

Berkeley

[technology law Journal]
ANNUAL REVIEW OF LAW AND TECHNOLOGY

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VOLUME 27
AR ONLINE

20
12

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COPYRIGHT DAMAGES: INCORPORATING REASONABLE ROYALTY FROM PATENT LAW

Kevin Bendix[†]

On November 23, 2010, a jury in the Northern District of California awarded Oracle \$1.3 billion in copyright infringement damages in light of industry rival SAP's admitted copying of Oracle's software.¹ These compensatory damages were mandated under a hypothetical license theory and are claimed to be the largest award ever for copyright infringement.² On September 1, 2011, the district court granted SAP's motion for judgment as a matter of law, finding insufficient evidence for a reasonable jury to conclude that Oracle was entitled to a hypothetical license award.³ The court also granted SAP's motion for a new trial, conditional upon Oracle's rejection of a remittitur to \$272 million.⁴ Despite the court's skepticism of the hypothetical license theory, the jury's immoderate damage award raises complex doctrinal issues involving the proper method of calculating the fair market value of copyrights. This unresolved issue is important, as it may have far-reaching implications for mergers and acquisitions involving technology companies, for valuation of software products and services, and for third-party software support and add-on businesses—all beyond the seemingly simple notion of copyright infringement that triggered the case.

Copyright owners are often compensated in the form of a license. In such cases, the plaintiff's actual damages should take the form of lost license fees. While precision is not required,⁵ a copyright owner should be entitled to receive an award that represents the licensing fees she would have recognized but for the infringement. However, courts have struggled to determine the fair market value of such a license. One method looks to the reasonable

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1. Oracle Corporation v. SAP AG, 49 Trials Digest 13th 10.

2. Karen Gullo, *Oracle Wins \$1.3 Billion Verdict for Closed SAP Unit's Illegal Downloading*, BLOOMBERG (Nov. 24, 2010, 3:26AM), <http://www.bloomberg.com/news/2010-11-23/sap-must-pay-oracle-1-3-billion-over-unit-s-downloads.html>.

3. Oracle USA, Inc. v. SAP AG, C 07-1658 PJH, 2011 WL 3862074, at *13 (N.D. Cal. Sept. 1, 2011).

4. *Id.*

5. On Davis v. The Gap, Inc., 246 F.3d 152, 163 (2d Cir. 2001).

royalty scheme used in patent law, which contemplates a hypothetical negotiation between a willing buyer and willing seller for the licensed work.⁶ Courts and scholars have oscillated on the adoption of such a hypothetical license theory into copyright law.⁷ After a thorough analysis of the Copyright Act and its policies, this Note proposes that adopting a hypothetical license scheme into copyright law is not only proper, but helpful in determining adequate compensation resulting from infringement.

The goals of this Note are to: (1) provide a coherent understanding of how the reasonable royalty award developed in the patent context; (2) clarify why copyright law's adoption of reasonable royalty principles does not run afoul of the Copyright Act; and (3) explain how the reasonable royalty concept should be tailored to copyright damages. Part I begins with a comprehensive background of actual damages in the Copyright Act. It then outlines conventional valuation techniques and explains the rationale of the hypothetical license technique in copyright law. Part II reviews the development of the hypothetical negotiation tests in both patent and copyright law. Part III tests the hypothetical license premise against the statutory construction of the Copyright Act, finding that its adoption does not run afoul of the statutory language or legislative intent. It then reviews the "historic kinship" rationale, set out by the Supreme Court to analyze analogous issues between patent and copyright law, as a potential justification for adopting the reasonable royalty technique into copyright law. It confirms that rationale, finding historic kinship in damage remedies by looking to the constitutional origins of patent and copyright law, their initiation under tort law, and their parallel evolution in more accurately assessing the value of use of the underlying asset. Part IV proposes key factors to guide courts in accurately and consistently determining a hypothetical license by conforming the *Georgia-Pacific* factors to address copyright issues. Part V concludes.

6. See *infra* Part II.A.

7. Compare *Bus. Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 405 (2d Cir. 1989) (declining to adopt a "reasonable royalty rule" based on the "entirely hypothetical sales" between the parties), and 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.02[A] (2011) (opining that a reasonable royalty measure of actual damages should not be regarded as authorized by § 504(b)), with *Getaped.Com, Inc. v. Cangemi*, 188 F. Supp. 2d 398, 405 (S.D.N.Y. 2002) ("[A] reasonable license fee is appropriate even where plaintiff cannot show that defendant would have been willing to negotiate a license to use plaintiff's copyrighted work, or where the plaintiff cannot plausibly argue that it would have been willing to use defendant's use."), and PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 14.1.1, at 14:13 (2005) (arguing that "the reasonable royalty measure is not inconsistent with the 1976 Act's . . . stated purpose of compensating copyright owners for their actual damages").

I. BACKGROUND

The Copyright Act allows for recovery of “actual damages suffered by [the copyright owner] 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.”⁸ These actual damages are awarded to compensate for demonstrable harm caused by infringement.⁹ When proof of actual damages or infringer’s profits is insufficient, the copyright owner may elect to receive statutory damages, subject to having met other statutory requirements.¹⁰

Actual damages are generally determined by the loss in the fair market value of the copyright, “measured by the profits lost due to the infringement or the value of the use of the copyrighted work to the infringer.”¹¹ Finance experts use traditional valuation methodologies to value the use of a copyrighted work. The cost approach, for example, measures value by analyzing the expenditures necessary to replace the asset in question.¹² The historical cost to develop the intellectual property, or its cost basis, is generally used to determine value under this theory.¹³ This approach, however, is more often used to value assets for which no specific market application can be identified, as it does not reflect the earning potential of the assets.¹⁴ The market approach values intangible assets by comparing recent sales or other transactions involving similar assets in similar markets.¹⁵ This technique depends on an active market providing several examples of recent arm’s-length transactions within that market of similar assets.¹⁶ This method, however, requires a high level of similarity between the copyright and the market asset, as well as between the comparable market and market at issue, in order to serve as an accurate model. Lastly, the income approach values assets by determining future income streams expected from that asset.¹⁷ This technique considers a projection of future income attributable to the asset, an

8. 17 U.S.C. § 504(b) (2010).

