers' unjustified failure to respond to discovery orders was the cause of the lack of evidence necessary to determine damages precisely. The court also rejected the infringers' argument that there should be an apportionment of damages (actually profits), on the asserted basis that the infringing material comprised only one page of the newspaper, since the infringers conceded at oral argument that they did not raise this claim before the magistrate and it was therefore waived.

In an action to recover for infringement of a copyrighted robotics-industry study, the court in *Business Trends Analysts, Inc. v Freedonia Group, Inc.* (1989, CA2 NY) 887 F2d 399, 12 USPQ2d 1457 (1976 Act), upheld as being

not clearly erroneous the trial court's finding that no apportionment of the infringer's profits was appropriate. The trial court had pointed out that the record in this case was absolutely bereft of any proof on the subject of apportionment of infringer's profits.⁴¹ On appeal the infringer claimed that the damages award had to be reduced to reflect an apportionment between the value created by the infringing material and the value created by the noninfringing material. Although noting that the trial court had found as a fact that only certain portions of the infringer's robotics study infringed the copyrighted study, the appellate court said that it was also true that where an infringer's profits are not entirely due to the infringement, and the evidence suggests some division which may rationally be used as a springboard, then it is the duty of the court to make some apportionment. The court pointed out, however, that the burden is on the infringer to prove the portion of total profits attributable to noninfringing elements. The appellate court said that the trial court's finding that the infringer had not carried its burden was not clearly erroneous. The appellate court, moreover, approved the trial court's statement that here infringed portions of the study were so suffused and intertwined with noninfringing portions of the study as to render an apportionment impossible in the present case. The court accordingly affirmed in pertinent part a judgment awarding unapportioned infringer's profits,

and reversed in part on other grounds.

In an action to recover for infringement of a copyrighted play, the court ruled, in *Harris v Miller* (1943, SD NY) 57 USPQ 103 (1909 Act) (§ 36[a]), that the case was plainly one for the apportionment of the infringers' profits. Although the court apparently awarded profits attributable to the infringing script as distinguished from those profits attributable to other factors, the court upheld a special master's conclusion that an apportionment of profits within the script as between the infringing and noninfringing material was legally permissible but that on the evidence it was not possible or practicable. The court noted that the master had placed some reliance in reaching his conclusion on the finding of the judge that the infringing material had been inextricably intermingled with the noninfringing material.

In an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act), mod on other grounds (CA2 NY) 191 F2d 99, 90 USPQ 153 (§ 68[b]), that the master (to whom the matter had been referred for an accounting of profits) had not erred in concluding that the infringement contributed solely and exclusively to the production of the profits derived by the infringers, where there was no evidence whatsoever

41. See *Business Trends Analysts, Inc. v Freedonia Group, Inc.* (1988, SD

NY) 700 F Supp 1213, 10 USPQ2d 1481 (1976 Act).

indicating that any portion of the profits derived from the infringing prints was attributable to the expert or creative operations or contributions supplied by the defendant infringers, other than opinion testimony by one art publisher. The publisher had said that the subject matter of the print was the largest factor in the salability of the reproduction, constituting more than half, and the remainder was attributable to the reputation of the house, popularity of salesmen, quality of the printing and the paper and price, and that the fact that the lithographic reproductions were mezzotints in itself added nothing to salability. Thus, after allowing certain expense deductions, the court awarded unapportioned profits.

See also *Davilla v Brunswick-Balke Collender Co.* (1938, CA2 NY) 94 F2d 567 (1909 Act), cert den 304 US 572, 82 L Ed 1536, 58 S Ct 1040, an action for infringement of a copyright in a song, "You Made Me Like It, Daddy (That's Why I Love It So)," in which the court apparently used the copyright infringer's unapportioned profits as a measure of the copyright owner's actual damages in rendering a judgment for the copyright owner. Rejecting the infringer's contention that the profits should be divided on the asserted basis that the phonographic disk was a double record and only one side of it was infringed, the court reasoned that the infringer offered no proof of the cost of making up each composition or of the sales advantages of one composition over the other. The court pointed out that it was sufficient for the copyright owner's purpose to es-

tablish the number of sales of the particular composition, and that the copyright statute required the infringer to prove every element of cost. The court said that in the absence of such proof of cost the infringer's claim could not be sustained.

In an action for infringement of a copyright in a course apparently for learning to play the organ, in which the infringer urged that the award of damages to the copyright owners should be reduced by apportioning profits to the copyrighted material, the court held, in *Neal v Thomas Organ Co.* (1965, SD Cal) 241 F Supp 1020, 145 USPQ 315 (1909 Act) (§ 37[a]), that under the circumstances unapportioned profits would be awarded. The infringer apparently offered no specific apportionment formula. Although noting that copyright protection did not extend to phonograph records that were part of the whole course, the court determined that the records had no purpose separate from the instruction manual and that only the course as a whole had any substantial value. The court concluded that the infringer's profit had to be attributed to the sale of the course as a whole and that the infringer's profit could not be apportioned, since no profit was or could have been derived from the sale of the records alone.

See also *Cream Records, Inc. v Joseph Schlitz Brewing Co.* (1989, CA9 Cal) 864 F2d 668, 9 USPQ2d 1568 (1976 Act), an action to recover for infringement of a copyright in a popular rhythm and blues composition, "Theme From Shaft," in which the appellate court

approved the copyright owner's contention that since the infringer failed to introduce evidence of costs and of profits not attributable to the infringement the infringer's gross revenue from the commercial in which the copyrighted music had been used was the appropriate measure of profits. The court stated that under 17 USCS § 504(b), the copyright owner is required to present proof only of the infringer's gross revenue; and that the infringer is then required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work. The court stated that the copyright owner here met its burden when it introduced evidence establishing that the infringer had been paid \$175,872.78 for producing the commercial. The court then pointed out that the infringer introduced no evidence of either its deductible expenses or the elements of profit attributable to factors other than the infringement. Therefore, the court concluded that the correct base for calculating profits attributable to the infringement was \$175,872.78. The appellate court also ruled that the trial court had clearly erred in awarding only 1 percent of the infringer's profits, totaling \$1,750. Although noting that the trial court's reasons for apportioning damages were unclear, the appellate court stated that the award of \$1,750 suggested that the trial court had found that the infringing material made a minimal contribution to the commercial as a whole. The appellate court further observed that the trial court may have based this conclusion on its earlier finding

"that the infringement was minimal, consisting principally of a 10-note ostinato, and that the infringing material did not add substantially to the value of the commercial." Nevertheless, although approving the trial court's earlier finding that the infringement did not substantially add to the value of the commercial, the appellate court determined that the amount that it did contribute was clearly more than minimal. The appellate court therefore vacated the award of profits and remanded with instructions that the trial court award the copyright owner more than a minimal portion of the \$175,872.78 in profits that the infringer was deemed to have earned from the commercial.

[c] No profits awarded

In the following federal statutory copyright infringement actions in which the infringer did not or apparently did not offer a profit-apportionment formula, the courts awarded or upheld a judgment awarding no infringer's profits to the copyright owner.

In an action to recover for infringement of a copyright in the 1963 hit song, "He's So Fine," which was subconsciously plagiarized in arriving at the melody of the George Harrison song, "My Sweet Lord," in 1971, the court in *ABKCO Music, Inc. v. Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act), mod on other grounds, and remanded (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, apportioned the infringer's profits, but then declined to award any of these apportioned

profits because of the plaintiff copyright owner's wrongdoing. The copyright infringer apparently offered no apportionment formula. The court concluded that nearly \$1.6 million of the earnings from the infringing "My Sweet Lord" was reasonably attributable to the copyrighted music of "He's So Fine." However, since the plaintiff copyright owner, who was the infringer's former general manager and also the purchaser of the rights in the copyrighted song from its original owner, had interfered with settlement efforts in the present lawsuit between the infringer and the original copyright owner, the court concluded that the plaintiff copyright owner was not entitled to profit from its purchase of the rights in the copyrighted song. The court thus entered a judgment ordering the plaintiff copyright owner to transfer to the infringer title to the copyrighted music and ordering the infringer to pay to the plaintiff \$587,000 (representing the purchase price of the copyright by the plaintiff from the original copyright owner) plus interest from the date of acquisition of the copyright by the plaintiff from the original copyright owner.

In an action to recover for infringement of copyrighted photographic slides, the appellate court held, in *Estate of Vane v Fair, Inc.* (1988, CA5 Tex) 849 F2d 186, 7 USPQ2d 1479 (1976 Act), reh den *Estate of Vane v Fair, Inc.* (CA5) 1988 US App LEXIS 18019 and cert den *Estate of Vane v Fair, Inc.* 488 US 1008, 102 L Ed 2d 783,

109 S Ct 792, that there was ample basis for the trial court to conclude that the copyright owner photographer's expert testimony was inadequate to establish the infringer store's profits attributable to the infringement that resulted from the unauthorized use of the copyrighted slides in television commercials. The trial court ruled that the copyright owner did not sufficiently prove the infringer's gross revenue attributable to the infringement, and that therefore the infringer was consequently relieved of proving its deductible expenses and the elements of its profit attributable to factors other than the copyrighted works.⁴² However, affirming a judgment which in part denied an award of infringer's profits, the appellate court reasoned that the copyright owner's expert testimony yielded only a lump-sum figure for profits attributable to the television commercials which contained the copyrighted slides as a whole without accounting for the fact that the infringed material constituted only a fraction of any given commercial. The infringer apparently did not offer any profit-apportionment formula. Pointing out that some of the infringer's profits may have been attributable to the infringement but that much of profits had to be attributed to noninfringing aspects of the commercials, the court stated that there were three reasons why the use of an undifferentiated figure did not convincingly establish what profits were attributable to the infringement. The court explained, first, that the cost of

42. *Vane v Fair, Inc.* (1987, ED Tex) 676 F Supp 133, 4 USPQ2d 1333 (1976 Act).

slides used in a commercial was only one of many expenses involved. It expounded that the single figure for "dollars spent on television advertising" (which was apparently an expense item deducted from the infringer's profits by the copyright owner's expert) had to be composed of lesser expenditures for a variety of goods and services: photographs used in the commercial; fees paid to the producer of the commercial; and air time for showing the commercial, to name a few. The court pointed out that even if this expert testimony showed the relationship between dollars spent on advertising and profits yielded, it did not show the relationship between the dollars that should have been spent on the rights to use the copyright owner's slides and the total television advertising costs. The court noted that evidence of this relationship might have provided a basis for showing what portion of the profits the commercials yielded were attributable to the infringement. The court explained, second, that the infringed slides appeared during only part of the time the commercials were on the air. The court noted that if only 8 seconds of a 30-second commercial contained infringed slides, it would be irrational to believe that all the profits the commercial brought in were due to those slides. The court explained, third, that this expert testimony did not purport to show the relative importance of different elements of the commercials in generating profits for the infringer. It expounded that photographs of particular items featured in the commercials undoubtedly played a

role in producing sales, but that presumably so did such aspects of the commercials as text of the voice-overs, general slogans or phrases promoting the store itself, and the overall concept of the message of the commercials. By pointing out these problems in the copyright owner's expert testimony, the court stated that it was not suggesting that a calculation based on a mathematical formula involving the ratio of the fair cost of the infringed material to the entire cost of the commercial, or the length of the air time of the infringed material to the length of the air time of the entire commercial, would be the only means of showing the infringer's profits. Noting that the question will often be highly fact-specific, the appellate court concluded that it was not error for the trial court to reject this attempt to show revenues attributable to the infringement as speculative.

In an action for infringement of a copyright in maps, the appellate court held, in *Taylor v Meirick* (1983, CA7 III) 712 F2d 1112, 219 USPQ 420 (1976 Act), that the trial court erred in calculating and awarding the copyright owner \$22,700 in damages consisting of the owner's losses totaling \$19,300, plus the infringer's profits totaling \$3,300 (all rounded off by the appellate court here to the nearest \$100). Pointing out that it was too much to ask a copyright owner who had proven infringement also to do the infringer's cost accounting, the court determined that it could not accept the copyright owner's estimate that 2 percent of the infringer's total net profits was allocatable to the in-

fringing maps, since (1) there was no evidence that the infringing maps represented 2 percent of the infringer's total map sales as distinct from 2 percent of the titles in his inventory of maps; and (2) half of the infringer's business consisted of sales of a "pH meter," and the copyright owner lumped the profits on those sales in with the profits of the infringer's map business to get the figure that he multiplied by 2 percent in order to estimate the infringer's profits on the infringing maps. The court affirmed the trial court's decision on liability, but reversed on damages, except for upholding the finding that the copyright owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

In an action for infringement of a copyright in the motion picture, "Movie Crazy," by the defendants' production and distribution of the motion picture, "So's Your Uncle," the court held, in *Universal Pictures Co. v Harold Lloyd Corp.* (1947, CA9 Cal) 162 F2d 354, 73 USPQ 317 (1909 Act), that the trial court did not err in refusing to award any of the profits realized by the infringer to the copyright owner, and that the trial court was justified in awarding actual damages alone. The appellate court further ruled that the trial judge did not err in apportioning 20 percent of the infringer's profits to its copyright infringement. Rejecting the copyright owner's claim that the trial court erred in arbitrarily setting 20 percent as a proper apportionment figure on the asserted

ground that both parties agreed that there was no basis or measure of apportionment, the appellate court explained that there was adequate testimony on which to base an apportionment, where the trial judge viewed both of the motion pictures and heard testimony regarding the values of both of the motion pictures. The appellate court also declared that it was within the trial court's jurisdiction and discretion to determine that 20 percent was a fair figure. The appellate court observed that the trial judge suggested that if the copyright owner felt that 20 percent was inadequate he could have offered evidence to that effect; however, the infringer still maintained that no apportionment was possible. Pointing out that the trial court had refused to award the 20-percent profit figure since the copyright owner's actual damages exceeded the infringer's profits, the appellate court affirmed a judgment awarding actual damages but no infringer's profits, and rendered additional relief on other claims.

C. Deduction of Expenses

1. Generally⁴³

§ 37. Where expense-deduction formula was offered by infringer

[a] Profits awarded with expenses deducted—infringer's formula used for deduction

The courts in the following federal statutory copyright infringement actions in which the infringer offered or apparently offered an

43. For cases in which the courts discussed deduction formulas for par-

ticular claimed business expenses, see §§ 39-71.

expense-deduction formula awarded to the copyright owner the infringer's profits with expenses deducted pursuant to or apparently pursuant to the infringer's expense-deduction formula.

In an action to recover for infringement of a copyrighted picture-drawing, the court held, in *Strauss v Penn Printing & Pub. Co.* (1915, DC Pa) 220 F 977 (1909 Act), that where the evidence showed that the gross amount realized by the infringer from its sales was \$108, and the cost of the 2,500 copies was \$67.15, leaving a net profit of \$40.85, the infringer was liable to the copyright owner for the amount of \$40.85. The court entered a judgment awarding the copyright owner these profits, and additional relief on other claims.

In an action to recover for infringement of a copyrighted book, the court ruled, in *National Bank of Commerce v Shaklee Corp.* (1980, WD Tex) 503 F Supp 533, 207 USPQ 1005 (1909 Act), that the copyright owner would be awarded the infringer's profit totaling \$3,894.73. Although there was evidence that the infringer's publishing company had caused 100,050 infringing books to be published and delivered to the order of the infringer, the court observed that only 900 infringing books had been received by the infringer directly from its publisher and that the rest of the infringing books had been shipped directly to the infringer's distributors. The court also noted that there was testimony that some distributors had returned infringing books either because they had received unordered

books or because they had been dissatisfied with the promotion. Noting that an infringer's exhibit showed total cash receipts of \$46,554 for sales of its infringing book from January 1, 1973, through March 1974, the court explained that this total cash-receipts figure represented the sale of 93,108 infringing books for 50 cents each. The court pointed out that the infringer's cost was \$42,659.27. The court declared that it did not feel that the evidence was sufficient to establish what, if any, profit was made over and above the \$3,894.73 made on the sale of the 93,108 infringing books. The court also awarded additional relief on numerous other claims.

In *United Tel. Co. v Johnson Pub. Co.* (1987, WD Mo) 671 F Supp 1514 (1976 Act) (§ 11), *aff'd* on other grounds (CA8 Mo) 855 F2d 604, 8 USPQ2d 1058, an action to recover for infringement of a copyrighted telephone book, the court awarded the copyright owner the infringer's net profits which were not taken into account in computing actual damages, and then awarded these net profits and actual damages pursuant to 17 USCS § 504(b).

In an action for infringement of a copyright in a label—"Round the Table"—used on boxes of candy, the court held, in *Malsed v Marshall Field & Co.* (1951, DC Wash) 96 F Supp 372, 88 USPQ 552 (1909 Act) (§ 35[a]), that the infringer's profit which amounted at most to \$100 was shown with as much precision as was possible, whether computed on the basis of the actual amount earned per box, or as computed by the infringer's expert accountant on the basis of

cost accounting and the revenues and profits of the department in which the candy had been sold in relation to the profits of the entire store.

