PHOTODISTRICT NEWS
VOLUME VII ISSUE IX
AUGUST, 1987

TEXAS COPYRIGHT VICTORY

by Nancy Madlin

An infringement case recently decided in a Texas federal court provides some welcome good news for self-employed photographers on the subject of copyright. Deciding the question of whether or not freelancers working without an explicit contract should be considered "employees" working under work for hire, the court proclaimed that common sense should rule. In other words, freelancers aren't employees, and therefore they are presumed to own the copyright to their own work.

Sensible sentiments, indeed, but nonetheless considered cause for celebration. The reason: It contradicts the infamous 1985 ruling out of Denver in the case of Peregrine v. Lauren Corp. In that case, the judge agreed with the client that, since all employees work under work-for-hire rules, freelancers should too.

This most recent Texas ruling giving freelancers back their rights strictly applies as precedent only to the jurisdiction where it was issued. Nonetheless, like the Peregrine case before it, it is sure to be discussed across the nation as an important interpretation of copyright law.

But the case, Vane vs. The Fair, Inc. department store, contains many other interesting twists and turns as well; issues of crucial interest to photographers seeking damages for copyright infringement. Still awaiting appeal, for example is the question of how a photographer can determine the amount of profit made by an infringer as a result of his act. Although copyright law clearly gives the injured party the right to claim those profits as his own, there is currently no tried-and-true method of determining that amount in cased involving advertisement.

Another question to be resolved perhaps on appeal is: Who should be considered the guilty parties in an infringement? Vane and his lawyers are arguing that those acting as agents of infringers are culpable as well. In this case, they're saying the ad agency that arranged for the improper use of Vane's photographs is clearly not an innocent bystander to its client's act of infringement.

In 1983 and 1984, Dallas fashion photographer Dean Vane (formerly of Houston, Chicago and New York) shot 12 mailers for regional clothing chain The Fair, headquartered in Beaumont. Although he had no contract with The Fair, Vane explicitly stated on each invoice that he was billing for work done for the mailer produced on a specific date. A month after the last mailer was completed, Vane got a congratulatory call from the mother of one of his teen-aged models. "They're running your photos on TV!" Boy, were they ever. Over a ten-month period, The Fair used 65 of Vane's photos an average of 3.5 tomes each, producing a series of 30-second spots that ran 728 times in five cities across Texas and Louisiana. The way Vane and his lawyers figure it, that's more than 2,500 acts of copyright infringement. By their estimation, that means The Fair owed Vane $60,000 for usage fees alone. (Fourteen of the models have also sued The Fair.)

"I called up the client, and I said,'We're going to have to work something out,'" recalls

Vane. "I wasn't looking to sue them; I was just looking to get paid a reasonable sum for that use. At that point, they could have just given me a check for $10,000."

The store's president seemed amicable at first but proved reluctant to set a date for a meeting to discuss the problem. "Eventually, they stopped returning my phone calls," says Vane. "And they never answered any of the letters." After one final sally-a letter that said, as Vane recalls, "I'm a New Yorker, and I'm not going to go away. I'll keep coming after you the rest of my life." -went unanswered, he realized he'd have to hand the problem over to his lawyer.

Or, as it turned out, his three lawyers. Vane hired as his trial attorney Dana LeJune of Houston, who, as a paralegal, had worked on Vane's 1981 personal injury case against 7-11 stores. (On Christmas Day, says Vane, he walked into the 7-11 to buy some eggnog to bring to a party; he also had a sandwich. On the way out to his car, he was beaten up in the parking lot by an over-zealous employee who thought he hadn't paid for the sandwich.) LeJune then brought in patent and copyright specialist Neal Mosely, who handled the research and the paperwork on that subject. Later, they also had to hire a third lawyer who worked near the court in Beaumont to keep things running smoothly there. "To make sure we could communicate with the judge," says Vane, "we hired this 76-year-old Texan who went to law school with him. They play golf together; they've been friends for 50 years."