9. *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 708 (9th Cir. 2004).

10. *See* 17 U.S.C. §§ 412(2), 504(c).

11. *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 566 (7th Cir. 2003); *see also Mackie v. Rieser*, 296 F.3d 909, 914 (9th Cir. 2002) (approving the recovery of a reasonable license fee).

12. WESTON ANSON, *FUNDAMENTALS OF INTELLECTUAL PROPERTY VALUATION* 33 (2005).

13. *Id.*

14. *Id.*

15. *Id.* at 34.

16. *Id.*

17. *Id.*

estimate of the likely duration of the income stream, and an estimate of the risk associated with generating the projected income stream.¹⁸ Under this theory, the asset is worth the present value of the future economic benefits that will accrue to its owner.¹⁹ Because the information available is seldom perfect or adaptable to one particular methodology, a more accurate valuation technique considers all available methodologies.²⁰

Although some district courts hesitate to conform, the Ninth Circuit has endorsed a retroactive license fee as another measure of the loss in fair market value of the copyright, which does in fact consider all available methodologies.²¹ Originally based on the “value of use” theory, the hypothetical license approach calculates actual damages based on what a willing buyer would have reasonably been required to pay a willing seller for the work. As a threshold matter, the plaintiff must establish that she in fact lost the opportunity to license the copyright at issue.²² The court is then given considerable leeway to reconstruct a hypothetical negotiation, envisioning the fair market value of the infringed copyright in order to adequately compensate its owner. This flexible approach is superior to any one valuation method because courts are able to weigh a wide range of considerations on a case-by-case basis. This ensures a more realistic valuation because parties negotiating a copyright license are likely to consider the effects of the cost, market, and income approach, among others, to reach a final price.²³

The hypothetical license award envisioned by copyright law is similar to the patent law reasonable royalty scheme.²⁴ Both methodologies seek to calculate adequate compensation for infringement based on a flexibly applied hypothetical negotiation. These inquiries require a detailed review of the asset at issue, the bargaining positions of the parties, and past licensing practices, ultimately resulting in a license fee awarded to the owner.

The hypothetical negotiation techniques found in patent and copyright law differ in two respects. First, copyright law requires, as a threshold matter,

18. *Id.*

19. *Id.*

20. WESTON ANSON, IP VALUATION AND MANAGEMENT 48 (2010).

21. *See, e.g.*, *Jarvis v. K2, Inc.*, 486 F.3d 526, 533 (9th Cir. 2007).

22. *See Oracle USA, Inc. v. SAP AG*, C 07-1658 PJH, 2011 WL 3862074, at *7 (N.D. Cal. Sept. 1, 2011) (“[I]n order to recover hypothetical license damages, Oracle was required to show that, but for infringement, the parties would have agreed to license the use of the copyrighted works at issue.”).

23. WESTON ANSON, IP VALUATION AND MANAGEMENT 48 (2010).

24. *See generally* PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 14.1 (2005).

that the copyright owner prove that she lost an opportunity to license the copyright because of the infringement.²⁵ Once this threshold is satisfied, courts are then free to determine the value of the hypothetical license. Patent law requires no such threshold; a court will simply engage in a reasonable royalty analysis if it is required to adequately compensate the patent owner. Second, the reasonable royalty scheme is the statutory minimum for patent damage awards.²⁶ In effect, this allows courts to cipher an award regardless of the speculative nature of the inquiry, giving it considerable leeway to make assumptions. Statutory damages serve this function in copyright law, requiring more reliable evidence to tether the hypothetical license to each case under an actual damages theory.

Putting aside these minor differences, the process of determining a reasonable royalty under the more established patent scheme can provide helpful guidance as copyright law continues to develop its damages structure. Indeed, the two inquiries are nearly identical once a copyright owner satisfies the “but for” threshold for proving actual damages.

II. DEVELOPMENT OF THE HYPOTHETICAL NEGOTIATION

A. DEVELOPMENT OF THE REASONABLE ROYALTY IN PATENT LAW

Despite the broad and often ambiguous language of 18th and 19th century patent acts, early Supreme Court jurisprudence consistently held that royalties established from previous licenses constitute the correct criterion for determining damages in a patent infringement suit.²⁷ However, these license fee awards were strictly tethered to the amount previously licensed as opposed to a “value of use” analysis.²⁸ Case law during this period oscillated on the question of allowing general damages for use or sale of the invention

25. *See supra* note 22 and accompanying text.

26. *See* 35 U.S.C. § 284 (2000) (“[I]n no event [shall damages be] less than a reasonable royalty for the use made of the invention . . .”).

27. *See* *Clark v. Wooster*, 119 U.S. 322, 326 (1886) (“It is a general rule in patent causes, that established license fees are the best measure of damages that can be used.”); *Burdell v. Denig*, 92 U.S. 716, 720 (1876) (“We have repeatedly held that sales of licenses of machines, or of a royalty established; constitute the primary and true criterion of damages in the action at law.”).

28. *See, e.g., Packet v. Sickles*, 86 U.S. (19 Wall.) 611, 616–17 (1873) (holding that the trial court erred in instructing the jury to consider the value of use of the patented invention because the price of previous licenses of that same product should be taken as the measure of damages).

where specific license rates or lost profits could not be proven.²⁹ The Sixth Circuit was the first to confirm the efficacy of a reasonable royalty recovery and initiated the development of the modern damage theory.