In an action for infringement of a copyright in a course—apparently for learning to play the organ, the court held, in *Neal v Thomas Organ Co.* (1965, SD Cal) 241 F Supp 1020, 145 USPQ 315 (1909 Act), that up to the time of trial the copyright owners were entitled to damages in the sum of \$24,511.80, based on the infringer's profits. The court found that the infringer had sold approximately 5,578 courses between March 19, 1959 and the time of trial. The record revealed that the infringer realized gross receipts from the sales of \$57,026.34 and that the direct cost of production amounted to \$24,131.67. Apparently rejecting the copyright owners' argument that evidence of the infringer's indirect costs should not be considered on the asserted basis that it was not shown that these indirect costs applied to the cost of selling and distributing the infringing courses, the court ruled that there was evidence to support the infringer's claim that its indirect costs of doing business amounted to 14.7 percent. The court held that after reviewing the evidence and particularly the testimony of the infringer, the court believed it was fair and reasonable to find that the 14.7 percent for indirect costs should be deducted from the infringer's gross receipts. The court declared that it was common knowledge that any business has indirect costs and that this percent should apply in the selling and handling of the courses by the

copyright infringer the same as it would apply in the handling of any other items. After deducting this percent from the gross receipts, which amounted to the sum of \$8,382.87, and then deducting the direct costs of producing the courses in the amount of \$24,131.67, the court found that the infringer's net profit amounted to the sum of \$24,511.80. The court accordingly entered a judgment awarding the copyright owners damages based on the infringer's profits.

Granting a copyright owner's motion for a summary judgment in an action to recover for infringement of a copyrighted fabric design, the court in *Spectravest, Inc. v Mervyn's, Inc.* (1987, ND Cal) 673 F Supp 1486, 6 USPQ2d 1135 (1976 Act), awarded the copyright owner the infringer's net profit of \$54,009 pursuant to 17 USCS § 504(b). The court also awarded additional relief on other claims.

Noting that the owner of a copyright on dolls had elected to recover actual damages and profits for infringement of the copyright in accordance with the provision of 17 USCS § 504(b), the court in *Original Appalachian Artworks, Inc. v Cradle Creations, Inc.* (1983, ND Ga) 223 USPQ 80 (1976 Act), concluded that the copyright owner was entitled to the sum of \$37,865.47, and that this sum was not subject to any further setoff or reduction. The profits determined by the court were net profits, arrived at by subtracting the infringers' expenses of \$40,048.19 from the stipulated total income of \$77,913.66. Although noting that the copyright owner was also entitled

to injunctive relief under the copyright statute, the court, however, ruled that the copyright owner was not entitled to any additional actual damages, since none were proved in excess of the infringers' profits.

In an action to recover for infringement of a copyrighted series of nude photographs of a Congressman's secretary, the court upheld the parties' stipulated deductible cost to the infringer of publishing one of the three infringing magazine issues, in *Blackman v Hustler Magazine, Inc.* (1985, DC Dist Col) 620 F Supp 792, 228 USPQ 170 (1976 Act), *affd* in part on other grounds and *revd* in part on other grounds 255 App DC 135, 800 F2d 1160, 231 USPQ 51.

[b] —Court's formula used for deduction

In the following federal statutory copyright infringement actions in which the infringer offered or apparently offered an expense-deduction formula, the courts awarded to the copyright owner the infringer's profits with expenses deducted pursuant to the court's expense-deduction formula or upheld such an award.

In an action by a lingerie-lace manufacturer for infringement of a copyright on a pansy-lace design, the court held, in *Thomas Wilson & Co. v Irving J. Dorfman Co.* (1970, CA2 NY) 433 F2d 409, 167 USPQ 417 (1909 Act), *cert den* 401 US 977, 28 L Ed 2d 326, 91 S Ct 1200, 169 USPQ 65, that all of the cost figures of the infringer used by the court in determining deductible expenses from the infringer's profits were supported by

the record, and that no reversible error was committed by the trial court in determining the deductible expenses. Rejecting the infringer's contention that the trial court used incorrect cost figures, the appellate court stated that the difference between the infringer's and the trial court's net profit figures was perhaps due to inadequate proof of the infringer's costs. The court said that the infringer could not complain of indirect costs on appeal, since an infringer is required by the copyright statute to bear the burden of proving every element of cost which it claimed, and this requirement was specifically called to the attention of the infringer's counsel at trial 2 weeks before the infringer's cost evidence was presented. The court concluded, therefore, that any omissions from the record of items of the infringer's costs should have been supplied by the infringer at trial. The court pointed out that while the damages were high, they were not intended to be punitive, and that in fact the trial judge denied attorney fees to the copyright owner for exactly that reason. Moreover, the court noted that in light of evidence showing that the infringer's direct costs varied from approximately \$.98 per yard to \$.82 per yard, use of the highest cost figure in computing the infringer's profits might even be characterized as conservative. The court affirmed the judgment awarding actual damages and profits.

In an action to recover for infringement of a copyrighted beach towel design, the court in *Sherry Mfg. Co. v Towel King of Florida, Inc.* (1983, SD Fla) 220 USPQ 855 (1976 Act), later proceeding on

other grounds (CA11 Fla) 753 F2d 1565, 225 USPQ 1005, later app on other grounds (CA11 Fla) 822 F2d 1031, 3 USPQ2d 1509, although citing 17 USCS § 504(c) apparently ruled pursuant to 17 USCS § 504(b) that the copyright owner would recover from the infringer \$38,985.20 as the defendant's infringement profits, plus actual damages. Concluding that the infringer's proof of deductible expenses was not convincing, the court determined "that 20 percent of sales which were related to the infringement would be a fair and accurate figure"—apparently of net infringing profits, or gross infringing sales minus expenses. The court accordingly entered a judgment awarding the copyright owner actual damages and infringer's profits totaling \$87,970.40 pursuant to § 504, and rendered additional relief on other claims.

[c] —Jury's formula used for deduction

The court in the following federal statutory copyright infringement action, in which the infringer offered an expense-deduction formula, upheld an award to the copyright owner of the infringer's profits with expenses deducted pursuant to the jury's expense-deduction formula.

In an action to recover for infringement of a copyrighted musical composition entitled "Pour Toi," by the infringing song "Feelings," the court in *Gaste v Kaiserman* (1988, CA2 NY) 863 F2d 1061, 9 USPQ2d 1300 (1976 Act), upheld the jury's decision to allow the infringer only an 8-percent reduction for its costs in determining

the infringer's profits. The court rejected the infringer's contention that nearly 90 percent of its costs had to be attributed to the infringing song "Feelings" on the asserted basis that the infringing song brought in nearly 90 percent of the infringer's revenues. In declining to overturn the jury's verdict, the court said that the burden was on the infringer to prove his costs and that the infringer's evidence of its costs was sorely lacking in documentation. The court stated that the jury did not act unreasonably in rejecting estimates of costs that were not fully documented. Further noting that the infringer published some 200 songs in addition to "Feelings," the court pointed out that it was the infringer's burden to prove that its overhead was nevertheless attributable mainly to "Feelings," and also that the jury which assessed the credibility of the testimony about the infringer's expenses was entitled to reject the infringer's evidence. Declaring that even when infringers are not able to establish their costs with precision they should be able to deduct the minimum amount they in all likelihood spent, the court concluded that the jury's decision to allow the infringer only an 8-percent reduction for its costs was not inconsistent with that rule.

[d] Profits awarded with no expenses deducted

The courts in the following federal statutory copyright infringement actions in which the infringer offered or apparently offered an expense-deduction formula awarded to the copyright owner the infringer's profits with no ex-

penses deducted or upheld such an award.

In *Williams v Arndt* (1985, DC Mass) 626 F Supp 571, 227 USPQ 615 (1976 Act), an action for infringement of copyrights in a commodities-market floor trader's manual and a floor trader's commodity method, the court awarded the copyright owner the infringers' gross revenue from the sale of the infringing programs, since the infringers did not prove any deductible expenses. The court noted that pursuant to 17 USCS § 504(b), the copyright owner was entitled to recover actual damages suffered and in addition any infringers' profits of the infringers. Finding that the infringers sold 46 copies of one of the infringing programs at \$1,000 each for a total of \$46,000 and 98 copies of the other infringing program for a total of \$245,000, the court determined that the total gross profits realized by the infringers was \$291,000. The court held that it could not credit the infringers with any deductible expenses under the circumstances, where (1) the infringers had kept no credible records; (2) the individual co-infringer claimed to have recalculated his wholly owned co-infringer corporation's expenses and income from the numerous checks he claimed were available to him and to his brother in Chicago, an accountant; and (3) the income statements for the years 1982, 1983, and 1984 were prepared for litigation, and were completely unsupported and unreliable. Accordingly, the court awarded the copyright owner \$291,000 compensatory damages pursuant to 17 USCS § 504(b), and

rendered additional relief on other claims.

In an action to recover for infringement of a copyrighted art work known as *Ronbo*, the court in *Update Art, Inc. v Modiin Pub., Ltd.* (1988, CA2 NY) 843 F2d 67, 6 USPQ2d 1784, 10 FR Serv 3d 877 (apparently 1976 Act) (§ 36[b]), later proceeding on other grounds (SD NY) 1989 US Dist LEXIS 10461, affirmed a summary judgment awarding damages for copyright infringement, which was apparently an award of actual damages measured by the copyright owner's lost profits plus the infringers' profits. The court held that the magistrate to whom the issue of damages was referred did not abuse her discretion in awarding to the copyright owner damages of \$475,406 plus interest, by adding to the copyright owner's lost profits of \$380,686 that portion of the infringers' gross income from the infringement that was not duplicative of the copyright owner's lost profits (\$94,720). The magistrate accepted the copyright owner's calculation of the infringers' gross income of \$475,406 from the infringement based on documentary evidence. Concluding that the infringers were acting in bad faith in the damages hearing, that their production of evidence was deficient despite numerous discovery orders, and that their precise profits and their alleged deductible expenses could not be determined from their limited production, the magistrate imposed sanctions against the infringers and granted the copyright owner's motion for a summary judgment on the issue of copyright infringement damages.

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In an action to recover for in-
fringement of copyrighted books,
the court held, in *Ginn & Co. v
Apollo Pub. Co.* (1915, DC Pa) 228
F 214 (1909 Act), that the amount
that the master awarded as profits
to the copyright owner would be
modified and changed to the sum
of \$1,141.34, which amount the
infringer admitted was his total
profits. The infringer had made an
accounting of profits showing
profits received from sales after
costs were deducted, and offered
testimony in support of this. Not-
ing that the inquiry before the
master disclosed the fact that the
business transactions of the in-
fringer had been so recorded that
it was impossible to distinguish be-
tween the publications of the copy-
right owner, which were rebound
by the infringer, and those which
were reprinted and republished as
well as rebound by the infringer,
the court concluded that counsel
for the infringer had therefore ac-
cepted the necessity of including
all of them. The court said it was
manifest that any statement of the
actual profits received by the in-
fringer from that part of its busi-
ness which has been found to have
been an infringement of the plain-
tiff's copyright had to be based on
a more or less intelligent guess or
on an arbitrary assumption of no
cost, or on more or less arbitrary
legal presumption. Additionally
noting that both parties had filed
exceptions to the master's report,
that the case had been long pend-
ing and should be disposed of, and
that neither party was entitled to
any further indulgence than was
required to reach as nearly a cor-
rect calculation of the profits as
could now be made, the court con-

cluded that any amount which
would ultimately be awarded would
scarcely repay the expense of a
satisfactory examination, and in all
probability would be the amount
which the court here found should
be awarded, namely all of the in-
fringer's profits. The court accord-
ingly confirmed the master's report
as modified.

In an action to recover for in-
fringement of copyrights in a den-
tal laboratory computer-software
system, the court held, in *Whelan
Associates, Inc. v Jaslow Dental
Laboratory, Inc.* (1985, ED Pa) 609
F Supp 1307, 225 USPQ 156 (1976
Act), motion gr on other grounds,
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grounds, in part (ED Pa) 609 F
Supp 1325, 226 USPQ 1013, 91
ALR Fed 827 and affd on other
grounds (CA3 Pa) 797 F2d 1222,
230 USPQ 481, 21 Fed Rules Evid
Serv 571, cert den 479 US 1031,
93 L Ed 2d 831, 107 S Ct 877, that
the infringers had not sustained
their burden of proving any expen-
ses, and that their gross profit
would be awarded. The court
pointed out that the infringers'
statement of expenses was vague
and was itemized adequately to de-
termine whether the claimed ex-
penses were legitimate. The court
noted that there was testimony that
the infringing computer-software
system had been intended to be a
shelf model, inasmuch as there had
been no required duties of the
seller to install or set up the sys-
tem as in the copyrighted software
system that involved expenses of
\$1,000 to \$3,000 per sale. The
court said that the infringers were
liable in damages for the profits
made from the sale of 23 infring-

ing computer software systems. The court also noted that there was evidence of the infringers' gross sales price less the computer hardware sold. The court entered a judgment awarding the sum of \$101,269 representing the gross profits from the sales of the 23 infringing computer software systems, and granted further relief on other claims.

In an action to recover for infringement of copyrighted postcards, the court ruled, in *Curt Teich & Co. v Beals Lithograph & Printing Co.* (1944, SD Iowa) 61 USPQ 434 (1909 Act), that the copyright owner was entitled to an award of the infringer's total profits of \$629.42, for four infringements, with no deduction for losses of \$23.98, from three other infringements. The court therefore entered a judgment awarding the infringer's profits and additional relief on other claims.

In an action to recover for infringement of a copyright on the play "Pygmalion," the court ruled, in *Russell v Price* (1979, CA9 Cal) 612 F2d 1123, 205 USPQ 206 (1909 Act), cert den 446 US 952, 64 L Ed 2d 809, 100 S Ct 2919, that the trial court did not abuse its discretion in limiting damages to the infringer's gross profits, and that the profits figure yielded by the trial court's calculation was sufficiently certain to preclude applicability of the mandatory "in lieu" damages rule. The court pointed out that "in lieu" damages under the copyright statute are mandatory only when both profits and damages have not been established. The court noted that actual damages in the present case were

apparently unascertainable for several reasons. Thus, the "damages" award here was apparently an award of infringer's profits as profits rather than as a measure of actual damages. The court pointed out that the plaintiffs stipulated to estimates of the number of unauthorized bookings made by the infringer of the film, "Pygmalion." The court held that if an infringer does not assume its burden of establishing any direct costs incurred in connection with the unauthorized use, or if its attempt to do so is found unacceptable by the court as was the case here, then the gross figure is left to stand as the profit factor under 17 USCS § 101(b). Although the plaintiffs had stipulated to an estimated 136 bookings of the infringing film, the court used rental figures, offered by the infringers, but to which the plaintiffs had not stipulated, to calculate the infringers' gross receipts for the stipulated bookings—each of which was found to constitute a separate infringement—to arrive at a total of \$3,700. Rejecting the plaintiffs' contention that the trial court erred in basing the infringers' gross receipts on the rental figures, on the asserted basis that the plaintiffs did not agree to the rental figures, the appellate court concluded that the trial court's utilization of the rental figures was reasonable under the circumstances. The court explained that these rental figures were identical to those that were advertised in the infringer's catalogs for "Pygmalion," and the plaintiffs had presented no reason to doubt their accuracy, and no contradictory evidence. Concluding that the gross profits figure in the present case

could not be described as de minimis, and that the amount was sufficient to discourage wrongful conduct without necessitating resort to "in lieu" damages to effectuate that purpose of copyright policy, the court found no abuse of discretion on the part of the trial court and consequently affirmed the damage award. The court also awarded additional relief on other claims.

Additionally, see *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, an action for infringement of copyrights in musical scores written for the play, "Kismet," in which the court said that in order to prove an infringer's profits a copyright owner is required to prove only the infringer's sales, and the burden then shifts to the infringer to prove any cost elements to be deducted from sales in arriving at net profit. The court declared that any doubt as to the computation of costs or profits is to be resolved in favor of the copyright owner, and that if the infringer does not meet its burden of proving costs, then the gross profit figure stands as the infringer's profits awardable to the copyright owner.

In an action to recover for infringement of a series of copyrighted nude photographs of a Congressman's secretary, the court held, in *Blackman v Hustler Magazine, Inc.* (1986) 255 App DC 135, 800 F2d 1160, 231 USPQ 51 (1909 Act), that since the copyright

owner carried its burden of proving the infringer's gross profits but the infringer did not carry its burden of proving its expenses, the profit figure proved by the copyright owner established the profits from the infringing magazine issues in question to be awarded. The court said that under the 1909 Copyright Act where expenses are not proved infringer's profits must be deemed to be equal to the proved revenues. It said that the copyright owner carried its burden in establishing the revenues earned by the infringer for the infringing issues of its magazine, and then the infringer failed in proving its expenses although it attempted to meet its burden by proving an overall profit margin for its parent corporation. The court stated that inasmuch as the plaintiff in a copyright case should be given the benefit of every doubt, a court may resort to statutory damages only where the plaintiff is unable to prove revenues or where the court determines that statutory damages would more adequately compensate the copyright holder. The court declared that the infringer's profits, as in the present case, may greatly exceed whatever actual damage the copyright holder may have suffered. The court said that the copyright owner is nevertheless allowed to reap a windfall to further the policy of the copyright statute that infringers shall not profit from their wrongdoing. The appellate court ruled that the trial court erroneously awarded statutory damages rather than the gross profits, noting that the trial court's failure to follow the statutory scheme prescribed by Congress led to an irrational result. The court

explained that having once rejected the 19-percent profit figure that was offered by the infringer as "neither equitable nor based on fact" the trial court used the same figure as the basis for its calculation of statutory damages. The court ruled that once the trial court determined that the 19-percent figure was not based on fact, the trial court erred in using it to calculate statutory damages. The court reversed in part a judgment awarding statutory damages rather than profits, affirmed in part on other grounds and remanded for entry of an award of infringer's profits.

