

Copyright Litigation: Determining Copyright Damages

Mark V.B. Partridge

So, the judge found in your favor on liability. Your principal competitor's database program contains elements that infringe your copyrights. How will you fair in the recovery phase? If you failed to register the work before the infringement, perhaps not as well as you hope.

17 U.S.C. 412 provides that “no award of statutory damages or of attorney’s fees” shall be made for “any infringement of copyright . . . commenced before the effective date of the its registration.” This provision applies to additional or continuing infringements commencing after registration. "A plaintiff may not recover an award of statutory damages and attorney's fees for infringements that commenced after registration if the same defendant commenced an infringement of the same work prior to registration." *Mason v. Montgomery Data, Inc.*, 967 F.2d 135 (5th Cir. 1992). There is a three month grace period after publication for timely registration. Because the high cost of litigation can sometimes derail future enforcement efforts, proactive counsel and clients should encourage registration soon after the work is released and should not wait until infringement problems arise.

Without the ability to recover statutory damages and attorney's fees, the prevailing copyright plaintiff is limited to recovering actual damages and profits under 17 U.S.C. 504(b), which permits the copyright owner 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.

Actual Damages

Actual damages equals the profits the plaintiff might have accrued but for the defendant's infringement. The determination of the plaintiff's actual damages is fact-specific, as explained in *Fitzgerald Publishing Co, Inc. v. Baylor Publishing Co, Inc.*, 670 F. Supp. 1133, 1139 (E.D.N.Y. 1987):

The primary measure for the recovery of actual damages under [Section 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. . . . The best method available for measuring this diminution in market value is the profit lost by the plaintiff due to the infringements. . . . Further, the profit lost by the plaintiff is not equivalent to the profit gained by the infringers, since the opposing parties will have different selling techniques and business organizations.

There must be a causal relation between the infringement and the diminution of plaintiff's product. Often, the sales of the defendant's product or the loss sales of the plaintiff may be attributable to factors other than the infringement. If, for example, defendant sells the infringing product at a substantially lower price than plaintiff sells the copyrighted product, that causal relation may not exist. *Fedtro, Inc. v. Kravex Manufacturing Corp.*, 313 F. Supp. 990, 996 (E.D.N.Y. 1970) denied proximate causation on that basis:

The evidence does not warrant any inference that defendant's copyright infringement was the proximate cause of plaintiff's losses of sales to defendant and others. Plaintiff's price of eighty-nine cents was in the significant trade paths substantially in excess of [defendant's] selling list

price of sixty cents and actual sale price of an average of about fifty-five cents. With that differential in price, which the evidence warrants concluding was the dominant difference between the two articles in their trade successes, there is no reason to doubt that defendant's article would have commanded a substantial share of the market whether presented on a display card or in a sack under a header. It is speculation to seek to locate some measurable quantum of sales diversion that can fairly be traced to the use of [the copyrighted materials] rather than to other marketability factors.

Other market factors may have a similar effect: for example, changing technology; third party competition; non-infringing aspects of the infringing product. The plaintiff has the burden of showing the causal connection between the infringement and some loss of anticipated revenue and may not rely on mere speculation. The plaintiff also has the burden of proving the profits it would have made on sales lost as a result of the infringement.

Defendant's Profits

Under 17 U.S.C. 504(b), to establish 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.

In Design v. K-Mart Apparel Corp., 13 F.3d 559 (2d Cir. 1994), the court discussed the application of this provision. The plaintiff must present proof of the defendant's gross revenue. This can be met by showing the number of infringing items sold and the defendant's listed price for those items. The

defendant must then prove deductible expenses, and failure to prove deductions could result in an award of gross sales revenue. The available deductions include:

- Difference between actual and list price of goods sold.

- Cost of goods sold.

- Overhead expense. The defendant has the "burden of proving that each item of general expense contributed to the production of the infringing items, and of further offering a fair and acceptable formula for allocating a given portion of overhead to the particular infringing items in issue." 13 F.3d at 564-66.

- Income tax paid on profits. This is not deductible where infringement was conscious and deliberate." 13 F.3d at 566.

Because some of the expenses carried on the defendant's books may not be attributable to the production of the infringing product, profits may be awarded even when the defendant's books or tax returns show a loss.

Apportionment

In calculating the defendant's profits, there should be a deduction for elements of profits attributable to factors other than the copyrighted work. This can be difficult when non-infringing elements are combined with infringing elements to create a single work: for example, a 400 page novel with 10 infringing pages; infringing lyrics combined with a non-infringing melody; a video with incidental display of infringing photographs.

The seminal case on apportionment is *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940), in which the Supreme Court upheld a lower court order awarding plaintiff one fifth of defendant's profits from a motion picture parts of which infringed plaintiff's copyright. Holding that

apportionment principles of patent law applied fully to copyright cases, the court stated:

In so far as the profits from the infringing sales were attributable to the patented improvements they belonged to the plaintiff, and in so far as they were due to other parts or features they belonged to the defendants. But as the drills were sold in completed and operative form, the profits resulting from the several parts were necessarily commingled. It was essential, therefore, that they be separated or apportioned between what was covered by the patent and what was not covered by it In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains.

(309 U.S. at 404.)

The court emphasized that apportionment does not have to be mathematically exact. Only a reasonable approximation is required, to be attained "through the testimony of experts and persons informed by observation and experience." 309 U.S. at 404.

Double Counting

Finally, remember that the award of the defendant's profits should not include profits taken into account when computing actual damages. As explained in *Taylor v. Meirick*, 712 F.2d 1112, 1120 (7th Cir. 1983), if the profits the owner would have made but for the infringement are equal to the profits the infringer made by selling the copyrighted item, and the owner proves up his lost profits, the "not taken into account" clause . . . bars the owner from receiving an additional award of damages based on the infringer's profits. In other words, double counting is not allowed.

The damages phase of a copyright case can be difficult and time consuming, requiring the testimony of accounting and marketing experts. The difficulties and expense inherent in the effort are strong incentives for early registration so that statutory damages and attorney's fees may be sought as a relatively easy alternative.