In *United States Frumentum Co. v. Laubhoff*,³⁰ the Sixth Circuit confirmed the recoverability of a reasonable royalty, relying on patent law's origin in tort law to analogize infringement to a taking of property. The court emphasized that the key inquiry was to determine the actual value of the patent, most often evidenced by its market value.³¹ Judge Denison of the Sixth Circuit established the first multi-factor test for determining a reasonable royalty: the court held that the patent's usefulness, commercial value, customary industry profit sharing, and expert opinion should all be considered in valuing the invention.³² The Supreme Court approved the *Laubhoff* analysis and its reasonable royalty test in *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*³³ After finding insufficient evidence to prove lost sales and an actual royalty rate, the Court permitted a reasonable royalty award "considering the nature of the invention, its utility and advantages, and the extent of the use involved."³⁴

Congress incorporated the judicially-created reasonable royalty award into statutory law with the Patent Act of 1922.³⁵ However, the statute remained less than satisfactory, referring to a "reasonable sum as profits or general damages" where the damages "are not susceptible of . . . determination with reasonable certainty" rather than to the "reasonable royalty" recognized in *Laubhoff* and *Dowagiac*.³⁶ With the Patent Act of 1946, Congress eliminated recovery for infringer's profits, instead intending such profits to be considered as evidence establishing a reasonable royalty.³⁷ Congress also added the phrase "reasonable royalty" as a minimum measure of general damages.³⁸

29. Compare *Suffolk v. Hayden*, 70 U.S. (3 Wall.) 315 (1865) (holding that damages should be calculated by looking at the value of the thing used by analyzing the patent's character, operation, and effect), with *Coupe v. Royer*, 155 U.S. 565 (1895) (holding that the trial judge erred in instructing the jury to award damages based on the value gained from the use of the patented invention).

30. 216 F. 610, 615 (6th Cir. 1914).

31. *Id.*

32. *Id.* at 616–17.

33. 235 U.S. 641, 650 (1915).

34. *Id.* at 648–50.

35. DONALD S. CHISM, 7 CHISM ON PATENTS § 20.02[2][d] (2011).

36. Act of Feb. 21, 1922, Ch. 58, 42 Stat. 392.

37. CHISM, *supra* note 35, § 20.02[4].

38. Act of August 1, 1946, Ch. 726, § 1, 60 Stat. 778.

Valuation of a reasonable royalty using a willing buyer-willing seller rule dates back at least to *Austin-Western Road Machinery Co. v. Disc Grader & Plow Co.*³⁹ In *Austin-Western Road*, the Sixth Circuit noted that there is no mathematical formula for valuing a reasonable royalty, but courts should look to the “amount a person desiring to manufacture and sell the patented article would, as a business proposition, be willing to pay as a royalty”⁴⁰ In *Horvath v. McCord Radiator & Manufacturing Co.*,⁴¹ the Sixth Circuit defined a reasonable royalty as the sum that “would be accepted by a prudent licensee who wished to obtain a license but was not so compelled and a prudent patentee, who wished to grant a license but was not so compelled.”

Modern case law emphasizes the limited utility of the willing buyer-willing seller rule due to its oversimplified approach.⁴² To more accurately reenact a hypothetical negotiation, the seminal *Georgia-Pacific* case stressed a consideration of “economic factor[s] that normally prudent businessmen would, under similar circumstances, take into consideration in negotiating the hypothetical license.”⁴³ *Georgia-Pacific* set forth a comprehensive list of such evidentiary facts later approved by the Federal Circuit to determine a reasonable royalty.⁴⁴ However, Federal Circuit decisions warn that these factors are not the exclusive means of assessing a reasonable royalty and that some or all of the factors may not be pertinent in a given case.⁴⁵

Recent decisions suggest that courts are now more diligent in requiring litigants to narrowly tailor the reasonable royalty analysis to the facts of each case. For instance, the Federal Circuit cut down on generous royalties by limiting the application of the entire market value rule, which gives damages

39. 291 F. 301, 304 (8th Cir. 1923).

40. *Id.* at 304.

41. 100 F.2d 326, 335 (6th Cir. 1938).

42. *See, e.g.*, *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1121 (S.D.N.Y. 1970) (noting that the willing buyer-willing seller rule “is more a statement of approach than a tool of analysis”).

43. *Id.*

44. *See id.* at 1120; *see, e.g.*, *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1555 (Fed. Cir. 1995) (citing *Georgia-Pacific* for the proposition that a “wide range of factors [are] relevant to hypothetical negotiation”); *Dow Chemical Co. v. Mee Industries, Inc.*, 341 F.3d 1370, 1382 (Fed. Cir. 2003) (“Should [the patent owner] prove infringement of [the patent’s] claims . . . the district court should consider the so-called *Georgia-Pacific* factors . . . in detail, and award such reasonable royalties as the record evidence will support.”).

45. *See ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869–73 (Fed. Cir. 2010) (holding that the *Georgia-Pacific* factors are “often overlapping” and some factors “have no real impact” depending on the circumstances of each case).

based on a product of which the patented invention is only a part.⁴⁶ Such cases now require the patented invention to serve as the basis for customer demand for the product.⁴⁷ As a result, litigants are forced to apportion damages, enabling courts to more accurately determine what portion of the product fairly belongs to the patentee. Similarly, the Federal Circuit abolished the “25% rule,” which used 25% of the profits as a baseline royalty rate in a hypothetical negotiation.⁴⁸ Faced with concerns of arbitrariness of the valuation, the Federal Circuit ruled that the 25% rule was fundamentally flawed, and now requires patentees to carefully tie damages to the claimed invention’s footprint in the marketplace.⁴⁹ Thus, the continued evolution of the reasonable royalty scheme, a scheme that is still inherently speculative, has resulted in damage awards more strictly tethered to the facts of each case.⁵⁰

B. DEVELOPMENT OF THE HYPOTHETICAL LICENSE IN COPYRIGHT LAW

The hypothetical license fee is a judicially-created doctrine used to determine the fair market value of a copyright for the purpose of awarding infringement damages. Based on the “value of use” theory, it was first developed to fill a perceived gap in the remedies provided by Congress.⁵¹ These circumstances arise when the copyright owner is unable to win any recovery, even if the infringer acted willfully. The events that must coalesce are threefold.⁵² First, the loss to the copyright owner must be difficult to quantify, thus precluding recovery of lost profits.⁵³ Second, the infringement must produce no gain to the infringer, rendering disgorgement unavailable.⁵⁴ Lastly, the copyright owner must fail to timely register the work, thus sacrificing the ability to recover the fallback remedy of statutory damages.⁵⁵

46. *See* *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009).

47. *Uniloc*, 632 F.3d at 1318.