§ 38. Where expense-deduction formula was not offered by infringer

[a] Profits awarded or awardable with expenses deducted pursuant to court's formula for deduction

In the following federal statutory copyright infringement actions in which the infringer apparently did not offer an expense-deduction formula, the courts either awarded to the copyright owner the infringer's profits with expenses deducted pursuant to the court's formula for deduction, or held that the copyright owner would be entitled to the infringer's profits with expenses deducted pursuant to the court's expense-deduction formula and ordered the copyright owner to elect between this award or an award of statutory "in lieu" damages.

In an action to recover for infringement of copyrighted sound recordings, the court held, in *RSO Records, Inc. v Peri* (1984, SD NY)

596 F Supp 849, 225 USPQ 407 (1976 Act), that an award of "actual damages plus profits" to which the copyright owners would be entitled under 17 USCS § 504(b), equaled \$42,239.85. This award was apparently a calculation of infringers' profits awardable as profits. The court pointed out that the copyright owners were stymied in any attempt to calculate actual damages by a lost sales method, because the infringers refused on Fifth Amendment grounds to turn over any further production records or to aid in the interpretation of the records that had already been seized from them. The § 504(b) award included profits less expenses that the court estimated on three groups of infringing recordings plus gross profits on certain color-separation sales contributing to counterfeit records and tapes. The court observed that the infringers apparently charged \$2.75 for a counterfeit record, and that they charged about 41 cents for pressing and packaging a legitimate record. The court's calculations were thus based on record and tape profits of \$2.35 per infringing unit. Also determining an award of statutory damages to which the copyright owners would be entitled under 17 USCS § 504(c), the court ordered the copyright owners to file a notice of election stating which type of damages they preferred.

In an action for infringement of a copyright in a play, "Women's Hotel," by an infringing motion picture, "Hotel for Women," the appellate court held, in *Twentieth Century-Fox Film Corp. v Stone-sifer* (1944, CA9 Cal) 140 F2d 579, 60 USPQ 392 (1909 Act) (§ 36[a]),

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that the trial court properly awarded apportioned net profits. Although the infringer apparently offered no formula for determining net profits, the trial court calculated net profits of \$19,800 by considering the total cost of the infringing film, including production, print, and distribution costs amounting to \$842,400, and the infringing motion picture rentals revenue amounting to \$862,200.

[b] Profits awarded or awardable with no expenses deducted

The courts in the following federal statutory copyright infringement actions in which the infringer did not offer an expense-deduction formula either awarded to the copyright owner the infringer's profits with no expenses deducted, or held that the copyright owner would be entitled to the infringer's profits with no expenses deducted and ordered the copyright owner to elect between this award or an award of statutory "in lieu" damages.

In an action for infringement of a copyright relating to siphon pumps mounted on cards, the court held, in *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act), that the copyright owner was entitled to the gross amount received by the copyright infringers for certain copyrighted items sold and delivered to a customer after a permanent injunction had been entered against the infringer in this case. The infringers had sold to this customer for \$200 the plates from which this customer's infringing cards had been made, and had charged this customer 6 cents per

infringing card for 16,408 unused cards on hand. Reasoning that the infringers had not shown the salvage value of the plates, the court concluded that the infringers therefore had to account for the plates at the price that they received for them. Also, the court ruled that under the circumstances, the infringers had to account for the gross amount received for the infringing cards that they had on hand and for which they had the power but not the right to levy an illicit tribute. The court accordingly awarded the copyright owner \$1,184.48, representing the infringers' gross profits for this infringement. The court also awarded to the copyright owner other profits made by these infringers plus statutory "in lieu" damages, for an aggregate award of \$15,404.48 plus interest, and additional relief on other claims.

In an action to recover for infringement of copyrighted sound recordings, the court held, in *RSO Records, Inc. v Peri* (1984, SD NY) 596 F Supp 849, 225 USPQ 407 (1976 Act) (§ 38[a]), that an award of "actual damages plus profits" to which the copyright owners would be entitled under 17 USCS § 504(b), equaled \$42,239.85. The § 504(b) award included \$2,700 gross profits on 27 color-separation sales contributing to counterfeit records and tapes, plus profits less expenses that the court estimated on three groups of infringing recordings. The court pointed out that the infringers refused to discuss the destiny of the many color separations seized from their plant. The court concluded that it was thus impossible for the copyright owners to determine with cer-

tainty whether these color separations caused additional damages by being used by the infringers or others in producing counterfeit records and tapes. The court said, however, that it could be assumed that they were so used. Noting that the infringers documented no expenses of color-separation production, the court concluded that the entire \$100 charged by the infringers for each of 27 color separations that they sold represented profit.

On remand in an action to recover for infringement of a copyright in a magazine treating the history of prominent black people in a comic book format, the court held, in *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act), *affd* without op (CA2 NY) 862 F2d 304, that the copyright owner was entitled to \$866.50 profits from a co-infringer publisher, where the copyright owner produced evidence showing third-party purchases from this co-infringer for 126 sets of infringing comic books, amounting to \$866.50 in revenues. Pointing out that this infringer had the burden of proof to establish the costs allocatable to these sales, the court concluded that this co-infringer's failure to submit evidence of deductible expenses precluded any deductions. The court accordingly entered a judgment awarding the copyright owner \$866.50 against this co-infringer in "actual damages for his profits."

In an action to recover for infringement of the copyrighted musical composition entitled, "Pour Toi," by the infringers' song "Feelings," the court held, in *Gaste v*

Kaiserman (1988, SD NY) 683 F Supp 63, 7 USPQ2d 1332 (1976 Act), *affd* on other grounds (CA2 NY) 863 F2d 1061, 9 USPQ2d 1300, that a co-infringer was not entitled to a further reduction of the jury's damages award of over \$500,000 actual damages based on alleged expenses incurred by this co-infringer relating to "Feelings." The court explained that at the trial this co-infringer deliberately chose not to produce a single document from its books and records to substantiate any alleged expenses. Continuing, the court said that this co-infringer submitted only the face sheet of its tax return for each year involved. Pointing out that this co-infringer had produced nothing more, the court concluded that it had no basis for ruling that the jury acted unreasonably when it found that this co-infringer failed to prove by a preponderance of the evidence that all of the costs it sought to deduct as expenses were actually attributable to "Feelings." Further concluding that the jury's decision was totally justified given the circumstances, the court denied the infringer's motion for deduction of expenses, and rendered additional relief on other claims.

See also *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act), *mod* on other grounds, *remanded* (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, an action to recover for the subconscious plagiarism by George Harrison of the copyrighted song, "He's So Fine," in arriving at the melody of his 1971 song, "My Sweet Lord," in which the court noted that if it had ear-

lier found that the infringement had been deliberate rather than subconscious it would have awarded the entire earnings of the infringing song.

In *Fishing Concepts, Inc. v Ross* (1985, DC Minn) 226 USPQ 692 (1976 Act) (§ 36[a]), an action to recover for infringement of a fishing resort computer program in which the infringer did not supply the court with evidence of his deductible expenses, the court awarded the infringer's apportioned profits with no expenses deducted.

See also *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, an action for infringement of copyrights in musical scores written for the play, "Kismet," in which the court instructed that in order to prove an infringer's profits a copyright owner is required to prove only the infringer's sales, and that the burden then shifts to the infringer to prove any cost elements to be deducted from sales in arriving at net profit. The court pointed out that any doubt as to the computation of costs or profits is to be resolved in favor of the copyright owner and that if the infringer does not meet its burden of proving costs, then the gross profit figure stands as the infringer's profits awardable to the copyright owner.

[c] Award of profits held improper

In the following federal statutory

copyright infringement action in which the infringer apparently did not offer an expense-deduction formula, the court held that the trial court erred in its calculation and award of profits and remanded for a determination of damages and profits.

In an action for infringement of a copyright in maps, the appellate court held, in *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), that the trial court erred in calculating and awarding the copyright owner \$22,700 in damages consisting of the owner's losses (\$19,300) plus the infringer's profits (\$3,300) (all rounded off by the appellate court here to the nearest \$100). The court held that the copyright owner's method of computing the infringer's profits was deficient, since although the item was labeled "gross profits," the item was actually sales revenue minus cost of goods sold. The court pointed out that other costs were not deducted although they were clearly shown on the infringer's income tax returns. The court observed that when these were deducted it appeared that the infringer had no net profits for the years in question, and that the infringer probably would have incurred at least some of these costs, even if he had not sold the infringing maps. The court concluded that to the extent this was so, the infringer's gross profits were real profits in the only sense relevant to a damages calculation—they were his residual income after all costs necessary to generate the income were subtracted. The court also held that although subtracting just one cost item from the revenues shown on

the infringer's income-tax returns was an extremely crude method of estimating the infringer's total net profits, it satisfied the copyright owner's burden of production. The court explained that after all, the owner did subtract from the gross profits figure the cost most likely to vary with the infringer's output, and it was up to the infringer to show what, if any, overhead items were really variable costs too. The court affirmed the trial court's decision on liability, but reversed on damages, except for upholding the finding that the owner lost sales (not profits) of \$19,300, and remanded for a trial limited to damages.

2. Particular Claimed Business Expenses

§ 39. Administrative or bookkeeping

[a] Allowed

The court in the following federal statutory copyright infringement action held that in determining the copyright infringer's liability for its profits from the infringement, the infringer was entitled to expense deductions for claimed administrative and bookkeeping costs.⁴⁴

In an action to recover profits from the infringement of eight sep-

arate copyrights of mezzotint engravings of paintings of old masters, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act) (§ 54[a]), mod on other grounds (CA2 NY) 191 F2d 99, 90 USPQ 153 (§ 68[b]), that the infringer was entitled to deduct expenses for selling and commercial overhead, including bookkeeping costs. The court said that there was no need to show that there was a substantial sales effort involving solicitation of the business in the first instance, since the expenses claimed here assisted in the production of the infringing profits and were a legitimate part of the general overhead of the infringer's business. The court also ruled that there was sufficient evidence to establish that the infringer incurred certain selling and administrative expenses in selling the infringing prints to an old customer and that the infringer was entitled to deduct these expenses from his profits attributable to the infringement. Moreover, the court held that evidence that a defendant customer of the defendant lithographer initiated the transaction was not a sufficient basis for the denial of these and other claimed deductions from profits.

See also *Aitken, Hazen, Hoff-*

44. Additionally, see *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act), an action for infringement of a copyright in a book, "Who's Who in New England," in which the court held that in computing profits for which the copyright infringer would be liable to the copyright owner a deduction for overhead expense is allowable if prop-

erly established by proof. The court declared that "overhead" expense in this context is to be considered in the general accounting usage of the term, namely, those general charges or expenses collectively, in any business which cannot be charged up as belonging exclusively to any particular part of the work or product, such as accounting and other office expenses.

man, *Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), an architectural firm's action for copyright infringement against a developer and the construction company he employed to build an infringing multiunit apartment complex, in which the court held that the infringer construction company was entitled to deduct from its gross profits general overhead expenses. Pointing out that an infringer does not have to prove that each item of overhead was used in connection with the infringing activity, the court said that there was sufficient evidence to establish that the construction company, in copying the copyrighted architectural plans and constructing the infringing apartment complex from the infringing plans, necessarily utilized its own administrative personnel and office facilities.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts held that in determining the copyright infringer's liability for its profits from the infringement, the infringer was not entitled to expense deductions for claimed administrative costs.

In an action for infringement of a copyright in a book, "*Who's Who in New England*," the court held, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]), that the evidence as to overhead items, which included administrative costs, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringe-

ment and which did not. Refusing to allow any deduction for overhead based on the evidence presented, the appellate court concluded that the case would have to go back to the trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

In an action to recover for infringement of copyrighted fabric designs, the court in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act), concluded that the infringer failed to establish an increase in its administrative expenses. Thus, the court said that the infringer was not entitled to a pro rata allocation of its general administrative expenses to reduce its gross profit on the sales of the infringing fabric. The court declared that the law in the Second Circuit, known as the full absorption method, permitted an infringer to deduct increased costs, that is, costs incurred as a direct result of the production of the infringing items, and also costs for fixed expenses, such as overhead. However, the court said that these expenses can only be deducted to the extent that such expenses are related to the production of the infringing items. The court entered a judgment awarding actual damages and profits, and rendering additional relief on other claims.

In an action for infringement of a company's valid copyright in its work, "*The Executive Planner*," which was a combined diary, appointment calendar and information book, the court in *Baldwin*

Cooke Co. v Keith Clark, Inc. (1976, ND Ill) 420 F Supp 404 (1909 Act), disallowed deductions for claimed administrative and certain other expenses. The court determined that the copyright owner was entitled to recover as the infringer's profits the sum of \$78,181.29, on the ground that the infringer had failed to meet its statutory burden of proving "every element of cost which [it] claims," pursuant to 17 USCS § 101(b). Although the infringer contended that it was entitled to allocate or prorate its general administrative expense by a formula that would serve to reduce its gross profit on sales of the infringing books to a net profit of some \$19,000, and offered expert testimony that commonly accepted accounting principles required an allocation of administrative expenses, the court pointed out that the infringer did not adduce any evidence of an increase in its administrative expenses. Noting that the copyright owner offered equally competent expert testimony that generally accepted accounting principles would preclude the allocation of administrative expenses absent a showing that they had in fact increased in some degree, the court pointed out that had the copyright infringer made some showing of an increase in its administrative expenses resulting from its manufacturer of the infringing books, then allocation rather than precision would be acceptable. Concluding, however, that there was no evidence of any increase in those areas and consequently that the infringer had failed to prove every element of cost that it claimed, the court entered a judgment awarding the

copyright owner its actual damages, the infringer's profits, and additional relief on other claims.

In an action to recover for infringement of copyrighted stuffed toy animals, the court in *Kamar International, Inc. v Russ Berrie & Co.* (1984, CA9 Cal) 752 F2d 1326, 224 USPQ 674 (1909 Act) (§ 54[b]), later app on other grounds *Kamar International v Russ Berrie & Co.* (CA9 Cal) 829 F2d 783, declined to award any infringer's profits and remanded with directions to recalculate infringer's profits and other directions. The appellate court held that the trial court did not clearly err in determining that the infringer did not prove all categories of its claimed overhead expense that contributed to sales of its infringing goods. The infringer's controller testified that total overhead included general administrative expenses. The appellate court explained that the trial court would have to decide whether the infringer could deduct fixed overhead, which appeared to be the bulk of the claimed 17.6-percent general administrative expenses.

In an action for infringement of copyrights in musical scores written for the play, "Kismet," the appellate court overruled, in *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act) (§ 54[b]), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, the trial court's finding that the infringers established that the general categories of claimed overhead expense contributed to their in-

fringing production, "Hallelujah Hollywood." Although noting that undoubtedly some of the infringers' claimed overhead contributed to the production of "Hallelujah Hollywood," the court pointed out that the infringers did not offer any evidence of (1) what costs were included in general categories entitled general and administrative expenses, or (2) how these costs contributed to the production of "Hallelujah Hollywood." The court thus overturned an award of infringers' profits because of an erroneous deduction of overhead costs which included an administrative expense, and remanded.

§ 40. Advertising, promotion, or public relations

The courts in the following federal statutory copyright infringement actions explicitly or impliedly held that in determining the copyright infringer's liability for its profits from the infringement the infringer was not entitled to expense deductions for claimed advertising, promotion, or public-relations costs.

In an action to recover for infringement of a copyright in a song, the court held, in *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act) (§ 36[c]), mod on other grounds, remanded (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, that where the infringer did not prove with even minimum specificity that certain expenses were attributable to the infringing song, including public relations and promotions expenses, these expenses would all be disallowed

and thus could not be deducted from total gross earnings of the infringing song.

In an action to recover for infringement of copyrighted fabric designs, the court in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58), concluded that the infringer failed to prove its advertising claim as related to its infringing fabric. The court therefore excluded this and other claimed expenses from the calculation of the infringer's profits.