Although the lawyers felt they had an airtight case on infringement, this case nonetheless presented certain challenges. Prime among them was the task of reasonably estimating how much profits were taken in by the Fair as a result of these advertisements. This was by no means a hypothetical question; if they could show profits, they could collect them for Vane.

"Let's say a business infringes the copyright of a picture and uses it on a poster-then it's simple to figure out the profits," explains attorney LeJune. "You say: How many posters did they sell, times the price, minus their cost to produce it. Profit is what's left. But in the case of a retailer who sells many different goods using TV advertising, it is very difficult to prove what profits the store got from those ads."

The method they chose to determine those profits was regression analysis, performed by an economist from the University of Houston. As LeJune recalls it, the economist said, "Get me the sales data for a six-year period, and we'll see if there's any relationship between how much they spend on each kind of advertising and promotion and their income."

The result, produced on a computer, showed a "strong correlation" between TV advertising and sales. Very strong indeed: For every $1 The Fair spent on TV advertising, said the computer model, they got back $25.50 in gross sales. By LeJune's reckoning, that meant they owed Dean Vane $694,000. (The amount spent on the TV campaign times the $25.00 average profits, minus the 60 percent cost of goods the Fair had declared on its taxes.)

In addition, they were asking the court to compensate Vane for what he should have received in usage fees. According to expert witness Bob Gomel, an established Houston photographer and founder of several ASMP chapters in the region, Those fees would total $60,000. The Fair's expert said the number was more like $20,000.

According to the way Vane's lawyers see the facts, it was not The Fair alone who was liable for these amounts; they felt that the ad agency, Vance-Matthews, Inc., of

Beaumont was equally at fault. "There is ample proof that the agency bought the airtime and arranged for the slides to be put in the commercial," says LeJune. "As the agent of the retailer, they actually infringed on behalf of their client."

For their part, The Fair's lawyers argued that there was no infringement because the company owned the copyright under the work-for-hire rules.

In May, the judge ruled that Vane was due $60,000 in usage fees because, as a freelancer, he owned the copyright to the pictures used in the ads. "The Fair took the position all along that Vane was an employee," says copyright lawyer Mosley. "But the court held that he was not." In this opinion, the judge specifically extended to photographers rights that had recently been granted another kind of independent contractor. In that case, The Easter Seal Society v. Playboy Enterprises, the circuit court in New Orleans ruled that a TV station hired as an independent contractor to produce a fundraising documentary owned the rights to the film. (Film which later turned up as part of an "adult" movie, which brought Easter Seals to court.)

The judge in the Vane case rejected the profit figure based on regression analysis as too "speculative," and he also let the ad agency off the hook. At press time in July, LeJune was preparing the appeal that would take these two issues before the New Orleans circuit court. The lawyers believe their case is quite a solid one, since regression analysis has been used for decades in federal court on anti-trust and civil rights matters. "Experts have said that this is the only way to show how much profit was made as a result of advertising," says LeJune. "This isn't economic mumbo-jumbo; it's sound statistical analysis. I believe the Fifth [Circuit Court] will give us an ear and hold that it's an acceptable method of proof."

LeJune is equally positive about bringing the ad agency back into the case. "The agency says they're an 'innocent infringer,' but I believe the agency relationship precludes that category." Photographer Vane is understandably pleased with the results of his case so far, and he has complete faith in LeJune, who he calls "a brilliant attorney." But he's also weary of the fray and eager to get it all behind him. "It's been quite a rocky three years," he says.

As soon as he gets his money, Vane says, he plans to high-tail it out of Texas, which he describes as "barbaric." "I lived in Chicago in the Seventies and I'm going back there. There's lots of work there, and it's a good professional business," he says. "Here, business is a joke. They don't know the difference between a fashion photo and a bar mitzvah picture."

Vane also has suffered along with others in the region due to the collapse of the oil boom. "A lot of the assistants had to be let go," he says, "and so now they're all on the market willing to work for literally nothing."

After spending several years here, he says, he was not surprised at all by the attitude of the court in failing to award him profits. "All they can think is: 'This much money for pictures?' To them, photography is not a profession. It's what you do on vacation."