48. *Id.*

49. *Id.*

50. *See id.* (“[E]vidence . . . must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations that would have taken place in light of those facts and circumstances at the relevant time.”); *ResQNet.com*, 594 F.3d at 869 (“[T]he trial court must carefully tie proof of damages to the claimed invention’s footprint in the market place.”).

51. WILLIAM F. PATRY, PATRY ON COPYRIGHT § 22:124 (2011).

52. NIMMER & NIMMER, *supra* note 7, § 14.02[B].

53. *Id.*

54. *Id.*

55. *Id.*

Facing these triple circumstances, a series of cases developed the value of use doctrine to effectuate congressional policy, allowing copyright owners to recover a license fee for their work when they would otherwise be left uncompensated.⁵⁶

In *Deltak, Inc. v. Advanced Systems, Inc.*,⁵⁷ the Seventh Circuit established the “value of use” method of calculating damages by strictly analyzing past licenses. Expanding upon an older line of cases which set the royalty at the previously negotiated price between the parties for the same or similar product, the *Deltak* court reasoned that the fair market value of producing fifteen infringing pamphlets can be determined by showing what a willing buyer would have been reasonably required to pay a willing seller for the work.⁵⁸ By holding that an infringer’s saved acquisition costs count as a copyright owner’s actual damages, *Deltak* avoids the anomaly of affording the copyright owner a right without a remedy.⁵⁹ Indeed, if recovery were denied, *Deltak*’s property could be taken risk-free.⁶⁰ The Supreme Court has held that “a rule of liability which merely takes away the profits from an infringement would offer little discouragement to infringers Even for uninjurious and unprofitable invasions of copyright the court may, if it deems it just, impose a liability within statutory limits to sanction and vindicate the statutory policy.”⁶¹ Relying on this rationale, *Deltak* appropriately balances copyright ownership rights while serving the congressional purpose of discouraging infringement.

The “value of use” theory gained momentum after *On Davis v. The Gap, Inc.*,⁶² which rejected both Second Circuit precedent and the treatise *Nimmer on Copyright*⁶³ in holding that a general rule denying the availability of a “reasonable royalty” was improper. In reviewing *Deltak*, *Nimmer* argued that

56. For cases demonstrating these triple circumstances, see *Deltak, Inc. v. Advanced Systems, Inc.*, 767 F.2d 357, 363–64 (7th Cir. 1985); *On Davis v. The Gap, Inc.*, 246 F.3d 152, 163 (2001); *Bus. Trends Analysts, Inc. v. Freedom Group, Inc.*, 887 F.2d 399, 404–06 (2nd Cir. 1989).

57. 767 F.2d 357, 363–64 (7th Cir. 1985).

58. *Id.* at 362.

59. *Bus. Trends*, 887 F.2d at 406.

60. If use of the infringing pamphlet fails to generate revenue by gaining customers, then there is no cost to ASI. However, if it succeeds, ASI only risks disgorging its lost profits. See John Tehranian, *The Emperor Has No Copyright: Registration, Cultural Hierarchy, and the Myth of American Copyright Militancy*, 24 BERKELEY TECH. L.J. 1399, 1416–28 (2009) (discussing the “one-way risk” that results when a copyright holder fails to register in a timely manner).

61. *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952).

62. *On Davis v. The Gap, Inc.*, 246 F.3d 152, 163, 170–72 (2d Cir. 2001).

63. NIMMER & NIMMER, *supra* note 7, § 14.02[B][1].

a royalty estimate based on a negotiation “relies on the most transparent of fictions” because the infringer would have never willingly negotiated.⁶⁴ While conceding that Nimmer’s argument might hold true in some cases, the *On Davis* court held that a per se rejection is not universally applicable. Instead, the court noted that whether the infringer would have negotiated with the copyright owner is immaterial.⁶⁵ The court explained that the purpose of the test “seeks to determine the fair market value of a valuable right that the infringer has illegally taken from the owner.”⁶⁶ While mathematical precision is not required, the *On Davis* decision confirmed the efficacy of the hypothetical license theory, so long as the award is based on a factual basis rather than undue speculation.⁶⁷ Because the proper measure of damages is often difficult to ascertain, indirect evidence may be used to fix the amount of the damages.⁶⁸

Other circuits followed the Second Circuit’s affirmance of a hypothetical license fee, and began applying the same method in calculating actual damages under 17 U.S.C. § 504(b).⁶⁹ Although the Supreme Court has not directly addressed the question, it has suggested in a fair use context that the critical question is “whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.”⁷⁰

III. ANALYSIS OF ACTUAL DAMAGES UNDER THE COPYRIGHT ACT

A. STATUTORY CONSTRUCTION OF 17. U.S.C. § 504

Traditional principles of statutory construction require a careful reading of the statute, consideration of its legislative history, and systematic review of copyright jurisprudence.⁷¹ Indeed, scholars have repeatedly warned against

64. *Id.* at 171.

65. *On Davis*, 246 F.3d at 172.

66. *Id.*

67. *Id.* at 163.

68. *Fitzgerald Pub. Co., Inc. v. Baylor Pub. Co., Inc.*, 807 F.2d 1110, 1118 (2d Cir. 1986).

69. *See, e.g.*, *Thoroughbred Software Intern., Inc. v. Dice Corp.*, 488 F.3d 352, 359–60 (6th Cir. 2007); *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 708–09 (9th Cir. 2004); *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 566–67 (7th Cir. 2003); *Bruce v. Weekly World News, Inc.*, 310 F.3d 25, 28–30 (1st Cir. 2002); *Kleier Adver., Inc. v. Premier Pontiac, Inc.*, 921 F.2d 1036, 1040 (10th Cir. 1990).

70. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985).

71. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980) (determining legislative intent regarding indirect patent liability by parsing text, legislative history, and jurisprudence of patent law).

substituting legislative judgment for judicial reasoning.⁷² Therefore, a proper analysis must start with the language of 17 U.S.C. § 504(b).

1. *Text and Legislative Intent*

On its face, the Copyright Act provides no guidance as to the proper calculation of actual damages. Under 17 U.S.C. § 504(b), “[t]he copyright owner is entitled 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 the actual damages.” Because the plain language is unclear,⁷³ an endeavor into legislative intent is required.