In an action to recover for infringement of copyrighted fabric designs, the court in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act), denied a co-infringer's claimed deduction for its advertising expenditures. Explaining that it could not be determined what portion of these advertising expenditures were subsidized, the court concluded that this claimed deduction would not be allowed. The court pointed out that this co-infringer admitted having received subsidies from some of its largest suppliers to help defray its advertising expenditures, but that this co-infringer did not reduce its alleged advertising deduction to reflect these subsidies, and this co-infringer's financial controller could not specify the amount of the subsidies when asked during cross-examination. Additionally, the court pointed out that this co-infringer could not complain that it had no notice that such inquiry would be made since the copyright owner had served it with a subpoena prior

to trial requesting documents on precisely this same subject. The court entered a judgment awarding actual damages, infringers' profits and additional relief on other claims.

In an action to recover for infringement of copyrighted photographic slides, the appellate court held, in *Estate of Vane v Fair, Inc.* (1988, CA5 Tex) 849 F2d 186, 7 USPQ2d 1479 (1976 Act) (§ 36[c]), reh den *Estate of Vane v Fair, Inc.* (CA5) 1988 US App LEXIS 18019 and cert den *Estate of Vane v Fair, Inc.* 488 US 1008, 102 L Ed 2d 783, 109 S Ct 792, that there was ample basis for the trial court to conclude that the copyright owner photographer's expert testimony was inadequate to establish the infringer store's profits attributable to the infringement that resulted from the unauthorized use of the copyrighted slides in television commercials. Affirming a judgment which, in part, wholly denied an award of infringer's profits, the appellate court reasoned that the copyright owner's expert testimony yielded only a lump-sum figure for profits attributable to the television commercials which contained the copyrighted slides as a whole without accounting for the fact that the infringed material constituted only a fraction of any given commercial. The court expounded, in part, that the cost of slides used in a commercial was only one of many expenses involved. It pointed out that the single figure for "dollars spent on television advertising" (which was apparently an expense item deducted from the infringer's profits by the copyright owner's expert) had to be composed of lesser expenditures for a variety of

goods and services: photographs used in the commercial; fees paid to the producer of the commercial; and air time for showing the commercial, to name a few. The court pointed out that even if this expert testimony showed the relationship between dollars spent on advertising and profits yielded, it did not show the relationship between the dollars that should have been spent on the rights to use the copyright owner's slides and the total television advertising costs.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that the infringer construction company was not entitled to deduct from its profits certain claimed overhead expense items, including advertising and promotion expenses. The court explained that the advertising and promotion expenses were not chargeable to the infringing project, because the owner of the co-infringer developer contracted with his own construction company (the infringer construction company) for construction of the infringing project. The court explained that presumably no advertising or promotion was responsible for the consummation of that contract.

§ 41. Bad or uncollectible debts

[a] Allowed

In determining an infringer's profits in the following federal statutory copyright infringement ac-

tion, the court apparently allowed an expense deduction of an uncollectible debt.⁴⁵

On remand in an action to recover for infringement of a copyright in a magazine series treating the history of prominent black people in a comic book format, the court held, in *Fitzgerald Pub. Co. v Baylor Pub. Co.* (1987, ED NY) 670 F Supp 1133, 4 USPQ2d 1958 (1976 Act), affd without op (CA2 NY) 862 F2d 304, that the copyright owner could recover no profits from an infringer printer, where (1) this infringer had made no profits from its infringement of the copyright; (2) this infringer had been defrauded by a co-infringer publisher and had suffered substantial losses totaling \$54,940.38; and (3) the court recognized that under these circumstances the co-infringer publisher's debt to the infringer printer for printing work was uncollectible. The court, however, awarded the copyright owner statutory damages against both co-infringers and also the co-infringer publisher's profits attributable to the infringement.

[b] Not allowed

The courts in the following federal statutory copyright infringement actions held that under the circumstances the infringer was not

entitled to deduct a bad-debts expense from his profits.

In *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]), an action for infringement of a copyright in a book, "Who's Who in New England," the court held that the evidence as to overhead items, which included bad debts, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement and which did not. Refusing to allow any deduction for overhead based on the evidence presented, the appellate court concluded that the case would be remanded to the trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

In *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), an architectural firm's action for copyright infringement against a developer and the construction company he employed to build an infringing multiunit apartment complex, the court held that the infringer construction company was not entitled to deduct from its

45. See also *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act), an action for infringement of a copyright in a book against an infringing publisher and his printer, in which the court remanded for a determination of the printer's profits. The court said that one matter that might affect the calculation of the printer's net profit or loss

was the fact that the printer had a partially unpaid balance of its bill to the infringing publisher. The court said that if this amount was uncollectible, the printer would be entitled to a deduction in this amount in computing its net profits. The court said, however, that in the absence of evidence that this account receivable was uncollectible no deduction would be allowed.

profits certain claimed overhead expense items, including bad-debt expenses. The court reasoned that the co-infringer developer, who was the president and majority stockholder of the construction company, testified on cross-examination that the bad debts were incurred on projects other than the infringing project.

§ 42. Compilation

In the following federal statutory copyright infringement action, the court apparently allowed an expense deduction for compilation costs in determining the infringer's profits from the infringement.

In an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court in *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd, in part on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, apparently allowed an expense deduction for an item labeled compilation, based on testimony by the publisher infringer that he paid \$.15 for each biography that was compiled for the infringing book. Noting that this seemed to be a fair charge, the court concluded that there were 7,700 biographies in the infringing book and a total cost of \$1,155 could be allowed for this expense. The court also rendered additional relief on other claims.

§ 43. Construction

The courts in the following federal statutory copyright infringement actions ruled that the in-

fringer was entitled to an expense deduction for the amount paid by the infringer for, or apparently for, the construction of the infringing real-estate project.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), that the infringer developer was entitled to deduct from its profits on the infringing project various expenses listed on its accounting sheet, including the amount paid to the co-infringer construction company for the construction of the infringing apartment complex and garage. The court entered a judgment awarding the profits of both co-infringers and the actual damages of the copyright owner.

In an action to recover for infringement of a copyrighted architectural plan, the court ruled, in *Arthur Rutenberg Corp. v Dawney* (1986, MD Fla) 647 F Supp 1214 (1976 Act), that the copyright owners were entitled to recover the infringers' profits in the amount of \$134,750.17. The court pointed out that the infringers had built a home in accordance with their infringing architectural plan, which house they sold for \$402,500, and that as a result of certain settlement charges and an Internal Revenue Service withholding the infringers received \$334,750.17 in cash at the time of the sale. The court said that the only evidence addressed at trial regarding the deductible offsets to the

\$334,750.17 figure was testimony by one of the infringers that the cost, apparently for construction, of the infringing home had been approximately \$200,000. In awarding the infringers' profits totaling \$134,750.17, the court thus apparently allowed a deduction for construction costs from the infringers' profits. Additionally noting that the purpose of an award of the infringers' profits is to prevent the infringer from unfairly benefiting from a wrongful act, the court also awarded additional relief on other claims.

§ 44. Credit and collection

In the following federal statutory copyright infringement action, the court ruled that the infringer was not entitled to an expense deduction for a claimed credit and collection expense.

In *Kamar International, Inc. v Russ Berrie & Co.* (1984, CA9 Cal) 752 F2d 1326, 224 USPQ 674 (1909 Act) (§ 54[b]), an action to recover for infringement of copyrighted stuffed toy animals, the court reversed in part a judgment awarding infringer's profits and remanded with directions to recalculate infringer's profits and other directions. The appellate court ruled that the trial court did not clearly err in determining that the infringer did not prove all categories of its claimed overhead expense contributed to sales of its infringing goods. The infringer's controller testified that total overhead consisted of five categories, including credit and collection; and that the infringer maintained a credit and collection department at the distribution point for the infringing animals; but he did not

show that any sale of those goods required either a credit check or collection effort. The appellate court ruled that the trial court did not clearly err if it found that the infringer did not prove that credit and collection overhead contributed to sales of the infringing animals. Noting that the credit and collection expense amounted to 1.6 percent of overhead, the appellate court said that on remand the trial court could easily deduct this percentage from the infringer's claimed total overhead.

§ 45. Design

[a] Allowed

The court, in the following federal statutory copyright infringement action, allowed the infringer to deduct from its infringing profits a design and engraving cost.

In *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58), an action to recover for infringement of copyrighted fabric designs, the court concluded that the infringer's deductible expenses included a design and engraving cost at 7 cents.

[b] Not allowed

In the following federal statutory copyright infringement action, the court held that the infringer was not allowed to deduct from its infringing profits a claimed design expense.

In an action to recover for infringement of copyrighted stuffed toy animals, the court in *Kamar International, Inc. v Russ Berrie & Co.* (1984, CA9 Cal) 752 F2d 1326, 224 USPQ 674 (1909 Act)

(§ 54[b]), later app on other grounds (CA9 Cal) 829 F2d 783, reversed in part a judgment awarding infringer's profits, and remanded with directions to recalculate infringer's profits and other directions. The appellate court ruled that the trial court did not clearly err in determining that the infringer did not prove all categories of its claimed overhead expense contributed to sales of its infringing goods. The infringer's controller testified that total overhead consisted of five categories, including design; that the company allocated the design expense even to items it did not design; and that although costs of catalogs fell within design overhead, the infringer had no catalog at the time of the infringements. The appellate court ruled that the trial court did not clearly err if it found that the infringer failed to prove that design overhead contributed to sales of the infringing animals. Noting that the design expense amounted to 1.4 percent of the claimed overhead expense, the appellate court said that on remand the trial court could easily deduct those percentages from the infringer's claimed total overhead.

See also *JB Fabric, Inc. v Mark Industries, Inc.* (1987, CD Cal) 5 USPQ2d 1414 (1976 Act), an action for infringement of a copyrighted fabric design, in which the court noted that general overhead, such as designers, and other costs are not to be deducted from gross sales since they are by hypothesis there whether the particular item is sold or not. The court declared that only if a particular overhead item can be specifically related to the goods in question can it be

deducted. The court said that this is true even if overhead increases losses or decreases gains for the enterprise as a whole.

§ 46. Depreciation

[a] Allowed

The courts in the following federal statutory copyright infringement actions held that the infringer was allowed to deduct furniture and equipment depreciation or unspecified depreciation expenses in calculating its infringing net profits.

In an action to recover for the infringement of a copyright in a play, "Dishonored Lady," against the theater owner who exhibited the infringing motion picture, "Letty Lynton," the court held, in *Sheldon v Moredall Realty Corp.* (1939, DC NY) 29 F Supp 729, 43 USPQ 81 (1909 Act), that the exhibitor infringer was entitled to a deduction of depreciation in calculating the net profits for which it was accountable to the copyright owner for the infringement. The court entered a judgment for the copyright owner awarding the infringer's profits, and additional relief on other grounds.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that equipment depreciation and furniture depreciation items were properly allocatable overhead expenses deductible from

the co-infringer construction company's profits.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts held that the infringer was not allowed to deduct a claimed depreciation expense in calculating its infringing net profits.

In *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]), an action for infringement of a copyright in the book, "Who's Who in New England," the court held that the evidence as to overhead items, which included depreciation, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement. Disagreeing with the trial court's allowance of a deduction of \$2,936.25 for overhead expenses which resulted in a finding that the infringer made no net profit on the infringing printing contract, the appellate court concluded that the case would be remanded to the trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

In an action to recover for infringement of a copyrighted photograph of a movie star, the court held, in *Sigma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the trial judge properly

denied any deduction for depreciation, since depreciation and other claimed expenses were not linked with production costs in any satisfactory form, and there was no suggestion of even a minimum amount that was attributable to the production of the infringing magazine issue. The court modified and otherwise affirmed a judgment awarding infringer's profits, and remanded.

§ 47. Editorial⁴⁶

The court, in the following federal statutory copyright infringement action, held that the infringer was entitled to deduct certain claimed editorial costs in calculating its infringing net profits.

In an action to recover for infringement of a copyrighted photograph of a movie star, the court held, in *Sigma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that there were \$51,288 in expenses for editorial costs and other expenditures that both sides agreed should be and thus would be deducted from the infringer's gross revenues. The court modified and affirmed a judgment awarding infringer's profits, and remanded.

§ 48. Factoring

In the following federal statutory copyright infringement action, the court excluded the infringer's claimed expense of factoring costs from the calculation of deductible expenses from the infringer's profits.

In an action to recover for in-

46. For employee-compensation cases, see § 63.

fringement of copyrighted fabric designs, the court in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58), concluded that the infringer failed to prove its factoring costs as related to the infringing fabric. The court therefore excluded these costs from the calculation of deductible expenses from the infringer's profits.

§ 49. "House" errors

The court, in the following federal statutory copyright infringement action, disallowed a claimed "house" errors expense deduction from the calculation of the infringer's net profits from the infringement.

In an action for infringement of a copyright in the book, "Who's Who in New England," the court held that the evidence offered by the copyright infringer in respect to a claimed overhead expense did not meet the infringer's statutory burden of proof, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]). The court ruled that the evidence as to overhead items, including a "house" errors expense, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement and which did not. Thus, disagreeing with the trial court's allowance of a deduction for overhead expenses which resulted in a finding that the infringer made no net profit on the infringing printing contract, the appellate court concluded that the case would be remanded to the

trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

§ 50. Insurance

[a] Allowed

In the following federal statutory copyright infringement action, the court allowed the infringer to deduct from its profits from the infringement a general insurance expense.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that general insurance and other operating expenses were properly allocatable overhead expenses deductible from the co-infringer construction company's profits.

[b] Not allowed

The court, in the following federal statutory copyright infringement action, held that on the evidence presented the infringer was not entitled to any deduction from the infringer's profits for a claimed insurance expense.

In an action for infringement of a copyright in the book, "Who's Who in New England," the court held that the evidence as to overhead items, which included insurance, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted

in the production of the infringement and which did not, in *Sammons v Colonial Press, Inc.* (1942, **CA1 Mass**) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]). Holding that on the evidence presented the infringer was not entitled to any deduction for overhead, the appellate court concluded that the case would be remanded to the trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

§ 51. Interest on investment or loan

[a] Allowed

In the following federal statutory copyright infringement actions, the courts held that the infringer was allowed to deduct as an expense item its interest on investment, or on a capital funds loan, in calculating its infringing net profits.

In an action to recover for the infringement of a copyright in a play, "Dishonored Lady," against the theater owner who exhibited the infringing motion picture, "Letty Lynton," the court held, in *Sheldon v Moredall Realty Corp.* (1939, **DC NY**) 29 F Supp 729, 43 USPQ 81 (1909 Act), that the exhibitor infringer was entitled to a deduction of interest on investment in calculating the net profits for which it was accountable to the copyright owner for the infringement. The court also ruled that the respective actual costs of this item and certain other expenses were properly charged separately to the infringing motion picture and to the balance of the program, after general and fixed charges were de-

ducted from the gross receipts. The court entered a judgment for the copyright owner awarding it infringer's profits, and additional relief on other grounds.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, **DC Neb**) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that interest on a capital funds loan was a properly allocatable overhead expense deductible from the co-infringer construction company's profits. The court also held that the co-infringer developer was entitled to deduct from his profits on the infringing project various expenses listed on his accounting sheet, including the amounts he paid in arranging the financing for the infringing project. Although disallowing a deduction for interest accruing on the developer's indebtedness to a savings and loan association in connection with the infringing project, the court declared that any interest incurred on amounts borrowed by the developer as working capital for the infringing project was a direct expense that would have been deductible from the developer's gross profit on the project.

See also *Arthur Rutenberg Corp. v Dawney* (1986, **MD Fla**) 647 F Supp 1214 (1976 Act), an action to recover for infringement of a copyrighted architectural plan, in which the court ruled that the copyright owners were entitled to recover from the infringers the infringers' profits in the amount of

\$134,750.17. The court pointed out that the infringers had built a home in accordance with their infringing architectural plan, which house they sold for \$402,500, and that as a result of certain settlement charges and an Internal Revenue Service withholding, the infringers received \$334,750.17 in cash at the time of the sale. Thus, the court apparently allowed a deduction from the gross profits on the sale of the infringers' home for certain settlement charges.

[b] Not allowed

The court, in the following federal statutory copyright infringement action, ruled that the infringer was not allowed to deduct as expense items (1) its interest payments on a loan obtained to purchase land for the infringing real-estate project, or (2) its interest incurred on amounts borrowed by the developer, from another savings and loan association, as working capital for construction of the infringing project.

In an architectural firm's action for copyright infringement against a developer and the construction company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P.C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), that the co-infringer developer was not entitled to a deduction for interest payments to a savings and loan company on a \$50,000 loan obtained to purchase the real estate for the infringing project. The court explained that this loan involved more than just the infringing project, and that therefore the interest

payments on this loan should not be borne solely by the infringing project. The developer introduced no evidence as to how much of this loan was utilized for the infringing project, and the court said that without such information it was impossible to calculate the amount of interest allocatable to the infringing project. The court said that because the developer failed to satisfy his burden of proof as to this element of direct cost, the cost figure relating to this loan would not be allowed. Additionally, the court declared that any interest incurred on amounts borrowed by the developer, from another savings and loan association, as working capital for construction of the infringing project was a direct expense that would have been deductible from the developer's gross profit on the project. However, the developer had sold the infringing project; and pursuant to the real-estate sales contract the purchaser had been obligated to make its payments directly to the savings and loan association as monthly installments on the developer's mortgage of \$391,000 plus interest incurred in connection with the infringing project. The court, therefore, ruled that the developer was not entitled to deduct the accruing interest as a direct cost of the project, since the interest owing from the purchaser was, pursuant to the parties' agreement, being paid to the savings and loan association in satisfaction of the interest accruing on the developer's borrowing of working capital. The court awarded actual damages, the co-infringer construction company's profits, and additional relief on other claims.

