EXHIBIT 33

Patry on Copyright

Database updated March 2010

Chapter
22. Remedies

VI. Monetary Damages

B. Legislative History

References

§ 22:129. Defendant's profits—Value of the use and saved acquisition costs as profits—An end run around the statute—The Second Circuit: *Business Trends* and *Davis*

West's Key Number Digest

West's Key Number Digest, Copyrights and Intellectual Property 87(1)

Two decisions in the Second Circuit address *Deltak: Business Trends Analysts Inc. v. Freedonia Group, Inc,* [1] and *Davis v. Gap, Inc.*[2] We take up *Business Trends* first.

Business Trends, like *Deltak,* involved a plaintiff who was disqualified from statutory damages pursuant to section 412, and who failed to prove actual damages.[3] Defendant did, though, make profits from sales of infringing copies, unlike the defendant in *Deltak.* The sales were of two types. First, the defendant made sales of $9,745, from which $5,665 in expenses were deducted, leaving $4,079 in net profits. Second, in order to try to gain market share, defendant made 37 sales at the steeply discounted price of $150, for gross revenues of $5,550. The trial court, however, following *Deltak,* found "inferentially" that defendant had a "noncash" profit from the effort to gain market share, which the court described as a "value of use." The market value of defendant's work was $1,500; the court then oddly deducted the $150 price that the copies were actually sold at, equaling $1,350, which was then multiplied by 37 ($49,950), to which was added the first category of net profits ($4,079), for a total of $54,029.[4] The correct amount should have been $4,079 plus the $150 × 37 ($5,550), minus the cost deductions from the $5,550.[5]

The award of noncash profits was novel, to say the least, and quite an extension of *Deltak.* The award bore no resemblance to that in *Deltak* and was instead form of supposed goodwill realized from the effort to create market share from selling a product at an extremely low price. It is, therefore, inaccurate to describe *Business Trends* as a "value of the use" case, if by that term one refers to a "cash" award based on money saved by infringing rather than negotiating with the copyright owner. Despite the clear differences, the court of appeals took *Deltak* on:

> We decline to adopt *Deltak's* approach … Defendant no more priced the [plaintiff's] study and then decided to copy than a purse-snatcher decided to forego negotiations. [Plaintiff] did not, because of the infringe-

> ment, lose sales that it would have made to [defendant], and Codefendant did not save money that it would have paid to plaintiff for copies of the … study. Moreover, the market value of the infringed study seems an anomalous measure of the value of the use in the amount of saved acquisition cost because that market value is in large part based in the good will attributed to the copyright plaintiffs trademark. In both *Deltak* and the instant case, the last thing the infringers wanted to buy and to sell was the actual material produced by their competitors under their competitors' name.
>
> We see no room for such a speculative and artificial measure of damages under Section 504(b). The language of the provision speaks of "actual damages suffered by" the infringed party. That is hardly a reasonable description of the entirely hypothetical sales to [defendant] by lost [plaintiff]. Section 504(b) also authorizes damages for "profits of the infringer." True saved costs may well be counted as a gain in economic theory (although not by *Deltak's* market value test), but the statute has a more conventional view of profits in mind. [The statutory language] clearly indicates that Congress means "profits" in the lay sense of gross revenue less out-of-pocket costs, not the fictive purchase price that [defendant] hypothetically chose not to pay [plaintiff]. It is surely true that where an infringer such as [defendant] sells the offending publication at a nominal price, and there is no evidence of lost sales of the infringed publication, a conventional profits test may seem inadequate. Nevertheless, we believe we must follow the statutory scheme. Our difficulty with expanding upon the design of the statute to remedy the seeming inadequacy derives not from a truncated sense of justice but from our conviction that Congress quite consciously limited the remedies available under Section 504(b).[6]

Business Trends is a refreshing example of judicial restraint. Following *Business Trends*, a number of other courts cast doubt on *Deltak*.[7] The next significant look at *Deltak* came in Judge Leval's 2001 opinion, *Davis v. Gap, Inc.*[8]

In *Davis*, plaintiff was the creator of what was described as "nonfunctional jewelry worn over the eyes in the manner of eyeglasses."[9] Defendant Gap did a fashion shoot consisting of people wearing Gap clothing in which the individuals depicted chose their own jewelry. One individual wore a pair of plaintiff's "art." The only licensing fee for a similar use was $50.[10] No statutory damages were available. The trial court rejected plaintiff's claim for $2.5 million in lost licensing fees as actual damages as speculative and foreclosed in any event by *Business Trends*.[11] It also found that plaintiff failed to establish a causal connection between the infringement and Gap's profits.[12] The court of appeals affirmed the profits holding, but reversed the damages holding, while agreeing that the $2.5 million sought was "wildly inflated."[13]