Generally, it is helpful for courts to look to other statutes with similar objectives as an interpretive tool to clarify ambiguous language.⁷⁴ Given the identical goals of patent and copyright law,⁷⁵ as well as the similarity of the underlying assets,⁷⁶ it seems proper to look to judicial interpretations of the Patent Act when interpreting the Copyright Act.

However, it could be argued that Congress’ inclusion of the term “reasonable royalty” in the Patent Act, and subsequent exclusion from the Copyright Act, precludes such an inference. Some scholars argue that courts should presume that Congress intended to omit particular language from one

72. See, e.g., Peter S. Menell & David Nimmer, *Unwinding Sony*, 95 CAL. L. REV. 941, 993 (2007) (questioning the analysis of the Copyright Act when the Supreme Court “substituted a legislative judgment for judicial reasoning”).

73. Although surrounding language is typically helpful in elucidating the plain language of the statute, the Copyright Act provides no such language to clarify “actual damages.” See 17 U.S.C. §§ 101–1332 (2010).

74. See *United States v. Johnson Controls, Inc.*, 457 F.3d 1009, 1021 (9th Cir. 2006) (“Where the wording and objectives . . . are similar to the wording and objectives of a federal statute, California courts look to interpretations of the federal statute for guidance in interpreting the state statute.”); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 269 F. Supp. 2d 1213, 1224 (C.D. Cal. 2003) (holding that when interpreting the Cartwright Act, it is proper to look to federal antitrust laws for guidance because of their similar objectives).

75. See *infra* Part III.B.2.

76. See Menell & Nimmer, *supra* note 72, at 986 (“Given that insofar as they constitute an ‘asset’ in a proprietor’s portfolio there is little to separate copyrights from patents, it is not surprising that the Court would look to analogous assets in resolving these cases.”); see also *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948) (holding that insofar as antitrust law is concerned with leveraging one asset to extend control into other markets, copyrights and patents stand on the same footing); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932) (holding that “royalties from copyrights stand in the same position as royalties from the use of patent rights” for purposes of tax law).

statute when it appears in another closely related statute.⁷⁷ Professor Justin Hughes warns that the “Congress-knew-how-to-draft reasoning” precludes reading a phrase from the Patent Act into the Copyright Act when Congress has left it out.⁷⁸ Hughes followed this reasoning in arguing that an exception to indirect liability in the Patent Act should not be read into the Copyright Act, which is silent on the subject.⁷⁹ Such a reading would infer that Congress deliberately chose to exclude reasonable royalty from copyright damages.

The Congress-knew-how-to-draft rationale, while founded on sound principles, cannot apply to the present interpretation of 17 U.S.C. § 504(b) because Congress specifically considered the possibility of utilizing a patent reasonable royalty scheme, among others, to evaluate damage caused by the infringer.⁸⁰ Instead of adopting a particular method, Congress concluded that the fact-intensive inquiry of copyright damages is best decided by the courts.⁸¹ Thus, the omission, while intentional, should not be seen as limiting remedies, but as allowing courts flexibility, including the flexibility to assess reasonable royalty damages.

Copyright damages attracted little attention during early 20th century congressional deliberations. Though the topic was discussed, Congress never specified a preferred method of calculating actual damages resulting from copyright infringement. Instead, Congress clearly left courts free to mold the contours of copyright law on a case-by-case basis to fill statutory gaps. Indeed, the House Report explains that one of the basic aims of copyright damages is “to provide courts with reasonable latitude to adjust recovery to the circumstances of the case, thus avoiding some of the artificial or overly

77. See, e.g., Menell & Nimmer, *supra* note 72, at 981; Justin Hughes, *On the Logic of Suing One's Customers and the Dilemma of Infringement-Based Business Models*, 22 CARDOZO ARTS & ENT. L.J. 725, 754–56 (2005); see also *Chicago v. Envtl. Def. Fund*, 511 U.S. 328, 338 (1994) (holding that where there is evidence that Congress knew how to draft an exemption, one should not be read into a statute).

78. Hughes, *supra* note 77, at 754–56.

79. *Id.*

80. William S. Strauss, *Study No. 22: The Damage Provisions of the Copyright Law* 37 (1956) (comments of George E. Frost), in STAFF OF S. COMM. ON THE JUDICIARY, 86TH CONG., COPYRIGHT LAW REVISION: STUDIES PREPARED FOR THE SUBCOMM. ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF THE S. COMM. ON THE JUDICIARY PURSUANT TO S. RES 240: STUDIES 22–25, at 37 (Comm. Print 1960), reprinted in 2 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (George S. Grossman ed., 2001)) (“Since 1946 the statute has provided for damages only, and then only in the amount ‘not less than a reasonable royalty.’ My present reaction is that we ought to face up to the fact that there can be no positively correct way to handle this matter and that the matter can best be handled by giving the court ample discretion in one way or another.”).

81. *Id.*

technical awards resulting from the language of the [previous] statute.”⁸² This shows legislative intent to defer to the judicially-created standards for actual damages calculations. Moreover, scholars and courts have generally agreed that 17 U.S.C. § 504(b) should be broadly construed to favor victims of copyright infringement.⁸³

It is clear that congressional intent not to impose unduly restrictive valuation methods is not tantamount to a decision to withhold the reasonable royalty award from copyright law. Instead, legislative history proves that Congress actually endorsed this technique, or at least a court’s “ample discretion” to use this technique if it deems appropriate.⁸⁴ Based on first principles of statutory analysis, it is therefore safe to conclude that granting a reasonable license fee does not run afoul of the statutory text or its broad intended scope determined by legislative history.

2. *Copyright Policy Stemming from Its Origin in Tort Law*

Copyright infringement, like patent infringement, is a tort.⁸⁵ Both are predicated on the same basic *ex ante* compensation principle by determining the fair market value of the asset.⁸⁶ Courts consistently look to tort law for

82. H.R. REP. NO. 94-1476, at 161 (1976).

83. *See* *Syigma Photo News, Inc. v. High Society Magazine*, 778 F.2d 89, 95 (2d. Cir. 1985) (holding that when courts are confronted with imprecision in calculating damages, they should “err on the side of guaranteeing the plaintiff a full recovery”); NIMMER & NIMMER, *supra* note 7, § 14.02[A] (“[U]ncertainty will not preclude a recovery of actual damages if the uncertainty is as to amount, but not as to the fact that actual damages are attributable to the infringement.”); WILLIAM F. PATRY, *COPYRIGHT LAW AND PRACTICE* 1167 (1994) (“Within reason, any ambiguities should be resolved in favor of the copyright owner.”).