§ 52. Legal and other professional services

[a] Allowed

In the following federal statutory copyright infringement action, the court allowed an expense deduction from the infringer's profits for the infringer's professional services costs.

In *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held that professional services and other operating expenses were properly allocatable overhead expenses deductible from the co-infringer construction company's profits.

[b] Not allowed

The courts, in the following federal statutory copyright infringement actions, disallowed, or approved the disallowance of, an expense deduction from the infringer's profits for the infringer's claimed legal and professional fees.

In an action to recover for infringement of a copyrighted photograph of a movie star, the court held, in *Sygma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the trial judge properly denied any deduction for legal fees. The court explained that this and other claimed expenses were not linked with production costs in

any satisfactory form, and that there was not even any suggestion of a minimum amount that must have been spent on the production of the infringing magazine issue. The court modified and affirmed a judgment awarding infringer's profits, and remanded.

In an action to recover for infringement of a copyright in a song, the court held, in *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act) (§ 36[c]), mod on other grounds, remanded (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, that where the infringer did not prove with even minimum specificity that certain expenses were attributable to the infringing song, including claimed legal and professional fees, these expenses would all be disallowed and therefore could not be deducted from total gross earnings of the infringing song.

§ 53. Office supplies or materials⁴⁷

In the following federal statutory copyright infringement actions, the courts held that in calculating the infringer's profits, the infringer was entitled to deduct various claimed expenses for office supplies or materials, including costs for such items as art supplies, buttons, greige goods, paper, stationery, and certain similar items.

In an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court in

47. For printing cases, see § 58.

Sammons v Larkin (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and in part on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, allowed an expense deduction for stationery costs of \$500. The court also allowed other deductions and rendered additional relief on other claims.

In an action to recover for infringement of a copyrighted photograph of a movie star, the appellate court held, in *Syigma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the trial judge properly permitted a deduction of \$2,377 in payments for type, stats, art supplies, and other expense items, since the link between these claimed expenses and the production of the infringing issue was established. The court modified and affirmed a judgment awarding infringer's profits, and remanded.

In *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58), an action to recover for infringement of copyrighted fabric designs, the court concluded that the infringer's deductible expenses included the cost of greige goods at \$1.15, tubes and cases at 2 cents, and "O/B" at 8 cents.

In an action to recover for infringement of copyrighted fabric designs, the court in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act) (§ 54[a]), rejected a 6 cents per garment portion of a co-infringer's

claimed 10 cents per garment expense deduction for the cost of buttons, which was based on an asserted calculation of 2 cents per button multiplied by five buttons per garment, since the infringing garments each used only two buttons.

In an action for infringement of a company's valid copyright in its work, "The Executive Planner," which was a combined diary, appointment calendar and information book, the court held that the copyright owner was entitled to both the infringer's profit and the copyright owner's damages, in *Baldwin Cooke Co. v Keith Clark, Inc.* (1976, ND Ill) 420 F Supp 404 (1909 Act) (§ 54[b]). Regarding the copyright infringer's profits, the parties had stipulated that during the years of infringement, 1972, 1973, and 1974, the infringer's gross sales of its infringing work, "Executive Weekly Minder" were \$266,239.03. The copyright owner had also stipulated that the costs of labor, material and direct overhead for the manufacturer of the infringing books was \$188,058.54. Thus, apparently allowing an expense deduction for material costs, the court held that the copyright owner was entitled to recover as the infringer's profits the sum of \$78,181.29. The court entered a judgment awarding actual damages, the infringer's profits, and additional relief on other claims.

In *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), an architectural firm's action for copyright infringement against a developer and the con-

struction company he employed to build an infringing multiunit apartment complex, the court held that office supplies and other operating expenses were properly allocatable overhead expenses deductible from the co-infringer construction company's profits.

§ 54. Overhead

[a] Allowed

The courts in the following federal statutory copyright infringement actions allowed or apparently allowed a deduction from the infringer's profits for claimed overhead expenses.⁴⁸

In *Sheldon v Moredall Realty Corp.* (1939, DC NY) 29 F Supp 729, 43 USPQ 81 (1909 Act), an action to recover for the infringement of a copyright in a play, "Dis-honored Lady," against the theater owner who exhibited the infringing motion picture, "Letty Lynton," the court held that certain enumer-

ated overhead expenses such as payroll, trade bills, and fixed charges were properly charged against gross receipts in determining the profits for which the exhibitor infringer was accountable to the copyright owner, and that the respective actual costs were properly charged separately to the infringing motion picture and to the balance of the program after the general and fixed charges were deducted from the gross receipts. The court entered a judgment for the copyright owner awarding the infringer's profits, and additional relief on other grounds.

In an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act), mod on other grounds (CA2 NY) 191 F2d

48. Additionally, see *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act), an action for infringement of a copyright in a book, "Who's Who in New England," in which the court held that in computing profits for which the copyright infringer would be liable to the copyright owner a deduction for overhead expense is allowable if properly established by proof. The court said that overhead that does not assist in the production of the infringement should not be credited to the infringer, and that it is a question of fact in all cases. The court said that the burden thus cast on the copyright infringer requires him to give evidence of more than a blanket undifferentiated item of overhead. He must give satisfactory evidence of each item of general expense or overhead, show that each item assisted in the production of the

infringement, and offer a reasonably acceptable formula for allocating a portion of the general overhead to the particular job, said the court. The court further noted that a theoretically perfect allocation is impossible but there must be a rough approximation within the limits of practicality. The court vacated and remanded for a determination of damages and profits. Denying a petition for rehearing, the court declared that "overhead" expense—for which a deduction from a copyright infringer's income is allowable—is to be considered in the general accounting usage of the term, namely, those general charges or expenses collectively, in any business which cannot be charged up as belonging exclusively to any particular part of the work or product, such as rent, taxes, insurance, lighting, heating, accounting and other office expenses, and depreciation.

99, 90 USPQ 153 (§ 68[b]), that the infringer was entitled to deduct expenses for selling and commercial overhead, including facilities, personnel engaged in selling and serving customers, and bookkeeping costs. The court said that there was no need to show that there was a substantial sales effort involving solicitation of the business in the first instance, since the expenses here claimed assisted in the production of the infringing profits and were a legitimate part of the general overhead of the infringer's business. Moreover, the court ruled that evidence that a defendant customer of the defendant lithographer initiated the transaction was not a sufficient basis for the denial of the claimed deductions from profits. The court also held that the master (to whom the matter had been referred for an accounting of profits) did not err in concluding that the infringement contributed solely and exclusively to the production of the profits derived by the infringers, where there was no evidence indicating that any portion of the profits derived from the infringing prints was attributable to the expert or creative operations or contributions supplied by the infringers. The court noted that there was opinion testimony by one art publisher who said that the subject matter of the print was the largest factor in the salability of the reproduction, constituting more than half, and the remainder was attributable to the reputation of the house, popularity of salesmen, quality of the printing and the paper and price, and that the fact that the lithographic reproductions were mezzotints in itself added

nothing to salability. The court ruled that sales discounts, freight and cartage outward, salesmen's salaries and commissions, commissions to dealers, and shipping and packing were certainly the type of sales-overhead expenses that would be properly deductible from the infringer's profits. The court also held that it was clearly erroneous to disallow an item of rent as an element of overhead on the alleged basis that the infringers' admission that the purchase and sale of the infringing prints did not result in an increased payment of rent. The court pointed out that the test was not whether such an overhead item had been increased by the handling of the infringements, but whether this overhead item actually assisted in the production of the infringing profits. The court accordingly amended an interlocutory decree.

In *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act) (§ 35[b]), an action for infringement of a copyright relating to siphon pumps mounted on cards, the court said that it was proper to make allowance for overhead costs, and it apparently allowed a deduction for overhead costs in determining the proper allocation of profits attributable to the infringement.

In an action to recover for infringement of copyrighted fabric designs, the court ruled, in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act), that inasmuch as a co-infringer provided an acceptable formula for allocating its overhead

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costs it would therefore allow the deduction of \$1.44 per garment for allocated overhead. The co-infringer calculated overhead costs by determining what percentage of its total sales revenue represented overhead costs (8.24 percent), and then multiplied this figure by the sales price of the first dress style (\$17.50) to arrive at an overhead cost allocation of \$1.44 per dress. As to the other co-infringer, the court ruled that this co-infringer could deduct from its total revenues the costs to it of the dresses it actually sold. The court also held that from total revenues certain costs had to be deducted to determine infringers' profits, and thus allowed a deduction of \$5.24 per garment for the cost of manufacture. The court entered a judgment awarding actual damages, infringers' profits and additional relief on other claims.

See also *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act), an action to recover for infringement of copyrighted fabric designs, in which the court declared that the law in the Second Circuit, known as the full absorption method, permitted an infringer to deduct increased costs, that is, costs incurred as a direct result of the production of the infringing items, and also costs for fixed expenses, such as overhead. The court, however, said that these expenses can only be deducted to the extent that such expenses are related to the production of the infringing items.

In an action for infringement of a company's copyright in its work, "The Executive Planner," which

was a combined diary, appointment calendar and information book, the court held that the copyright owner was entitled to both the infringer's profit and the copyright owner's damages, in *Baldwin Cooke Co. v Keith Clark, Inc.* (1976, ND Ill) 420 F Supp 404 (1976 Act) (§ 54[b]). Regarding the copyright infringer's profits, the parties had stipulated that during the years of infringement, 1972, 1973, and 1974, the infringer's gross sales of its infringing work, "Executive Weekly Minder," were \$266,239.03. The copyright owner had also stipulated that the costs of labor, material and direct overhead for the manufacturer of the infringing books was \$188,058.54. Thus, apparently allowing an expense deduction for direct overhead costs, the court held that the copyright owner was entitled to recover as the infringer's profits the sum of \$78,181.29. The court entered a judgment awarding actual damages, the infringer's profits, and additional relief on other claims.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), that the infringer construction company was entitled to deduct from its gross profits general overhead expenses. The court stated that overhead expenses that assist in the production of an infringing work are deductible from the gross profit of the infringer, and that the burden is on the infringer to prove the actual expenditures for ordi-

nary overhead and a fair method of allocating the overhead to the particular infringing activity in question; however, the court declared, the infringer does not have to prove that each item of overhead was used in connection with the infringing activity. The court said that there was sufficient evidence to establish that the construction company, in copying the copyrighted architectural plans and constructing the infringing apartment complex from the infringing plans, necessarily utilized its own administrative personnel and office facilities. In determining the proportion of the overhead expense allocatable to the infringing project, the construction company calculated what percentage the allocatable overhead expenses of the total net sales of the construction company, and then applied this percentage to the gross profit made on the infringing project. The court explained that this formula was a reasonably acceptable formula for allocating overhead expenses, except in one respect—the construction company utilized the net sale figure, rather than the total income figure for the fiscal year in question. Noting that the total income figure included gain on sale of equipment, management income, interest income and miscellaneous income, and that no explanation was given for the exclusion of this income and there was nothing in the record to indicate that the company's overhead was not chargeable to it, the court concluded that it would be included therefore in the computation of allocatable overhead. The construction company's calculated overhead figure consisted of depre-

ciation on office equipment and furniture, interest on a capital funds loan which was not utilized on any particular project, and itemized expenses. The expenses, for which a deduction was allowed, were itemized by their nature and amount, including officers' salaries, other salaries, payroll taxes, auto and travel, rent, employee benefits, telephone, office supplies, general insurance, general taxes, utilities, professional services, and other operating expenses. The court awarded actual damages, the construction company's profits, and additional relief on other claims.

See also *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, an action for infringement of copyrights in musical scores written for the play, "Kismet," in which the appellate court held that a portion of an infringer's overhead may be properly deducted from gross revenues to arrive at profits, at least where the infringement was not willful, conscious, or deliberate. The court upheld as not clearly erroneous the trial court's finding that the infringement here was not conscious and deliberate, since the infringers had believed that their use of the play was protected under a licensing agreement. The court said that although their contention ultimately proved to be wrong, it was not implausible. Therefore, finding that the infringers reasonably could have believed that their production was not infringing the plaintiffs' copyrights, the appellate court concluded that

the trial court was not clearly erroneous in finding that the infringers' conduct was not willful. Nevertheless, the court overruled an award of infringers' profits on other grounds.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts held or apparently held that an infringer was not entitled to a deduction from the infringer's profits for claimed overhead expenses, based on the evidence in the record.

In an action for infringement of a copyright in the book, "Who's Who in New England," the court held, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act), that the evidence offered by the copyright infringer in respect to a claimed overhead expense did not meet the infringer's statutory burden of proof. The court explained that the infringer's only witness on this matter of overhead was the president of the corporation; he gave the figure of \$278,382.82 as the total amount paid out for productive labor during 1939; \$288,142.19 was the total amount of general overhead expenses for that year; overhead for 1939 thus bore a relation of 103.5 percent to expenditures for productive labor; taking 103.5 percent of \$2,836.96—the total direct labor cost of the job of printing the infringing book—the witness testified that \$2,936.25 should be allocated as the overhead expense for the particular job. The above item of \$288,142.19 for overhead was computed as follows: \$365,128.71 (described as cost of sales less

costs of material, paper and direct labor); plus a lump figure of \$94,296.93 for administrative costs; less a lump figure of \$171,283.45 for house credits (an undefined phrase). The court said it was stated that costs of sales embraced "merchandise, nonproductive labor, supplies, rent, depreciation, repairs, light and power, heat, insurance, house errors and other expenses." The court pointed out that the detailed breakdown of these items was not given, except for the sum of \$24,200 as rent for the premises occupied by the infringer. The court further pointed out that administrative costs were described as including "salaries, clerical and executive, selling expense and provision for bad debts." The court explained that here again there was no breakdown of the individual items, except that the witness testified that the selling expenses amounted to \$24,600. The court said that no further specific figures were given, and that there seemed to have been one duplication. The infringer was allowed to allocate to the particular job a portion of the 1939 selling expenses of \$24,600. It was also allowed to deduct a specific item of \$994 as commission payable to the codefendant infringer for forwarding the same job. The court ruled that the foregoing evidence, unsatisfactory in its generality, was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement and which did not. The court explained that it was not apparent for instance how items entitled, house errors and provision for bad debts, assisted in the manufacture of the infringing

book. The court also explained that the amount and character of the item entitled, other expenses, were left wholly to speculation. The court said it was clear that it was impossible to tell on the present record whether the relationship of 103.5 percent was a reasonable basis for making the allocation of overhead. Therefore, the court said the case would be remanded to the trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the defendant infringer on the printing job. The court also held that one matter that might affect the calculation of the infringer's net profit or loss was the possible uncollectibility of an account receivable. The court declared, however, that in the absence of evidence that an account receivable was uncollectible no deduction would be allowed. The court ruled that no evidence of actual damages having been given, if the copyright infringer made no profits for which it was accountable the assessment by the trial court of statutory damages against the copyright infringer in the minimum amount of \$250 pursuant to § 25(b) of the copyright statute could not be reviewed on appeal. The court, however, pointed out that if the trial court were to find after a further hearing on remand that the copyright infringer made profits for which it had to account then the amount of such profits would be the measure of recovery, and it would no longer be permissible to decree statutory damages "in lieu" of actual damages and profits. The court vacated and remanded to the trial court for a

determination of damages and profits.

In an action to recover for infringement of copyrighted fabric designs, the court in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act), concluded that the infringer failed to establish an increase in its overhead resulting from the manufacture of the infringing fabrics, and furthermore failed to demonstrate that the infringing fabrics represented a substantial portion of its total sales so as to justify allocating overhead at 10 percent of its selling price. Thus, the court said that the infringer was not entitled to a pro rata allocation of its general overhead expenses to reduce its gross profit on the sales of the infringing fabric. The court declared that the law in the Second Circuit, known as the full absorption method, permitted an infringer to deduct increased costs, that is, costs incurred as a direct result of the production of the infringing items, and also costs for fixed expenses, such as overhead. Concluding that these expenses can only be deducted to the extent that such expenses are related to the production of the infringing items, the court entered a judgment awarding actual damages and profits, and rendering additional relief on other claims.

In an action to recover for infringement of copyrighted fabric designs, the court in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act), disallowed a co-infringer's claimed deduction for an allocated over-

head expense. The court explained that this co-infringer's president and financial reporting controller made the infringer's only attempt to explain how the co-infringer allocated its overhead by stating, "[i]t is a flat percentage that we use across the board for all products." The court pointed out that this witness did not state of what it was a percentage or how the infringer had arrived at that percentage. The court thus concluded that this co-infringer failed to carry its burden of proving an acceptable formula for its claimed overhead allocation. The court entered a judgment awarding actual damages, infringers' profits and additional relief on other claims.