COURT OPINION

488 U.S. 1008; 109 S. Ct. 792;
1989 U.S. LEXIS 132, *; 102 L. Ed. 2d 783

ESTATE OF DEAN M. VANE, PETITIONER v. THE FAIR, INC., ET AL.

No. 88-755

SUPREME COURT OF THE UNITED STATES

488 U.S. 1008; 109 S. Ct. 792; 1989 U.S. LEXIS 132; 102 L. Ed. 2d 783; 57 U.S.L.W. 3452

January 9, 1989

PRIOR HISTORY: [*1]

C. A. 5th Cir. Reported below: 849 F. 2d 186.

DISPOSITION: Certiorari denied.

JUDGES:

Rehnquist, Brennan, White, Marshall, Blackmun, Stevens, O'Connor, Scalia, Kennedy

OPINION: The petition for writ of certiorari is denied.

Vane v. Fair, Inc.

Civil Action No. B-84-1267-CA

UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TEXAS, BEAUMONT DIVISION

676 F. Supp. 133; 1987 U.S. Dist. LEXIS 12976; 4 U.S.P.Q.2D (BNA) 1333; Copy. L. Rep. (CCH) P26,180

June 9, 1987, Decided
June 9, 1987, Filed

CASE SUMMARY

PROCEDURAL POSTURE: Plaintiff commercial photographer's suit against defendant corporation for copyright infringement under the Copyright Act of 1976, 17 U.S.C.S. §§§§ 101, et seq., for the unauthorized use of plaintiff's slides, came on for trial.

OVERVIEW: Plaintiff commercial photographer brought suit against defendant corporation for copyright infringement under the Copyright Act of 1976, 17 U.S.C.S. §§§§ 101, et seq., for the unauthorized use of plaintiff's slides. After a trial, the court determined that plaintiff's delivery of the slides to defendant for use in mailers was not a publication of the slides and no copyright notice was required. Moreover, defendant was at all times aware that its use of the slides was limited to mailers per agreement between the parties. Consequently, defendant was not misled by an omission of notice from plaintiff's slides, and defendant was not an innocent infringer within the purview of 17 U.S.C.S. §§ 405(b). The court found that plaintiff owned valid copyright registrations in the slides and that the registrations had been infringed by defendant's use of plaintiff's slides in television advertising.

OUTCOME: The court granted judgment in favor of plaintiff commercial photographer, awarded plaintiff monetary damages incurred as a result of defendant corporation's infringement of plaintiff's copyright in the slides, and enjoined defendant from further infringement.

COUNSEL: [**1] Dana LeJune, Neal J. Mosely, Alto V. Watson, Attorneys for Plaintiff, Dean M. Vane.

Tom Hanna, Roger D. Hepworth, Attorneys for Defendant, the Fair, Inc.

FEDERAL REPORTER
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ESTATE OF Dean M. VANE, Richard J. Vane, Executor substituted in place and stead of Dean M. Vane, Deceased, Plaintiff-Appellant Cross-Appellee,

v.

THE FAIR, INC., Defendant-Appellee, Cross-Appellee,

Vance-Mathews, Incorporated, Defendant-Appellee.

No. 87-2757.

United States Court of Appeals, Fifth Circuit

July 14, 1988.

Rehearing Denied Aug.11, 1988.

Photographer brought action against department store and advertiser for infringement of copyright in connection with use of photographic slides in television advertising. The United States District Court for the Eastern District of Texas, A. Joe Fisher, J., 676 F.Supp. 133, entered judgment in favor of photographer with respect to infringement claim against department store, but found that advertiser was innocent infringer and limited amount of damages to value of slides. Photographer appealed. The Court of Appeals, Alvin B. Rubin, Circuit Judge, held that: (1) district court properly ruled that expert testimony presented by photographer was inadequate to establish department store's profits attributable to infringement, and (2) evidence supported finding that advertiser was innocent infringer.

Affimed.

1. Evidence When financial records sufficiently detailed to show copyright infringer's sales are not available, expert testimony may be used to develop either such proof or proof of infringer's profits rather than its sales. 17 U.S.C.A. § 504(b).