The district court was apparently of the opinion that *Business Trends* had foreclosed the award of the reasonable value of a license as plaintiff's *actual damages*.[14] This was, as Judge Leval pointed out, a misreading of *Business Trends*. *Business Trends*, in fact, affirmed the cash award portion of the trial court's ruling, vacating only the award based on a purported noncash value. *Business Trends*, as described by *Davis*, addressed only "whether either the expenses saved by the infringer resulting from its decision to infringe rather than purchase or the goodwill the defendant generated by offering the infringing material to its customers at a greatly reduced price can be considered 'infringer's profits' recoverable under § 504(b) …"[15] *Davis*, by contrast, addressed the question "whether the amount the owner failed to collect as a reasonable royalty or license fee could be considered as constituting the owner's actual dames under § 504(a) and (b)."[16] The answer to that straightforward question should have been and was yes, if the evidence supported it.[17]

In other words, *Business Trends* involved lost licensing fees as part of defendant's profits, whereas *Davis* involved lost licensing fees as part of plaintiff's damages. If, as in *Davis*, these were no lost sales or lost opportunities to license to third parties, or diminution in the value of the copyright, and the only harm is plaintiff's failure to receive payment from defendant of the fair market value of a license from the use in question,[18] could that failure be considered damages to plaintiff rather than as in *Deltak* a gain to defendant? In answering that question affirmatively, Judge Leval pointed out: "The question is not what the owner would have charged, but rather what is the fair market value."[19] This, of course, requires plaintiff to show that the license had a fair market value, but if plaintiff meets that burden (as *Davis* had by demonstrating that he had previously licensed the same type of use for $50), there is, as Davis properly held, no reason not to permit as plaintiff's actual damages an award in that amount.[20] That amount will not be the highest use for which plaintiff might license, but rather the use actually made by defendant.[21]

Deltak, by contrast, involved an award of *defendant's profits*, and under facts where plaintiff would not have licensed the use. In an extensive discussion of *Deltak*, Judge Leval did not depart from *Business Trends'* rejection of *Deltak*, but merely noted that the rejection did not foreclose an award of lost license fees as actual damages under facts which supported such damages (no matter how small).

[FN1] Business Trends Analysts, Inc. v. Freedonia Group, Inc., 887 F.2d 399 (2d Cir. 1989).

[FN2] On Davis v. The Gap, Inc., 246 F.3d 152 (2d Cir. 2001).

[FN3] 887 F.2d at 402.

[FN4] 887 F.2d at 402.

[FN5] Both the trial courts and the court of appeals denied apportionment based on the presence of non-infringing elements. 887 F.2d at 407.

[FN6] 887 F.2d at 405–406.

[FN7] *See, e.g.*, Quinn v. City of Detroit, 23 F. Supp. 2d 741, 751 (E.D. Mich. 1998); Multitherm Corp. v. Fuhr, 1991 WL 146233 (E.D. Pa. 1991). *But see* Roeslin v. District of Columbia, 921 F. Supp. 793, 799–800 (D.D.C. 1995).

[FN8] Davis v. Gap, Inc., 246 F.3d 152 (2d Cir. 2001).

[FN9] 246 F.3d at 156.

[FN10] 246 F.3d at 157.

[FN11] 246 F.3d at 159.

[FN12] 246 F.3d at 159.

[FN13] 246 F.3d at 161.

[FN14] 246 F.3d at 161.

[FN15] 246 F.3d at 163.

[FN16] 246 F.3d at 163.

[FN17] *See also* Steven Greenberg Photography v. Matt Garrett's of Brockton, Inc., 816 F. Supp. 46, 49 (D. Mass. 1992) (where parties had negotiated a fee, that amount was awarded. The court therefore used "value of use's" to refer to lost fees to plaintiff and not as a benefit to defendant).

[FN18] 246 F.3d at 164.

[FN19] 246 F.3d at 166.

[FN20] 246 F.3d at 166. *See also* Estate of Vane v. The Fair, Inc., 849 F.2d 186, 187 (5th Cir. 1988) (upholding trial court's award of an estimated $60,000 licensing fee as a "value of the use"); Mattel, Inc. v. Robarb's, Inc., 2001 WL 913894 (S.D. N.Y. 2001).

[FN21] 246 F.3d at 166 n.5.

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§ 22:130. Defendant's profits—Value of the use and saved acquisition costs as profits—A final word

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As with any theory, a necessary threshold step is ensuring that the theory is being used consistently. For example, a description of *Davis* as employing a value-of-the-use approach is false if by value of the use one refers to the approach taken in *Deltak*. *Davis* is a traditional copyright opinion, holding that plaintiff's actual damages can include lost licensing to defendant and not just to third parties where the facts, as found in *Davis*, support past licensing of comparable uses. *Deltak* awarded alleged saved acquisition costs as defendant's profits, under facts where the copyrighted work had no value to defendant and the infringement resulted in no profits or actual damages, and where plaintiff would not have licensed the work to defendant. *Deltak*'s view of value of the use is an aberration and should remain one.

PATRYCOPY § 22:130

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