In an action for infringement of a company's valid copyright in its work, "The Executive Planner," which was a combined diary, appointment calendar and information book, the court held that the copyright owner was entitled to both the infringer's profit and the copyright owner's damages, in *Baldwin Cooke Co. v Keith Clark, Inc.* (1976, ND Ill) 420 F Supp 404 (1909 Act). Regarding the copyright infringer's profits, the parties had stipulated that during the years of infringement, 1972, 1973, and 1974, the infringer's gross sales of its infringing work, "Executive Weekly Minder," were \$266,239.03. The copyright owner had also stipulated that the costs of labor, material and direct overhead for the manufacturer of the infringing books was \$188,058.54. The court, however, disallowed certain other overhead expenses. It held that the copyright owner was entitled to recover as the infringer's profits only \$78,181.29, on the

ground that the infringer had failed to meet its statutory burden of proving "every element of cost which [it] claims," pursuant to 17 USCS § 101(b). Although the infringer contended that it was entitled to allocate or prorate its overhead by a formula which would serve to reduce its gross profit on sales of the infringing books to a net profit of some \$19,000, and offered expert testimony that commonly accepted accounting principles required an allocation of general overhead, the court pointed out that the infringer did not adduce any evidence of an increase in its general overhead. The infringer was a multiproduct business, and its infringing activities represented 1 percent of its total sales. Noting that the copyright owner offered equally competent expert testimony that generally accepted accounting principles would preclude the allocation of general overhead absent a showing that they had in fact increased in some degree, the court pointed out that had the copyright infringer made some showing of increase in its general overhead resulting from its manufacturer of the infringing books, then allocation rather than precision would be acceptable. The court concluded, however, that there was no evidence of any increase in those areas and consequently the infringer had failed to prove every element of cost which it claimed. The court entered a judgment awarding the copyright owner its actual damages, the infringer's profits, and further relief on other claims.

See also *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for in-

fringement of a copyright in maps, in which the court said that costs which would be incurred anyway should not be subtracted from the infringer's profits, because by definition they cannot be avoided by curtailing the profit-making activity. The court noted that this principle was well established in the treatment of overhead costs in calculating damages for breach of contract. Ruling that the copyright owner satisfied his burden of production on the issue of the infringer's profits, the court stated that it was up to the infringer to show what if any overhead items were really variable costs.

In an architectural firm's copyright infringement action against a developer and a company that it employed to construct an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act), that the co-infringer developer was not entitled to deduct claimed overhead expenses from its profits on the infringing project. Noting that it was the developer's burden to prove the actual expenditures for ordinary overhead and a fair method of allocation, the court explained that merely stating that a particular sum was the overhead expenses allocatable to the infringing project did not satisfy the infringer's burden of proof. The court pointed out that the copyright owner for purposes of cross-examination, as well as the court, was without any knowledge as to what items were included in the overhead figure or the specific amount of each of those items. Furthermore, the court said that

the method of allocation utilized by the infringer developer in computing this overhead allocation remained a mystery, and therefore this amount could not be deducted from the developer's gross profit on the infringing project. The court rendered additional relief on other claims.

In an action to recover for infringement of copyrighted stuffed toy animals, the court in *Kamar International, Inc. v Russ Berrie & Co.* (1984, CA9 Cal) 752 F2d 1326, 224 USPQ 674 (1909 Act), later app on other grounds *Kamar International v Russ Berrie & Co.* (CA9 Cal) 829 F2d 783, reversed in part a judgment awarding infringer's profits and remanded with directions to recalculate infringer's profits and other directions. The appellate court held that the trial court did not clearly err in determining that the infringer did not prove all categories of its claimed overhead expense contributed to sales of its infringing goods. The infringer's controller testified that total overhead included shipping and warehousing, design, credit and collection, general administrative and selling expenses. The court declared that it would not adopt a legal rule disallowing all overhead deductions merely because the sales of the infringing goods constituted a small percentage of total sales, because of the varying situations which might arise and the lack of needed flexibility in an arbitrary standard. Noting that the trial court initially proposed that where sales of infringing goods amounted to only a small percentage of the infringer's total sales it would allow no over-

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head deductions, the appellate court pointed out that the real question was whether any of the overhead expenses were caused by the production or sale of the infringing goods and not the proportionate amount of sales of the goods in relation to total sales. With regard to the issue of whether overhead expenses should be allowed when they would be incurred regardless of the production and sales of the infringing goods, the Court of Appeals stated that a rule disallowing such expenses has the advantage of not allowing an infringer to reduce damages by deducting fixed overhead costs which the infringer would have borne even without his sales of infringing goods. The court here pointed out that on the other hand, such a rule might create perverse incentives for a copyright owner to delay enforcing his rights and instead allow a diversified infringer to produce and sell infringing goods. The court observed that if the copyright owner currently used his fixed overhead to capacity, then he would obtain by lawsuit net profits greater than he could have earned; not only would his profits not cost him an increase in his own overhead, he would also actually receive a premium representing the disallowance of the infringer's overhead. The court pointed out that some courts have held an infringer may not deduct any indirect costs which would have been incurred even without the infringing sales; that other courts accomplished the same result by requiring the infringer to show an increase in overhead; and that other courts have generally allowed a portion of all overhead

to be deducted from gross profits. Noting that an award of infringer's profits is aimed in part at deterring infringements and in part at appropriately compensating the copyright holder, the court declared that these goals could best be achieved by allowing a deduction for overhead only when the infringer could demonstrate that it was of actual assistance in the production, distribution or sale of the infringing product. Pointing out that the infringer here allocated all overhead in the same proportion among each item sold, whether a large stuffed animal, small stuffed animal, statuette, or other novelty, and that the infringer's controller testified that the percentage of each sale allocatable to overhead was 42.94 percent, the appellate court ruled that to the extent the trial court found this percentage system to be an unreasonable method of accounting for overhead it clearly erred. The appellate court reasoned that the infringer adequately showed that it could not satisfactorily break out variations in actual costs of overhead between individual products because of their number and variety. Furthermore, noting that courts have approved of such percentage allocations in other cases where actual variations in cost seemed difficult to prove, the court declared that there isn't any hard and fast rule except that in an accounting for profits by an infringer they must be determined as fairly and as accurately as the circumstances of the case will permit. Reversing in part a judgment awarding infringer's profits, the appellate court remanded with directions that the trial court should recalculate the

infringer's allowable overhead deductions by finding whether the company proved, as to each category of overhead, that it actually contributed to the production, distribution or sales of the infringing goods, and that if fixed overhead so contributed then the trial court should allow a deduction for it in determining awardable infringer's profits. The appellate court also directed the trial court, in addition to recalculating the infringer's profits, to decide whether in its discretion to increase the copyright owner's potential statutory damage award above the ceilings in 17 USCS § 101(b); and finally to elect between these two measures of damages—infringer's profits or statutory damages.

In an action for infringement of copyrights in musical scores written for the play, "Kismet," the appellate court held to be clearly erroneous the trial court's finding that the infringers established that the general categories of claimed overhead expense contributed to their infringing production, "Hallelujah Hollywood," in *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321. The court stated that a deduction for overhead expenses should be allowed only when the infringer can demonstrate that the overhead expense was of actual assistance in the production, distribution, or a sale of the infringing product. The court explained that this did not mean that an infringer has to prove his overhead expenses and their rela-

tionship to the infringing production in minute detail. Nonetheless, the court stated that the infringer bears the burden of explaining at least in general terms how claimed overhead actually contributed to the production of the infringing work. Although noting that undoubtedly some of the infringers' claimed overhead contributed to the production of *Hallelujah Hollywood*, the court pointed out that the infringers did not offer any evidence of (1) what costs were included in general categories entitled, general and administrative expenses, or (2) how these costs contributed to the production of "*Hallelujah Hollywood*." Rejecting the infringers' contention that their burden was met when they introduced evidence of their total overhead costs allocated on a reasonable basis (with which the trial court apparently agreed), the court ruled that this was not the law of the Ninth Circuit, and that an infringer additionally has to show that the categories of overhead actually contributed to sales of the infringing work. The court concluded that there was no such showing in the record. The court affirmed in part a judgment finding infringement and also finding that the copyright owner failed to prove actual damages, vacated that part of the judgment awarding infringers' profits derived from the infringement, rendered additional relief on other claims, and remanded.

In an action to recover for infringement of copyrights in, "*Day Runner*" and "*Running Mate*," works prescribing a system for organizing daily life, the court ruled,

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in Harper House, Inc. v Thomas Nelson Publishers, Inc. (1987, CD Cal) 4 USPQ2d 1897 (1976 Act), that it was not plain error for the court to instruct the jury that it could not deduct overhead items of expense from its calculation of profits "if you find that any defendant's infringement is wilful." The court explained that no objection was made to the jury instruction on overhead and that this instruction was proposed as a joint instruction. Upholding the jury's calculation of profits, which apparently disallowed a claimed deduction for overhead items of expense due to a finding of wilful infringement, the court entered a judgment awarding the copyright owner \$6,037,807 for copyright infringement and additional relief on other claims.

Although awarding a copyright owner its lost profit as actual damages for infringement of its copyrighted fabric design, and no infringer's profits since its lost profits totaled more than the infringer's profits, the court in JBJ Fabrics, Inc. v Mark Industries, Inc. (1987, CD Cal) 5 USPQ2d 1414 (1976 Act) (§ 15), calculated the infringer's profits by apparently disallowing any overhead. The court ruled that where the infringer had presented no evidence that any part of its overhead or other expenses should be apportioned in calculating either its profits or the copyright owner's lost profits, then the infringer's profits and the copyright owner's lost profits had to be therefore calculated by subtracting direct costs from sales price.

§ 55. Packing, warehousing, and shipping; cartage and freight
[a] Allowed

The courts in the following fed-

eral statutory copyright infringement actions allowed or held allowable a deduction from the infringer's profits for claimed freight, freight and cartage outward, packing, or shipping and packing expenses, based on the evidence in the record.

In an action to recover for infringement of a copyrighted photograph of a movie star, the appellate court held, in Sygma Photo News, Inc. v High Soc. Magazine, Inc. (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the trial judge properly permitted a deduction of \$51,288 in expenses for freight and other expenditures. The court modified and affirmed a judgment awarding infringer's profits, and remanded.

In Alfred Bell & Co. v Catalda Fine Arts, Inc. (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act) (§ 54[a]), an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court held that freight and cartage outward, shipping and packing, and certain other expenses were certainly the type of sales-overhead expenses that would be properly deductible from the infringer's profits.

In Design Resources, Inc. v John Wolf Decorative Fabrics (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58), an action to recover for infringement of copyrighted fabric designs, the court concluded that the infringer's deductible expenses included the cost of freight at 2 cents.

Although a fabric-designs copyright owner contested a co-infringer's deduction of 12 cents per garment for packing expenses apparently on the basis that the invoices presented as documentary support did not deal directly with the cost of packing for the infringing garments, the court concluded, in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act), that the 12 cents per garment packing expenses remained uniform during the time period in question and therefore could properly be deducted from the profits. The court entered a judgment awarding actual damages, infringers' profits, and additional relief on other claims.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts held that the infringer was not allowed to deduct from its profits claimed expenses for freight-in, or shipping and warehousing, based on the evidence in the record.

In an action to recover for infringement of copyrighted fabric designs, the court ruled, in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act), that a co-infringer was not entitled to deduct from its profits a claimed 43 cents per garment deduction for freight-in expenses, representing the cost of shipping in the raw materials, since this co-infringer produced no evidence in support of its alleged freight expenses except the unsubstantiated assertions of its own president. The court entered a

judgment awarding actual damages, infringers' profits and additional relief on other claims.

In an action to recover for infringement of copyrighted stuffed toy animals, the court in *Kamar International, Inc. v Russ Berrie & Co.* (1984, CA9 Cal) 752 F2d 1326, 224 USPQ 674 (1909 Act), later app on other grounds 829 F2d 783 (CA9 Cal), held that there was insufficient proof as to any infringer's profits and remanded with directions to recalculate infringer's profits and other directions. The appellate court held that the trial court did not clearly err in determining that the infringer did not prove all categories of its claimed overhead expense contributed to sales of its infringing goods. The infringer's controller testified that total overhead consisted of five categories, including shipping and warehousing.

§ 56. Photography

[a] Allowed

The court, in the following federal statutory copyright infringement action, ruled that the infringer was allowed to deduct from its profits certain photography expenses, such as costs for separations, readying photographs for publication, and retouching.

In an action to recover for infringement of a copyrighted photograph of a movie star the court held, in *Sygma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the trial court properly allowed an expense deduction for an entire \$42,882 spent on photograph separations. The court said

that of this amount \$1,280 was attributable to the cost of readying the infringing cover photo for publication in the infringer's sex-oriented magazine, but that a similar amount would have to have been spent to prepare any cover photo for reproduction. The court ruled that it was a properly deductible business expense, like the rest of the \$42,882 spent on separations. Additionally, although noting that the copyright infringers failed to provide sufficient evidence of what the photographs which they actually used in their infringing magazine had cost, and offered inadequate evidence linking the cost of the photographs to the cost of producing the infringing magazine issue in question, the court ruled that the infringers nevertheless should be allowed to deduct an amount equivalent to the minimum amount that they in all likelihood spent on the issue. The court determined that 50 percent of the amount spent on photographs represented such a figure. The appellate court further ruled that the trial court erred in not allowing a deduction for any portion of the retouching expenses, which totaled \$20,266 for the entire magazine. The court said that expenses incurred in order to make an infringement more difficult to discover—as opposed to those that the infringer incurs in altering an original for some other purpose but that have the incidental effect of concealing—are not reasonable expenses and are therefore not deductible. Noting that the trial court apparently found that the infringers retouched the background of the copyrighted photograph in order to defeat the copyright owner's

rights, and that the record indicated that this was a finding to which it was appropriate to defer, the appellate court concluded that it was therefore proper to disallow some percentage of retouching expenses. Although concluding that the trial judge was correct in concluding that the infringers did not prove the allocation of retouching expenses applicable to the infringing photograph, the appellate court ruled that some allocation should be made since the cost of retouching the infringing photograph did not equal the total retouching costs. The court therefore allowed a retouching cost deduction of 80 percent. The court modified and affirmed a judgment awarding infringer's profits, and remanded.

[b] Not allowed

In the following federal statutory copyright infringement action, the court held that the infringer was not entitled to a portion of a claimed photography expense deduction for retouching costs, although it held that certain other photographic expenses were probably allowed as deductions.

In *Sigma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act) (§ 56[a]), an action to recover for infringement of a copyrighted photograph of a movie star, the court disallowed 20 percent of a claimed photography expense deduction for retouching costs. The court said that expenses incurred in order to make an infringement more difficult to discover are not reasonable expenses and are therefore not deductible. Noting that the

trial court apparently found that the infringers retouched the background of the copyrighted photograph in order to defeat the copyright owner's rights, and that the record indicated that this was a finding to which it was appropriate to defer, the appellate court concluded that it was therefore proper to disallow some percentage of retouching expenses.

See also *Estate of Vane v Fair, Inc.* (1988, CA5 Tex) 849 F2d 186, 7 USPQ2d 1479 (1976 Act), reh den *Estate of Vane v Fair, Inc.* (CA5) 1988 US App LEXIS 18019 and cert den *Estate of Vane v Fair, Inc.* 488 US 1008, 102 L Ed 2d 783, 109 S Ct 792, an action to recover for infringement of copyrighted photographic slides, in which the appellate court held that there was ample basis for the trial court to conclude that the copyright owner photographer's expert testimony was inadequate to establish the infringer store's profits attributable to the infringement that resulted from the unauthorized use of the copyrighted slides in television commercials. The appellate court pointed out that the single figure for "dollars spent on television advertising" (which was apparently an expense item deducted from the infringer's profits by the copyright owner's expert) had to be composed of lesser expenditures for a variety of goods and services, including photographs used in the commercial.

§ 57. Postage

[a] Allowed

In the following federal statutory copyright infringement action, the court held that based on the evidence the infringer was allowed to

deduct from its profits a portion of its claimed postage expenses.

In an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd in part, on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71 (§ 54[b]), that the publisher infringer was entitled to deduct from his gross profits a mailing expense. The court said that the best it could make of the item of expense to be allowed for mailing was to allow postage for 30,000 letters at an average cost of two-thirds cents each, or \$700 for the whole, despite the fact that the publisher infringer testified from memoranda compiled by himself that he spent \$1,260 for mailing 50,000 circulars. The court explained that the publisher infringer had no record of costs, and produced no books of account. The court also pointed out that he produced no records to substantiate his testimony of spending \$1,260. The publisher infringer testified that he estimated this figure from the number of stamps he bought about this time, and the court noted that there was nothing exact about this. Nevertheless, the court said that there was hardly any doubt that the publisher infringer sent out about 15,000 letters and in some instances circularized subjects three times. The court rendered additional relief on other claims.

[b] Not allowed

In the following federal statutory

copyright infringement action, the court disallowed a portion of the infringer's claimed postage expenses.