2. Evidence Testimony of photographer's expert was inadequate to establish department store's profits attributable to copyright infringement resulting from store's use of photographic slides in television commercials; lump-sum figure for profits attributable to television commercials that contained copyrighted slides did not account for fact that infringed material constituted only fraction of any given commercial, and expert did not take into account different elements of commercials in generating profits for infringer.

3. Copyrights and Intellectual Property Evidence supported district court's finding that

advertiser was innocent infringer with respect to copyrighted photographic slides used in television commercial for department store; president of advertiser testified that agency had no knowledge that slides were copyrighted, and evidence indicated that photographer had failed to affix any copyright mark or notice to slides he delivered to department store.

Dana Andrew Lejune, Neal J. Mosely, Houston, Tex., Alto V. Watson, Beaumont, Tex., for Estate of Vane.

Denise Hubbard, Lipscomb Norvell, Jr., Benckenstein, Norvell, Bernsen & Nathan, Beaumont, Tex., for Vance-Mathews, Inc.

Tom Hanna, Roger Hepworth, Mehaffy, Weber, Keith & Gonsoulin, Beaumont, Tex., for The Fair, Inc.

Appeals from the United States District Court for the Eastern District of Texas.

Before WISDOM, RUBIN, and JONES, Circuit Judges.

ALVIN B. RUBIN, Circuit Judge:

The owner of an infringed copyright asks this court to increase the amount of damages awarded it by the district court and to find liability on the part of a co-defendant the district court held to have been an innocent infringer. We find that the district court did not err in failing to base the damage award on those profits of the infringer allegedly attributable to the infringement because the infringer did not establish the amount of those profits, if any there were, and the court did not err in finding the co-defendant innocent. Accordingly, we affirm.

I.

The Fair, a chain of retail stores, hired photographer Dean Vane to prepare slides showing its merchandise with the stated purpose of using the slides in printed advertising material to be mailed to its customers. Later, however, The Fair hired Vance-Mathews, Inc., an advertising agency, to produce television commercials, which incorporated some of Vane's slides as well as a substantial amount of material from other sources. Several television stations aired the commercials. Vane brought an action based on copyright infringement against The Fair, asserting that his agreement with The Fair involved merely a license to use the slides to produce mailers and that he retained all other rights to the slides provided by copyright law. Vane also contended that Vance-Mathews, the advertising agency that had produced the commercials, was liable as an infringer. The dictrict court granted Vance-Mathews's motion for a directed verdict on the theory that Vance-Mathews was an innocent infringer and could therefore be liable only to the extent of profits it had gained through the infringement, of which there were none. The court held that The Fair was liable, and it awarded damages in the amount of $60,000, an amount representing the value of the use of the slides in the commercials. 676 F.Supp. 133. The court refused to make a damage award based on profits The Fair had accrued by virtue of the infringement; it found that the evidence was too speculative to support such an award. On appeal, Vane contends that the court erred in denying an award based on The Fair's profits and in granting Vance-Mathews's motion for a directed verdict.

II.

In a copyright infringement action, the infringer is liable for either statutory damages or the copyright owner's actual damages together with any additional profits of the infringer that are attributable to the infringement.1 Vane elected to seek actual damages and profits. The statute that authorizes this recovery also provides that in establishing the infringer's profits, the copyright owner need prove only the infringer's gross revenues, while the infringer must prove his deductible expenses and must show which elements of profits are attributable to sources other than the copyrighted work.2 Vane attempted through discovery to obtain financial records of The Fair that would enable him to satisfy his burden of proving The Fair's gross revenues attributable to the infringement, but the records were not detailed enough to show the amount received from the sales of particular items shown in the slides. Therefore Vane attempted to establish The Fair 5 gross revenues, and ultimately its profits, by introducing as an expert witness Dr. Herbert Lyon, Professor of Marketing at the University of Houston's College of Business Administration. Dr. Lyon testified that he had conducted a multiple regression analysis designed to show how much each dollar The Fair spent on television advertising would yield in sales. Dr. Lyon examined monthly data, including profit-and-loss statements and summaries of media costs over a fiv~year period. He calculated that The Fair sold approximately $25.60 in merchandise for every dollar it spent on television advertising. He multiplied $25.60 by the number of dollars The Fair spent on the infringing television commercials to yield a gross revenue figure, then deducted certain costs to The Fair, including the actual cost that The Fair had paid for the merchandise it sold, transportation charges for getting the merchandise to the stores, a 3% allowance for pilferage, and some other direct operating expenses. After adjusting the resulting figure for inflation, Dr. Lyon concluded that The Fair's profits attributable to its infringement of Vane's slides exceeded $694,000.