84. *See* Strauss, *supra* note 80, at 37 (“Since 1946 the statute has provided for damages only, and then only in the amount ‘not less than a reasonable royalty.’ My present reaction is that we ought to face up to the fact that there can be no positively correct way to handle this matter and that the matter can best be handled by giving the court ample discretion in one way or another.”).

85. *See* *United States Frumentum Co. v. Lauhoff*, 216 F. 610, 617 (6th Cir. 1914) (noting that patent infringement is in effect a tort and a taking of property, drawing a “perfect analogy between the rules of damages as to general property and as to patent property”); REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, 87TH CONG., 1ST SESS. (House Comm. Print 1961) (“The remedies available against copyright infringers include those comparable to the remedies usually accorded for torts in general—namely . . . recovery of the actual damages suffered by the copyright owner.”); Menell & Nimmer, *supra* note 72, at 995 (“[T]ort doctrine furnishes the background law for determining what circumstances render someone liable for infringement and, if liable, the scope of remedies.”).

86. RESTATEMENT (SECOND) OF TORTS § 906 (1979); DAN B. DOBBS, 2 *THE LAW OF TORTS* 207 (2011) (“The normal remedy for conversion is an award of

guidance in establishing a damage award.⁸⁷ Indeed, courts are hesitant to construe the copyright statute as to overthrow normal tort damage principles.⁸⁸ Given its clear foundation in tort law, it is proper to analyze copyright damages against this background.

According to tort law, the fact that property does not have an established market value will not necessarily restrict the owner of the property to an award of nominal damages.⁸⁹ Instead, tort law has long imposed “value of use” damages upon tortfeasors relating to land and chattel.⁹⁰ In determining the measure of recovery, it is proper to consider to extent to which the “assets of the injured person have been affected by the tort, including his capacity to make profitable use of [them]”⁹¹ This principle can be analogized to the copyright damage threshold requiring plaintiffs to prove a lost opportunity to license, or make use of, the copyright at issue.⁹² Just as tort victims can be compensated for the destruction of the earning potential of their property, copyright owners can similarly be compensated to the extent that they lost the opportunity to profit from their copyright via a license sale.

Not surprisingly, tort law contemplates a hypothetical negotiation structure to value particular assets. With the benefit of an established market, tort law looks to the “amount paid in actual transactions involving a similar

damages . . . [measured by] the market value of the chattel at the time and place of conversion”); H.R. REP. NO. 94-1476, at 161 (1976) (“Damages are awarded to compensate the copyright owner for losses from the infringement.”).

87. *See, e.g.*, *Mackie v. Rieser*, 296 F.3d 909, 915 (9th Cir. 2002) (requiring a threshold inquiry into whether there is a legally sufficient causal link between the infringement and subsequent profits because “[t]o do otherwise would be inconsistent with . . . rudimentary principles of tort law, to which copyright law is often analogized”); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1170 (1st Cir. 1994) (noting in actual damages context that “it is useful to borrow familiar tort principles of causation and damages”).

88. *See Deltak, Inc. v. Advanced Sys., Inc.*, 574 F. Supp. 400, 403 (N.D. Ill. 1983) (Posner, J., sitting by designation) (referring to “normal tort damages principles” in discussion of copyright damages), *vacated on other grounds*, 767 F.2d 357 (7th Cir.1985).

89. 4-37 DAMAGES IN TORT ACTIONS § 37.03.

90. RESTATEMENT (SECOND) OF TORTS § 904 (1979) (“[A] claim for damages caused by the detention of land or chattels includes a claim for the loss of value of the use”); *see also Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 648–49 (1915) (“As the exclusive right conferred by the patent was property, and the infringement was a tortious taking of a part of that property, the normal measure of damages was the value of what was taken.”).

91. RESTATEMENT (SECOND) OF TORTS § 906 (1979).

92. *See supra* note 22 and accompanying text.

subject matter” in determining the value of the asset.⁹³ This is tantamount to copyright law’s inquiry into past licensing practices to establish a royalty. Absent an established market, tort law determines the value of the asset by analyzing its potential exchange value, determined by the amount a willing buyer would agree to pay.⁹⁴ In determining the asset’s value, courts look to factors typically considered when negotiating a price, such as the scarcity or abundance of the asset, comparable sales, potential rental value or value of its use, the cost of securing a functional substitute, and risks of loss and chances of gain.⁹⁵ Expert opinion is also helpful for an ex post valuation.⁹⁶ Given that tort principles—as copyright law and patent law’s common wellspring—envision a hypothetical negotiation damage remedy, it seems proper for copyright law to incorporate the same.

3. *Copyright Policy Pursuant to Its Utilitarian Goal*

Some scholars reject the fundamental premise that intellectual property remedies should always look to tort law for guidance. Instead, they argue that remedies should look to the original purpose of intellectual property law—the promotion of innovation and creative works. Though advocating in the patent context, Professor Ted Sichelman argues that “patent law should be tailored simply to promote the types and levels of innovation that most benefit society,” instead of vindicating individual rights.⁹⁷ Although this argument means that judicial reliance on tort law since the early 20th century has been misplaced, it seems proper that copyright remedies should look to its constitutional origins for guidance.

The ultimate goal of copyright law is to stimulate artistic creativity for the general public good.⁹⁸ Because copyright law should be strictly tethered to its

93. *Id.* at 911; *see also* *United States v. 2,635.04 Acres of Land, More or Less, in Allen & Barren Counties, State of Ky.*, 336 F.2d 646, 649 (6th Cir. 1964) (looking to previous sales of comparable property in determining fair market value).