In *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act) (§ 57[a]), an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court disallowed a portion of the publisher infringer's claimed postage expense of \$1,260 for mailing 50,000 circulars. The court pointed out that the publisher infringer produced no records to substantiate his testimony of spending \$1,260, and that there was nothing exact about his testimony that he estimated this figure from the number of stamps he bought about this time.

§ 58. Printing⁴⁹

The courts in the following federal statutory copyright infringement actions held that based on the evidence the infringer was entitled to deduct from its profits its claimed printing expenses.

In *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act) (§ 65[a]), an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court held that a co-infringer publisher was entitled to deduct from his gross profits the price that he paid to a co-infringer printer for printing services.

In a copyright infringement action by owners of a copyright for a poster against their licensed distributor, a firm hired by the licensed distributor to print infringing posters, the licensed distributor's president, and the sole beneficiary of a trust which owned all the stock of the licensed distributor, the court held, in *Abeshouse v Ultragraphics, Inc.* (1985, CA2 Conn) 754 F2d 467 (1976 Act) (§ 3[b]), that the distributor infringer met its burden of proving its deductible expenses by presenting sufficient evidence of its printing costs.

In an action to recover for infringement of a copyrighted photograph of a movie star, the court held, in *Sygma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the total printing costs allocatable to 48 percent of the copies of the infringing sex-oriented magazines that went unsold were properly deducted from the infringer's gross profits.⁵⁰ All the expert witnesses including the copyright owner's sole witness, a magazine publishing consultant, testified that it was necessary in the skin-magazine business to print approximately twice as many copies as would be sold in order to obtain proper distribution. If a publisher cut his print order to match anticipated sales, he would succeed only in reducing his sales by the same percentage as the percentage cut in

49. For paper or stationery cases, see § 53.

50. The facts indicating that the copyright owner was awarded infringer's profits rather than actual damages

pursuant to § 504(b) of the 1976 Act are taken from the District Court opinion in *Sygma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, SD NY) 603 F Supp 829, 226 USPQ 94 (1976 Act).

the print order. The court said that since issues not sold are ultimately destroyed the entire printing expense is a cost of doing business. The court pointed out that the cases relied on by the copyright owner disallowing the deduction for unsold copies involved books and lithographic prints that remained unsold but were held in inventory and intended for sale. The court pointed out that here the parties stipulated that the unsold issues of the infringing magazine were not placed in inventory but were instead destroyed. Additionally, the court upheld a deduction of \$2,377, for type, stats, and other expenses, since the link between these claimed expenses and the production of the infringing issue was established. The court modified on other grounds, affirmed an award of infringer's profits, and remanded.

In an action to recover for infringement of copyrighted fabric designs, the court in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act), awarded the copyright owner the infringer's profits of \$62,986.65 for a total damage and profit award under 17 USCS § 504(b) totaling \$166,138.65. Pointing out that the infringer's printing costs were actual expenses incurred, the court held that the copyright infringer was entitled to a deduction for printing costs and based on the evidence of total printing costs of 77 cents per yard actually negotiated by the copyright owner, the court allowed 70 cents per yard for the infringer's deductible printing costs. The court declared that the law in the Second Circuit, known

as the full absorption method, permitted an infringer to deduct increased costs, that is, costs incurred as a direct result of the production of the infringing items, and also costs for fixed expenses, such as overhead. However, the court said that these expenses can only be deducted to the extent that such expenses are related to the production of the infringing items. Having excluded costs for energy surcharge, factoring, advertising allowance and overhead, the court concluded that the infringer's deductible expenses included: printing costs at 70 cents; greige goods at \$1.15; freight at 2 cents; working allowance at 6 percent (\$.07); design and engraving at 7 cents; tubes and cases at 2 cents; "O/B" at 8 cents; and commissions at 5 percent of \$2.95 (15 cents). The court accordingly entered a judgment awarding actual damages and profits, and rendering additional relief on other claims.

§ 59. Real estate

In the following federal statutory copyright infringement action, the court ruled that the infringer was not entitled to an expense deduction from its infringing profits for the cost of real estate on which the infringing project had been constructed.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that the co-infringer developer was not entitled to a de-

duction for the cost of the real estate on which the infringing project was constructed. The court explained that the cost of the land on which the infringing project had been constructed was a direct expense that should be deducted from the profit on the real estate and not from the profit attributable to the infringing buildings.

§ 60. Rent

[a] Allowed

The courts in the following federal statutory copyright infringement actions allowed an expense deduction from the infringer's profits for rent or facilities costs.

In an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd, in part on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, that although the evidence of rent paid was sketchy on the whole the publisher infringer had some expense for rent and that \$510 was a fair allowance. The court granted this expense deduction from the publisher infringer's gross profits and rendered additional relief on other claims.

In an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act) (§ 54[a]), that it was clearly erroneous to

disallow an item of rent as an element of overhead on the asserted basis that the infringers' admission that the purchase and sale of the infringing prints did not result in an increased payment of rent. The court pointed out that the test was not whether such an overhead item had been increased by the handling of the infringements but whether this overhead item actually assisted in the production of the infringing profits. The court also ruled that the infringer was entitled to deduct selling and commercial overhead expenses, including costs for facilities.

See also *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, in which the court held that the copyright owner's method of computing the infringer's "gross profits" was deficient, since although labeled gross profits, the figure was actually sales revenue minus cost of goods sold, and other costs such as rent and other expense items were not deducted although they were clearly shown on the infringer's income tax returns. The court observed that when these items were deducted it appeared that the infringer had no net profits for the years in question. The court said that the infringer probably would have incurred at least some of these costs such as rent even if he had not sold the infringing maps; and that to the extent this was so, the infringer's gross profits were real profits in the only sense relevant to a damages calculation—they were his residual income after all costs necessary to generate the income

had been subtracted. The court said that costs that would be incurred anyway should not be subtracted, because by definition they cannot be avoided by curtailing the profit-making activity. The court noted that this principle was well established in the treatment of overhead costs in calculating damages for breach of contract claims.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that rent was a properly allocatable overhead expense deductible from profits.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts held that the infringer was not entitled to an expense deduction from the infringer's profits for rent costs, based on the evidence in the record.

In an action for infringement of a copyright in a book, "Who's Who in New England," the court held that the evidence offered by the copyright infringer in respect to a claimed overhead expense did not meet the infringer's statutory burden of proof, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]). The court ruled that the evidence as to overhead items, including rent, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense

assisted in the production of the infringement and which did not. Disagreeing with the trial court's allowance of a deduction for overhead expenses which resulted in a finding that the infringer made no net profit on the infringing printing contract, the appellate court concluded that the case would be remanded to the trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

In an action to recover for infringement of a copyrighted photograph of a movie star, the court held, in *Syigma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that the trial judge properly denied any deduction for rent since this claimed expense was not linked with production costs in any satisfactory form. The court pointed out that there was not even, as there had been with the infringing photographs, any suggestion of a minimum amount that must have been spent on the production of the infringing magazine issue. The court modified and affirmed a judgment awarding infringer's profits, and remanded.

See also *JBj Fabrics, Inc. v Mark Industries, Inc.* (1987, CD Cal) 5 USPQ2d 1414 (1976 Act), an action for infringement of a copyrighted fabric design, in which the court noted that general overhead items, such as rent, and other costs are not to be deducted from gross sales since they are by hypothesis there whether the particular item is sold or not; only if a particular overhead item can be specifically

related to the goods in question can it be deducted, declared the court. The court said that this is true even if overhead increases losses or decreases gains for the enterprise as a whole.

§ 61. Repairs

The court, in the following federal statutory copyright infringement action, refused to allow any expense deduction from the infringer's profits for claimed repairs costs, based on the evidence in the record.

In an action for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]), that the evidence as to overhead items, which included repairs, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement and which did not. Disagreeing with the trial court's allowance of a deduction for overhead expenses which resulted in a finding that the infringer made no net profit on the infringing printing contract, the appellate court concluded that the case would be remanded to the trial court for further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

But see *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, in which the court held that the copyright owner's method of com-

puting the infringer's profits was deficient, since although the item was labeled "gross profits," the item was actually sales revenue minus cost of goods sold, and other costs, such as a repairs expense and other costs, were not deducted although they were clearly shown on the infringer's income tax returns. The court observed that when these were deducted it appeared that the infringer had no net profits for the years in question. The court said that to the extent this was so, the infringer's gross profits were real profits in the only sense relevant to a damages calculation—they were his residual income after all costs necessary to generate the income had been subtracted. The court said that costs that would be incurred anyway should not be subtracted, because by definition they cannot be avoided by curtailing the profit-making activity.

§ 62. Returned goods or charge-backs

In the following federal statutory copyright infringement actions, the courts refused to allow any expense deduction from the infringer's profits for claimed costs of charge-backs or returned goods.

In an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act), mod on other grounds (CA2 NY) 191 F2d 99, 90 USPQ 153 (§ 68[b]), that in determining profits an infringer may not deduct for the cost of a product sold and then returned as

defective. It said that where there are no sales, there can be no profits, and there can be nothing to charge against such profits. The court also ruled that an infringer was not entitled to a deduction for the cost to it of freight, cartage inward, and rent, where there was no proof of such items and there was no evidence that it would have been impossible or for this infringer to prove these costs. The court amended an interlocutory decree.

In an action to recover for infringement of copyrighted fabric designs, the court ruled, in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393 (1976 Act), that one co-infringer would not be allowed a deduction for 118 alleged charge-backs. The court explained that an infringer may not deduct the cost of those infringing copies for which no gross revenues have been derived either because they have not been sold or have been later returned. As to the other co-infringer, the court ruled that this co-infringer likewise could not deduct the costs of the dresses it still had in stock. The court entered a judgment awarding actual damages, infringers' profits, and additional relief on other claims.

§ 63. Salary, wages, and other compensation—agents and employees

[a] Allowed

The courts in the following federal statutory copyright infringement actions held or apparently held that the infringer was entitled to an expense deduction from the

infringer's profits for claimed costs of salaries, wages, or other compensation of the infringer's employees or agents.

In an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd, in part on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, that the publisher/infringer was entitled to deduct from his gross profits an expense amount of \$1,500 for clerk hire for one employee who appeared before the court at the trial. The court rendered additional relief on other claims.

In an action to recover for infringement of a copyrighted photograph of a movie star, the court held, in *Sygma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act), that there were \$51,288 in expenses for salaries and other expenditures that both sides agreed should be and thus would be deducted from the infringer's gross revenues. The court modified and affirmed a judgment awarding infringer's profits, and remanded.

In an action to recover for the infringement of a copyright in a play, "Dishonored Lady," against the theater owner who exhibited the infringing motion picture, "Letty Lynton," the court held, in *Sheldon v Moredall Realty Corp.* (1939, DC NY) 29 F Supp 729, 43 USPQ 81 (1909 Act), that certain overhead expenses such as payroll

were properly charged against gross receipts in determining the profits for which the infringer exhibitor was accountable to the copyright owner. The court also ruled that the respective actual costs were properly charged separately to the infringing motion picture and to the balance of the program, after the general and fixed charges had been deducted from the gross receipts. The court entered a judgment for the copyright owner awarding it apportioned profits, and additional relief on other grounds.

In an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act) (§ 54[a]), that the infringer was entitled to deduct expenses for selling and commercial overhead, including costs for personnel engaged in selling and serving customers. The court also ruled that salesperson's salaries and commissions, and certain other expenses, were the type of sales overhead expenses that would be properly deductible from the infringer's profits. The court said that there was no need to show that there was a substantial sales effort involving solicitation of the business in the first instance, since the expenses that were claimed here assisted in the production of the infringing profits and were a legitimate part of the general overhead of the infringer's business.

In an action for infringement of a copyright relating to siphon

pumps mounted on cards, the court in *Fedtro, Inc. v Kravex Mfg. Corp.* (1970, ED NY) 313 F Supp 990, 164 USPQ 510 (1909 Act) (§ 35[b]), apparently allowed some deduction for labor costs in determining the proper allocation of profits attributable to the infringement.

In an action to recover for infringement of a copyright in a song, the court held, in *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act) (§ 36[c]), mod on other grounds, remanded (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, that a certain 20-percent commission already paid to the copyright infringer's former general manager and a 3.75-percent commission paid to the infringer's agent totaling almost \$19,000 would both be allowed as expense items deductible from the gross earnings of the infringing song thereby reducing the total earnings figure to just over \$2 million.

In an action to recover for infringement of copyrighted fabric designs, the court concluded, in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58), that the infringer's deductible expenses included a "working allowance" cost at 6 percent, and commissions apparently for employees or agents at 5 percent of \$2.95.

In an action to recover for infringement of copyrighted fabric designs, the court ruled, in *Dolori Fabrics, Inc. v Limited, Inc.* (1987, SD NY) 662 F Supp 1347, 3 USPQ2d 1753, 4 UCCRS2d 393

parties had stipulated that during the years of infringement, 1972, 1973, and 1974, the infringer's gross sales of its infringing work, "Executive Weekly Minder," were \$266,239.03. The copyright owner had also stipulated that the costs of labor, material and direct overhead for the manufacturer of the infringing books was \$188,058.54. Thus, apparently allowing an expense deduction for labor costs, the court held that the copyright owner was entitled to recover as the infringer's profits the sum of \$78,181.29. The court entered a judgment awarding actual damages, the infringer's profits, and additional relief on other claims.

See also *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps in which the court held that the copyright owner's method of computing the infringer's profits was deficient, since although the item was labeled gross profits, the item was actually sales revenue minus cost of goods sold and that other costs such as commissions and other expenses were not deducted although they were clearly shown on the infringer's income tax returns. The court observed that when these items were deducted, it appeared that the infringer had no net profits for the years in question. The court said that costs that would be incurred anyway should not be subtracted, because by definition they cannot be avoided by curtailing the profit-making activity.

In an architectural firm's action for copyright infringement against a developer and the company it

employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that officers' salaries and other salaries, and employee benefits were properly allocatable overhead expenses deductible from profits.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts held that the infringer was not allowed to deduct from its profits claimed costs of salaries, or fees paid to the infringer's employees or agents, based on the evidence.

In an action for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]), that the evidence offered by the copyright infringer in respect to a claimed overhead expense did not meet the infringer's statutory burden of proof. The court ruled that the evidence as to overhead items, which included clerical and executive salaries, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement and which did not. Disagreeing with the trial court's allowance of a deduction for overhead expenses which resulted in a finding that the infringer made no net profit on the infringing printing contract, the appellate court concluded that the case would be remanded to the trial court for

further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

In an action to recover for infringement of a copyright in a song, the court held, in *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act) (§ 36[c]), mod on other grounds, remanded (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, that where the infringer did not prove with even minimum specificity that certain expenses were attributable to the infringing song, including a management fee and certain salaries, these expenses would all be disallowed and therefore could not be deducted from total gross earnings of the infringing song.

Additionally, see *Estate of Vane v Fair, Inc.* (1988, CA5 Tex) 849 F2d 186, 7 USPQ2d 1479 (1976 Act), reh den *Estate of Vane v Fair, Inc.* (CA5) 1988 US App LEXIS 18019 and cert den *Estate of Vane v Fair, Inc.* 488 US 1008, 102 L Ed 2d 783, 109 S Ct 792, an action to recover for infringement of copyrighted photographic slides, in which the appellate court held that there was ample basis for the trial court to conclude that the copyright owner photographer's expert testimony was inadequate to establish the infringer store's profits attributable to the infringement that resulted from the unauthorized use of the copyrighted slides in television commercials. The appellate court explained, in part, that the single figure for "dollars spent on

television advertising" (which was apparently an expense item deducted from the infringer's profits by the copyright owner's expert) had to be composed of lesser expenditures for a variety of goods and services, including fees paid to the producer of the commercial.

See also *JBj Fabrics, Inc. v Mark Industries, Inc.* (1987, CD Cal) 5 USPQ2d 1414 (1976 Act), an action for infringement of a copyrighted fabric design, in which the court noted that general overhead, such as management and other costs are not to be deducted from gross sales since they are by hypothesis there whether the particular item is sold or not. Only if a particular overhead item can be specifically related to the goods in question can it be deducted, declared the court. The court said that this is true even if overhead increases losses or decreases gains for the enterprise as a whole.

§ 64. —Independent contractors

The courts, in the following federal statutory copyright infringement actions, ruled that the infringer was allowed to deduct from the profits claimed expenses for royalties, commissions, or other compensation paid, or apparently paid, to independent contractors.

In an action to recover for infringement of a copyrighted photograph of a movie star, the appellate court held that the trial judge properly permitted a deduction of \$2,377 in payments for royalties apparently made to contractors, and other expense items, since the link between these claimed expenses and the production of the infringing issue was established, in

Syigma Photo News, Inc. v High Soc. Magazine, Inc. (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act). The court modified and affirmed a judgment awarding infringer's profits, and remanded.

In an action to recover for infringement of a copyrighted play, the court in *Harris v Miller* (1943, SD NY) 57 USPQ 103 (1909 Act) (§ 36[a]), noting that the profits of the infringers had been stipulated at \$73,724.01 subject to rulings on two credits claimed by the infringers, upheld the master's finding that the authors of the play were not partners or coadventurers with the producers in the stage production, and that on the basis of this finding the producers were entitled to credit for the contract royalties paid to the authors.