The district court held that Van had not brought forth sufficient proof of The Fair's profits and refused to award damages based on Dr. Lyon's calculations.

[1, 2] When financial records sufficiently detailed to show an infringer's sales are not available, expert testimony may be used to develop either such proof 3 or, as Vane attempted, proof of its profits rather than its sales. But it is the trial court's role to evaluate this testimony.4 The trial court in this case concluded, with ample basis, that the testimony introduced was inadequate to establish The Fair's profits attributable to the infringement

In conducting his analysis, Dr. Lyon took into account a variety of factors designed to refine his calculations. For instance, his model purported to consider seasonal sales trends, specifically the pre-Christmas boom in sales; the downward economic trend in the Houston area in the early 1980's; and the carryover effect by which an advertisement continues to contribute to some sales long after its initial airing. By taking such factors into account, Dr. Lyon testified, he attempted to produce a model that would analyze with the greatest possible precision the relationship between advertising dollars spent and resulting profits.

Cross-examination, however, brought to light a number of potential shortcomings in this analysis. Dr. Lyon's model yielded only a lump-sum figure for profits attributable to the television commercials that contained infringed material as a whole without accounting for the fact that the infringed material constituted only a fraction of any given commercial. Some portion of the profits may have been attributable to the infringement, but much of the profits must be attributed to noninfringing aspects of the commercials. Testimony at trial showed from three perspectives why the use of an undifferentiated figure does not convincingly establish what profits are attributable to the infringement.

First, the cost of slides used in a commercial is only one of many expenses involved. The single figure for "dollars spent on television advertising" must 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. If, for instance, 50% of the cost to someone airing a commercial went to television stations to pay for air time, another 30% went to the producer, and 20% went to purchase ten slides used in the commercial, which also used five infringed slides, then it would be wholly illogical to treat the entire profits derived from airing the commercial as attributable to the five infringed slides. Yet this is, in essence, what Vane asked the district court to do. Dr. Lyon testified that he had adjusted the sales figures his model yielded to account for air time and production costs, but neither his testimony nor the computer printouts introduced as an exhibit make clear what this adjustment was. Even if Dr. Lyon's analysis accurately showed the relationship between dollars spent on advertising and profits yielded, it did not show the relationship between the dollars that should have heen spent on the rights to use Vane's slides and the total television advertising costs. Evidence of this relationship might have provided a basis for showing what portion of the profits the commercials yielded were attributable to the infringement.

Second, the infringed slides appeared during only part of the time the commercials were on the air. Vane testified that the general format of the commercials in question consisted of a "trailer" or introductory film segment setting forth a theme for the commercial, followed by a segment featuring various items of merchandise, concluding with another brief trailer. To the extent that Vane's slides appeared in the commercials, they appeared only in the middle segments, never in the trailers. Moreover, the middle segments that contaiued infringed slides also contained non-infringed slides. If only eight seconds of a thirty-second commercial contained infringed slides, it would be irrational to believe that all the profits the commercial brought in were due to those slides.

Third, Dr. Lyon's model did not purport to show the relative importance of different elements of the commercials in generat_ing profits for The Fair. On cross-examination, counsel for The Fair asked Dr. Lyon:

If we take your figures that are given here of some $600,000 that you say are attributable to the TV advertising dollar, do you express any opinion as to what percentage of that should be attributable to Mr. Vane's slides as contrasted to the work product of Vance-Mathews in putting the commericial together?