94. RESTATEMENT (SECOND) OF TORTS § 911; DAN B. DOBBS, 1 DOBBS LAW OF REMEDIES § 5.16(1) (2nd ed. 1993) (stating that “courts have tended to construct a hypothetical market value out of the same factors that would influence buyers in the market if there had been a market”); DAN B. DOBBS, 2 THE LAW OF TORTS § 3.5 (2001) (“[F]air market value is the amount which a willing buyer would pay and for which a willing seller would sell, neither being under any special compulsion.”).

95. DAN B. DOBBS, 2 THE LAW OF TORTS 325, (2001); RESTATEMENT (SECOND) OF TORTS § 911 (1979).

96. RESTATEMENT (SECOND) OF TORTS § 911 (1979).

97. Ted Sichelman, *Purging Patent Law of ‘Private Law’ Remedies* (San Diego Legal Studies, Paper No. 11-077, 2011).

98. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975); *see also* *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 526–27 (1994) (stating that the Copyright Act seeks to

constitutional enabling language,⁹⁹ its remedies should focus on this utilitarian function by fostering creation. Our current system optimizes such incentives through a compensation scheme founded in tort law, both to compensate owners and to deter potential infringers. Compensation is necessary to incentivize investment in the development of the creation.¹⁰⁰ Protection is needed to encourage the development of creative works because authors will not be incentivized to invest their time without appropriate remedies for infringement. A proper deterrence mechanism is also necessary to discourage infringement. However, strong policies exist against excessive protection; exclusivity creates a form of monopoly in the protected materials. Society values both free competition and freedom of ideas, and a strong public domain has the potential to make important contributions to a nation's cultural and scientific health.¹⁰¹ Copyright law, therefore, must provide a delicate balance with society's material welfare as a priority. Professor Sichelman argues that private law remedies, such as compensatory damages, may thwart optimal creation incentives in some cases.¹⁰² However, tort law principles and the incentive-based model are not necessarily mutually exclusive. Indeed, the Supreme Court has noted that personal gain is the best way to encourage creation of intellectual property to advance the public welfare.¹⁰³ Moreover, protection is important in some cases regardless of encouragement; "natural law" permits the artist to reap the rewards of his work and have it attributed to him rather than to others.¹⁰⁴

stimulate artistic creativity for the general public good and to discourage infringement); *Fox Film v. Doyal*, 286 U.S. 123, 127 (1932) ("The sole interest of the United States . . . in conferring [copyrights] lie[s] in the general benefits derived by the public from the Labors of authors.").

99. See U.S. CONST. art. I, § 8, cl. 8 ("To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .").

100. For a discussion of the "encouragement theory," see Wendy J. Gordon, *An Inquiry into the Merits of Copyright: The Challenges of Consistency, Consent, and Encouragement Theory*, 41 STAN. L. REV. 1343, 1459 (1989).

101. *Id.*

102. Sichelman, *supra* note 97, at 15.

103. *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant . . . copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors . . . in 'Science and useful Arts.'").

104. For a discussion on natural law theory applied to intellectual property, see Wendy J. Gordon, *A Property Right in Self-Expression: Equality and Individualism in the Natural Law of Intellectual Property*, 102 YALE L.J. 1533 (1993).

Adopting exclusionary rights via copyrights and attendant liability for infringement makes copying costly. However, like an efficient breach in contract law, efficient infringement will occur when transaction costs of negotiation outweigh the value of the copyright at issue.¹⁰⁵ Third party infringers will “gauge the financial value of infringing based upon the expected damages they will pay in court.”¹⁰⁶ Without a substantial reward to the copyright owner, and thus a substantial penalty for infringement, potential infringers could, after considering all options, conclude that copyright infringement is optimal. This clearly disincentivizes creation because such opportunities transform creative thought to focus on the cheaper and less time consuming task of misappropriating the work from others. These actions lead to fewer independently created works, and in turn, deprives the public of potential progress in the arts and sciences.

Without a “value of use” doctrine, which attempts to fill a void in copyright recovery, such efficient infringements would occur often. One can imagine a potential infringer weighing the options of independent creation against infringing a copyright falling into the “triple circumstances,” which allows no recovery for the copyright owner.¹⁰⁷ In this situation, the infringer has nothing to lose except potential lost profits, if provable. Thus, to properly deter infringement, and advance the current public domain of intellectual property, this gap must be filled. To ignore it would leave copyright holders a right without a remedy, and infringers an opportunity without liability. By filling this gap, the exclusionary rights afforded by copyright law under a reasonable royalty scheme promote a more optimal level of creation by providing incentives to invest in creation, as well as deterrence in an otherwise forgiving damages scheme.

B. HISTORIC KINSHIP

1. *Origin of the Rationale*

The Supreme Court has held that patent and copyright laws are connected by a “historic kinship,” a rationale which the Court relies upon to analyze analogous issues.¹⁰⁸ Most recently, in *Sony Corp. of America v. Universal*

105. See Sichelman, *supra* note 97, at 31 (“[E]fficient infringement occurs when the transaction costs of negotiation dwarf the value of the innovation-at-issue”); see also Ian R. Macneil, *Efficient Breach of Contract: Circles in the Sky*, 68 VA. L. REV. 947, 950–53 (1982) (positing that an efficient breach is optimal when transaction costs of renegotiations outweigh the transaction costs from the breach).

106. Sichelman, *supra* note 97, at 18.

107. See *supra* Part II.B.

108. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984).

City Studios, Inc., the Court imposed an indirect liability safe harbor upon copyright law based on patent law's "staple article of commerce" doctrine.¹⁰⁹ Justice Stevens, writing for the majority, noted that "[t]here is no precedent in the law of copyright for the imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law."¹¹⁰ Based solely on this rationale, the Supreme Court engrafted an express provision from the Patent Act into the Copyright Act.

Importing the patent reasonable royalty scheme into copyright law based on their historic kinship seems to comport with the Supreme Court's rationale in *Sony*. However, scholars have criticized the Supreme Court for blindly transplanting principles of patent law into the Copyright Act based solely on this connection.¹¹¹ It is important to address these grievances here, and to explain why copyright law's adoption of a reasonable royalty scheme alleviates these concerns.