In an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act) (§ 54[a]), that commissions to dealers and certain other enumerated expenses were certainly the type of sales-overhead expenses that would be properly deductible from the infringer's profits.

§ 65. —Infringer or co-infringer
[a] Allowed

In the following federal statutory copyright infringement actions, the courts ruled that the infringer was allowed to deduct from his gross profits claimed expenses for compensation paid to a co-infringer.

In *Sammons v Larkin* (1940, DC

Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd, in part on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, the court held that a co-infringer publisher was entitled to deduct from his gross profits of \$18,795 the price of \$6,517 which he paid to a co-infringer printer for printing services, where there was no dispute about these facts. The court made rulings on other claimed expense deductions and other issues, awarded profits, and rendered additional relief on other claims.

See also *MCA, Inc. v Wilson* (1981, CA2 NY) 677 F2d 180, 211 USPQ 577 (1909 Act), an action to recover for infringement of the copyrighted song, "Boogie Woogie Bugle Boy of Company B," wherein the court held that the salary paid to the defendant president of a cabaret, at which an erotic nude show (including the infringing song) had been performed, was not profit from the infringing song, and that the portion of profits awarded as against him could not stand. The court noted that the term "profit" was not defined in the copyright statute and therefore had to be assumed to have its ordinary or usual meaning. The court said that dictionaries defined profit as "entrepreneurial or employer income as distinguished from wages or rent," and the "gain realized from business or investment over and above expenditures and in distinction from the wages of labor." The court explained that the defendant-president had nothing to do with the show even though he was in charge of the premises, and that although

he was paid an annual salary of \$25,000 there was no proof that this salary was contingent on or fixed by the profits of the erotic nude show and the infringing music. The court pointed out, moreover, that other shows were being performed on the premises.

In a federal copyright infringement action, the court in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 43), allowed a real-estate developer infringer to deduct from its profits on an infringing project certain expenses including the amount it paid to a co-infringer for the construction of the infringing project.

Additionally, see *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, an action for infringement of copyrights in musical scores written for the play, "Kismet," in which the court held that a co-infringer producer-director of the infringing show, "Hallelujah Hollywood," might be liable for profits earned in connection with the production of the show, but amounts paid to him as salary were not to be considered as profits. The court also held that if the producer-director earned profits from the production, such as royalties, he was liable for a proportionate amount of these; but that concomitantly a co-infringer corporation would be entitled to deduct any such royalties as costs in arriving at its own profits.

[b] Not allowed

The court, in the following federal statutory copyright infringement action, held that the infringer was not allowed to deduct from his profits claimed expenses for compensation apparently paid to himself.

In an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd, in part on other grounds, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, that although the publisher infringer testified that salaries amounted to \$4,151, where all of this amount except \$1,500 allowed for employee expense seemed to be compensation for the publisher himself, he could not profit from his wrong here. Explaining that what he took was a part of the profits and that he had to account for this amount as profits, the court accordingly denied an expense deduction for the publisher infringer's personal compensation. The court rendered additional relief on other claims.

See also *Harris v Miller* (1943, SD NY) 57 USPQ 103 (1909 Act), an action to recover for infringement of a copyrighted play, in which the court ruled that the case was plainly one for the apportionment of the infringers' profits, and confirmed the master's report awarding the copyright owner a certain percentage of the infringer's profits including 10 percent of the profits attributable to the services of the director. The court

explained that the 10 percent attributable to the director's services was allowed on the theory that the director was a co-infringer, and that no credit could be given for his time.

Additionally, see *Frank Music Corp. v Metro-Goldwyn-Mayer, Inc.* (1985, CA9 Cal) 772 F2d 505, 227 USPQ 687 (1909 Act), later app on other grounds (CA9 Cal) 886 F2d 1545, 12 USPQ2d 1412, cert den (US) 108 L Ed 2d 496, 110 S Ct 1321, an action for infringement of copyrights in musical scores written for the play, "Kismet," in which the court held that if a co-infringer producer-director of the infringing show "Hallelujah Hollywood" earned profits from the production, such as royalties, he was liable for a proportionate amount of these and apparently would not be entitled to deduct these as expenses. The court, however, pointed out that concomitantly a co-infringer corporation would be entitled to deduct any such royalties as costs in arriving at its own profits.

§ 66. Sales discounts

In the following federal statutory copyright infringement action, the court allowed an expense deduction from the infringer's profits for claimed sales-discounts costs.

In *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act) (§ 54[a]), an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court allowed a deduc-

tion for sales discounts, and certain other expenses, explaining that these were the type of sales overhead expenses that would be properly deductible from the infringer's profits.

§ 67. Selling⁵¹

[a] Allowed

The court, in the following federal statutory copyright infringement action, apparently allowed a deduction from the infringer's profits for selling expenses.

In an action to recover profits from the infringement of eight separate copyrights of mezzotint engravings of paintings of old masters, the court in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1949, SD NY) 86 F Supp 399, 82 USPQ 273 (1909 Act) (§ 54[a]), apparently allowed a deduction for selling expenses. The court ruled that the infringer was entitled to deduct expenses for selling and commercial overhead, including costs for personnel engaged in selling and serving customers, and other costs.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts held that an infringer was not entitled to a deduction from the infringer's profits for claimed selling expenses.

In an action for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]), that the evidence offered by the copyright infringer in respect to a

51. For salesperson-compensation cases, see § 63.

claimed overhead expense did not meet the infringer's statutory burden of proof. Disallowing any deduction for overhead, the court ruled that the evidence of overhead items, which included a selling expense, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement and which did not.

In *Kamar International, Inc. v Russ Berrie & Co.* (1984, CA9 Cal) 752 F2d 1326, 224 USPQ 674 (1909 Act), later app on other grounds *Kamar International v Russ Berrie & Co.* (CA9 Cal) 829 F2d 783, an action to recover for infringement of copyrighted stuffed toy animals, the court remanded with directions to recalculate infringer's profits and other directions. The appellate court held that the trial court did not clearly err in determining that the infringer did not prove all categories of its claimed overhead expense, including a selling category, contributed to sales of its infringing goods.

§ 68. Taxes

[a] Allowed

The courts in the following federal statutory copyright infringement actions allowed or apparently allowed an expense deduction from the infringer's profits for real-estate taxes, federal income taxes, payroll taxes, or certain other taxes.

In an action to recover for the infringement of a copyright in a play, "Dishonored Lady," against the theater owner who exhibited the infringing motion picture, "Letty Lynton," the court held, in

Sheldon v Moredall Realty Corp. (1939, DC NY) 29 F Supp 729, 43 USPQ 81 (1909 Act), that the theater owner—an exhibitor—was unquestionably an innocent copyright infringer, and that it was entitled to a deduction of what it paid on federal income taxes on its profits from the exhibition of the infringing picture for the 2-week period in arriving at the net profits for which it was accountable to the copyright owner. Although determining that the federal income taxes were chargeable against gross receipts, the court held that the federal income taxes should have been apportioned after the net profits of the infringing motion picture and the net profits of the other attractions of the program had been determined. The court accordingly entered a judgment for the copyright owner awarding it apportioned net profits, and additional relief on other claims.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that payroll and other general taxes were properly allocatable overhead expenses deductible from the co-infringer construction company's profits. The court also held without additional discussion that the co-infringer developer was entitled to deduct from its profits on the infringing project various expenses listed on its accounting sheet, including the amount of real-estate taxes paid.

In an action to recover for infringement of a copyrighted architectural plan, the court ruled, in *Arthur Rutenberg Corp. v Dawney* (1986, MD Fla) 647 F Supp 1214 (1976 Act), that the copyright owners were entitled to recover the infringers' profits in the amount of \$134,750.17. The court pointed out that the infringers had built a home in accordance with their infringing architectural plan, which house they sold for \$402,500, and that as a result of certain settlement charges and an Internal Revenue Service withholding the infringers received \$334,750.17 in cash at the time of the sale. Thus, the court apparently allowed a deduction for certain taxes from the gross profits on the sale of the infringers' home. Noting that the infringers were obliged to prove their deductible expenses, pursuant to 17 USCS § 504(b), or else the gross figure would be left to stand as the profit factor, the court said that the only evidence addressed at trial regarding the deductible offsets to the \$334,750.17 figure was one of the co-infringer's testimony that the infringers' home cost approximately \$200,000. Additionally noting that the purpose of an award of the infringers' profits is to prevent the infringer from unfairly benefiting from a wrongful act, the court also awarded additional relief on other claims.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts disallowed an expense deduction from the infringer's profits for a claimed energy surcharge cost or for income taxes, based on the evidence in the record.

In an action to recover for infringements of eight separate copyrights in mezzotints engravings of paintings of an old master, the court held, in *Alfred Bell & Co. v Catalda Fine Arts, Inc.* (1951, CA2 NY) 191 F2d 99, 90 USPQ 153 (1909 Act), that the trial court erred in allowing the infringers to deduct their income taxes from their profits, where the infringers had infringed the copyrights with knowledge that the copyrights existed, and with no attempt at concealment. The court said that open and unabashed piracy is not a mark of good faith, and under these circumstances the deduction of taxes in the apportionment of the infringers' profits was improper. To that extent only, the court modified a judgment awarding the infringers' profits, and otherwise affirmed.

In an action to recover for infringement of a copyrighted play, the court in *Harris v Miller* (1943, SD NY) 57 USPQ 103 (1909 Act) (§ 36[a]), noting that the profits of the infringers had been stipulated at \$73,724.01 subject to rulings on two credits claimed by the infringers, approved the master's finding that both the authors and the producers were conscious and deliberate infringers, and that on the basis of these findings credits could not be allowed for income tax payments.

In an action to recover for infringement of a copyright in a song, the court held, in *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act) (§ 36[c]), mod on other grounds, remanded (CA2 NY) 722 F2d 988,

221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, that where the infringer did not prove with even minimum specificity that certain income taxes were attributable to the infringing song this claimed expense would be disallowed and therefore could not be deducted from total gross earnings of the infringing song.

In an action to recover for infringement of copyrighted fabric designs, the court in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58), excluded a claimed energy-surcharge expense deduction from the calculation of the infringer's profits.

Awarding the copyright owner its lost profits for infringement of its copyrighted fabric design, in *JBj Fabrics, Inc. v Mark Industries, Inc.* (1987, CD Cal) 5 USPQ2d 1414 (1976 Act) (§ 15), the court said that there was no justification for deducting a general income-tax reserve figure from the calculations of the infringer's profits attributable to the infringement. The court calculated expenses for purposes of determining both the infringer's profits and the copyright owner's lost profits. Regarding the claimed general income-tax reserve figure, the court explained that this figure bore no necessary relationship to the infringing sales, and moreover the infringer did not show that a recovery of the kind involved in the present case would not have its own income-tax consequences so that causing a reduction at this time could double the loss to the copyright owner, and otherwise be problematic, inappropriate, and even speculative.

§ 69. Trade bills

The court, in the following federal statutory copyright infringement action, allowed an expense deduction from the infringer's profits for a claimed trade-bill expense.

In an action to recover for the infringement of a copyright in a play, "*Dishonored Lady*," against the theater owner who exhibited the infringing motion picture, "*Letty Lynton*," the court held, in *Sheldon v Moredall Realty Corp.* (1939, DC NY) 29 F Supp 729, 43 USPQ 81 (1909 Act), that certain specific overhead expenses such as trade bills were properly charged against gross receipts in determining the profits for which the exhibitor infringer was accountable to the copyright owner. The court also ruled that the respective actual costs were properly charged separately to the infringing motion picture and to the balance of the program, after the general and fixed charges had been deducted from the gross receipts. The court accordingly entered a judgment for the copyright owner awarding it infringer's profits, and additional relief on other grounds.

§ 70. Transportation or travel, automobile

In the following federal statutory copyright infringement actions, the courts held that an infringer was entitled to a deduction from the infringer's profits for a claimed transportation expense, or an automobile and travel expense.

In an action to recover for infringement of a copyrighted photograph of a movie star, the appellate court held that the trial judge

properly permitted a deduction of \$51,288 in expenses for transportation and other expenditures, in *Sygma Photo News, Inc. v High Soc. Magazine, Inc.* (1985, CA2 NY) 778 F2d 89, 228 USPQ 580, 3 FR Serv 3d 1023 (1976 Act). The court modified and affirmed a judgment awarding infringer's profits, and remanded.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoffman, Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that an automobile and travel expense and other operating expenses were properly allocatable overhead expenses deductible from the co-infringer construction company's profits.

§ 71. Utilities—heating, lighting, or telephone

[a] Allowed

The courts in the following federal statutory copyright infringement actions allowed a deduction from the infringer's profits for claimed utilities or telephone expenses, based on the evidence in the record.

In an action against a publisher and a printer for infringement of a copyright in a book, "Who's Who in New England," the court in *Sammons v Larkin* (1940, DC Mass) 38 F Supp 649, 49 USPQ 350 (1909 Act), later op on other grounds (DC Mass) 50 USPQ 187 and amd, in part, and remanded (CA1 Mass) 126 F2d 341, 53 USPQ 71, allowed an expense de-

duction for telephone costs of \$148. The court also allowed other deductions and rendered additional relief on other claims.

See also *Taylor v Meirick* (1983, CA7 Ill) 712 F2d 1112, 219 USPQ 420 (1976 Act), an action for infringement of a copyright in maps, in which the court held that the copyright owner's method of computing the infringer's "gross profits" was deficient, since although labeled gross profits, the figure was actually sales revenue minus cost of goods sold; and other costs such as a telephone expense and other costs were not deducted although they were clearly shown on the infringer's income tax returns. The court observed that when these were deducted it appeared that the infringer had no net profits for the years in question. The court said that the infringer probably would have incurred at least some of these costs such as basic phone service even if he had not sold the infringing maps; and that to the extent this was so, the infringer's gross profits were real profits in the only sense relevant to a damages calculation—they were his residual income after all costs necessary to generate the income had been subtracted. The court said that costs that would be incurred anyway should not be subtracted, because by definition they cannot be avoided by curtailing the profit-making activity.

In an architectural firm's action for copyright infringement against a developer and the company it employed to build an infringing multiunit apartment complex, the court held, in *Aitken, Hazen, Hoff-*

man, *Miller, P. C. v Empire Constr. Co.* (1982, DC Neb) 542 F Supp 252, 218 USPQ 409 (1976 Act) (§ 54[a]), that telephone, utilities, and other operating expenses were properly allocatable overhead expenses deductible from the co-infringer construction company's profits.

[b] Not allowed

In the following federal statutory copyright infringement actions, the courts disallowed a deduction from the infringer's profits for claimed energy-surcharge, heat, light and power, or telephone expenses, based on the evidence in the record.

In an action for infringement of a copyright in a book, "Who's Who in New England," the court held, in *Sammons v Colonial Press, Inc.* (1942, CA1 Mass) 126 F2d 341, 53 USPQ 71 (1909 Act) (§ 54[b]), that the evidence offered by the copyright infringer in respect to a claimed overhead expense did not meet the infringer's statutory burden of proof. The court ruled that the evidence as to overhead items, which included light and power, and heat, was unsatisfactory in its generality, and was an insufficient basis for a finding as to which specific items of overhead expense assisted in the production of the infringement and which did not. Disagreeing with the trial court's allowance of a deduction for overhead expenses which resulted in a finding that the infringer made no net profit on the infringing printing contract, the appellate court concluded that the case would be remanded to the trial court for

further proof on the items of overhead as they might affect the computation of the net profit or loss made by the infringer on the printing job.

In an action to recover for infringement of a copyright in a song, the court held, in *ABKCO Music, Inc. v Harrisongs Music, Ltd.* (1981, SD NY) 508 F Supp 798 (apparently 1909 Act) (§ 36[c]), mod on other grounds, remanded (CA2 NY) 722 F2d 988, 221 USPQ 490, later proceeding on other grounds (CA2 NY) 841 F2d 494, that where the infringer did not prove with even minimum specificity that certain expenses were attributable to the infringing song, including telephone expenses, these expenses would all be disallowed and thus could not be deducted from total gross earnings of the infringing song.

In an action to recover for infringement of copyrighted fabric designs, the court excluded a claimed energy-surcharge expense deduction from the calculation of the infringer's profits, in *Design Resources, Inc. v John Wolf Decorative Fabrics* (1985, SD NY) 229 USPQ 418 (1976 Act) (§ 58).

See also *JBj Fabrics, Inc. v Mark Industries, Inc.* (1987, CD Cal) 5 USPQ2d 1414 (1976 Act), an action for infringement of a copyrighted fabric design, in which the court noted that general overhead, such as telephone and other costs, are not to be deducted from gross sales since they are by hypothesis there whether the particular item is sold or not. The court declared that only if a particular overhead

item can be specifically related to is true even if overhead increases the goods in question can it be losses or decreases gains for the deducted. The court said that this enterprise as a whole.

Consult POCKET PART in this volume for later cases and statutory changes

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