Dr. Lyon responded:

No, sir.... I'm simply looking at the revenue or gross revenues generated by those ads. I did not look at the ads specifically. I don't think-I mean, I thought of that issue, but I don't think it can be answered.

Photographs of particular items featured in commercials doubtless play a role in producing sales, but, we assume, 5o do such aspects of the commercials as text of the voice-overs, general slogans or phrases promoting the store itself, and overall concept of the commercial's message. Vane himself described the trailers that introduced the commercials as "a very nice attention-getting device, which is the first responsibility of an ad." Dr. Lyon admitted on cross-examination that the carryover benefit of an advertisement promoting a particular sales event, such as a Father's Day sale or an Easter sale, would probably be achieved primarily because the advertisement promoted name recognition of the store that was holding the sale. But Dr. Lyon's model did not show what part of the Fair's profits should be attributed to these factors rather than to the use of

the infringed slides. By pointing to these problems in Dr. Lyon's analysis, we do not suggest that a calculation based on a mathematical formula involving the ratio of fair cost of infringed material to entire cost of commercial, or length of air time of infringed material to length of entire commercial, would be the only means of showing profits. The question will often be highly fact-specific. We merely hold that it was not error for the district court to reject this attempt to show revenues attributable to the infringement as speculative.

III.

[3] The district court orally granted Vance-Mathews's motion for a directed verdict and later rendered judgment in favor of Vance-Mathews "for the reasons announced by the Court at that time." Although the district court did not specifically state the statutory authority for its grant of the motion, we affirm on the basis that Vance-Mathews was an innocent infringer as defined by 17 U.S.C. § 405(b) (1982). That section states, in relevant part:

Any person who innocently infringes a copyright, in reliance upon an authorized copy or phono record from which the copyright notice has been omitted, incurs no liability for actual or statutory damages under Section 504 [17 U.S.C. § 504] for any infringing acts before receiving actual notice that registration for the work has been made under Section 408 [17 U.S.C. § 408], if such person proves that he or she was misled by the omission of notice.

The Copyright Act defines "copies" as "material objects ... in which a work is fixed"5 and provides that "[t]he term 'copies' includes the material object ... in which the work is first fixed."6

Vance-Mathews raised the defense of innocent infringement in its First Amended Original Answer and relied on § 405(b) in its argument in support of its motion for a directed verdict At trial, the president of Vance-Mathews testified that the agency had no knowledge that the slides were copyrighted, or that anyone claimed that they were copyrighted, or that the slides belonged to anyone other than The Fair. He also stated that if the slides had borne a notice of copyright, the agency would have checked with The Fair to see whether use of the slides in a commercial posed any problems. A senior vice-president of The Fair testified that none of the slides or photographs it received from Vane bore any copyright markings, nor did Vane attempt to have copyright markings affixed after he delivered the materials to The Fair. He further testified that at the time The Fair turned the slides over to Vance- Mathews, none of them bore copyright markings.

Although Vane testified that it was his practice to stamp slides with an indication of his copyright before sending them to clients, he acknowledged that "some could have slipped through, I suppose, considering the volume of slides I tendered." At trial, counsel for The Fair presented Vane with 58 boxes of slides of his work as well as a number of black-and-white photographs that Vane had previously delivered to The Fair. Vane testified that if they were originals rather than copies of his slides and photographs, he would expect them to bear his copyright mark, but after inspecting them, he failed to identify a single slide or photograph that bore notice of copyright

In this non-jury trial, it was the judge's role to resolve any conflicting inferences arising from witnesses' testimony. Both Vance-Mathews executives testified unequivocally that the slides they received were not marked, and its president further testified that the agency would have inquired about ownership of rights to the slides if they had been so marked. The district court obviously chose to credit the testimony of the Vance-Mathews witnesses, because it entered a finding of fact that Vane failed to affix any copyright mark or notice to the slides he delivered to

The Fair. The evidence was, therefore, sufficient to allow the court to grant Vance-Mathews's motion for a directed verdict on the theory [*191] that it was an innocent infringer misled by the omission of notice of copyright.

For these reasons, we AFFIRM