2. *Historic Kinship in Damages*

Professors Peter Menell and David Nimmer argue that *Sony* improperly construed the Copyright Act by ignoring its legislative history.¹¹² Indeed, the legislative history would have revealed Congress's intention to look to tort principles in determining the contours of copyright liability.¹¹³ In rejecting the Court's sole reliance on historic kinship, Menell and Nimmer note that there are instances in which importation based on historic kinship might be appropriate.¹¹⁴ Such instances must prove that Congress drew explicitly on patent law in its deliberations.¹¹⁵ Therefore, 17 U.S.C. § 504(b) must be evaluated against the backdrop in which it was developed.¹¹⁶

Construction by analogy to patent law in the context of damages is proper because Congress drew upon provisions founded in patent law in creating the current 17 U.S.C. § 504(b). In *Sheldon v. Metro-Goldwyn Pictures Corp.*, the Supreme Court held that, "[i]n passing the Copyright Act, the

109. *Id.* at 442.

110. *Id.* at 439.

111. *See, e.g.*, Menell & Nimmer, *supra* note 72, at 944, 983; Hughes, *supra* note 77, at 754–55.

112. *See* Menell & Nimmer, *supra* note 72, at 943–44 (“[T]he legislative history of the Copyright Act reveals that Congress rooted its considerations regarding contributory infringement elsewhere.”).

113. *Id.* at 995.

114. *Id.* at 985.

115. *Id.* at 992.

116. *Id.* at 991.

apparent intention of Congress was to assimilate the remedy with respect to the recovery of profits to that already recognized in patent cases.”¹¹⁷ Although the adoption pertained to the aggregation of actual damages and profits, Congress clearly imported Patent Act damage principles into the Copyright Act of 1909. Indeed, the House Committee concluded that

[t]he provision that the copyright proprietor may have such damages . . . is substantially the same provision found in section 4921 of the Revised Statutes relating to remedies for the infringement of patents As such provision was found both in the trade-mark and patent laws, the committee felt that it might be properly included in the copyright laws.¹¹⁸

Historic kinship is found in patent and copyright damages based on their parallel development. Copyright and patent laws are governed by the same constitutional mandate.¹¹⁹ As such, they share the same utilitarian principle— incentivizing innovation and creation for the progress of science and the useful arts. Throughout history, Congress and courts have carried out this mandate in both the patent and copyright context by consistently applying the private law of torts.¹²⁰ Thus, intellectual property law has developed under the premise that remedies are best given in the form of compensation analogous to those that result from misappropriation of property. Although this development may be built upon faulty ground,¹²¹ the reasoning raises empirical questions beyond our ability to resolve here. Instead, a proper analysis focuses on the parallel evolution of common law patent and copyright damages.

Based on the foundational principles of tort law,¹²² patent and copyright laws share the goal of compensation for the value of the asset lost.¹²³ Both patent and copyright hypothetical negotiation schemes were judicially created to avoid a nonrecourse cause of action absent substantial proof of lost profits. The “value of use” theory was developed to bridge a gap in the

117. *Sheldon v. Metro Goldwyn Pictures Corp.*, 309 U.S. 390, 400 (1940).

118. H.R. REP. NO. 2222, 60th Cong., 2d sess., at 15; S. REP. NO. 1108, 60th Cong., 2d sess., at 15.

119. U.S. CONST. art. I, § 8, cl. 8.

120. *See supra* Part III.A.2.

121. *See supra* Part III.A.3.

122. *See supra* note 85 and accompanying text.

123. S. Rep. No. 94-473, at 157 (1976) (“Damages are awarded to compensate the copyright owner from his losses from the infringement”); CHISM, *supra* note 35, § 20.02[2] (“Early Supreme Court decisions stressed the compensatory nature of the monetary damages recoverable in an action at law for patent infringement.”).

Copyright Act under circumstances in which the copyright owner cannot sufficiently prove lost profits and has not met the requirements for statutory damages.¹²⁴ Similarly, a reasonable royalty was a judicially-created, and later codified, remedy in response to the difficulty in finding an appropriate measure of damages when a patent owner could prove neither lost profits nor an established royalty rate.¹²⁵

Facing similar issues of a potential remediless infringement and speculative valuation techniques, both patent and copyright law looked to a hypothetical negotiation scheme to determine the fair market value of the asset at issue. In copyright law, “actual damages” represents the extent to which infringement has destroyed the market value of the infringed work.¹²⁶ In *Deltak, Inc. v. Advanced Systems, Inc.*, the Seventh Circuit defined actual damages to include the “value of use” to the infringer, which was calculated under a hypothetical negotiation theory.¹²⁷ Looking to Supreme Court precedent,¹²⁸ the Second Circuit found that “a reasonable license fee for the use of [the plaintiff’s work] best approximates the market injury sustained by [the plaintiff] as a result of [the defendant’s] misappropriation.”¹²⁹ Likewise, the patent law reasonable royalty scheme initiated based on the need to accurately calculate the value of the infringing use of the patent. In *Suffolk v. Hayden*,¹³⁰ the Supreme Court approved an instruction that the jury consider the value of the improvement to the defendant, and consider “the value of the thing used and ascertain that value by all the evidence as to its character, operation, and effect.”¹³¹ The Sixth Circuit confirmed this by adding that “[t]he real value—the actual value—of what has been taken is always the ultimate question. Proof of market value is one way to show this actual loss”¹³²

The hypothetical negotiation technique is useful to calculate the value of use across both patent and copyright law because copyrights and patents are analogous assets.¹³³ Though not “identical twins,”¹³⁴ patent law principles can

124. See *supra* Part II.B.

125. See *supra* Part II.A; CHISM, *supra* note 35, § 20.02[2][a].

126. NIMMER & NIMMER, *supra* note 7, § 14.02[A].

127. *Deltak, Inc. v. Advanced Systems, Inc.*, 767 F.2d 357, 361–62 (7th Cir. 1985).

128. *Harper & Row Publishers, Inc. v. Nat’l Enter.*, 471 U.S. at 562 (“[A]ny such exploitation must at least entail ‘paying the customary price.’”).

129. *Rogers v. Koons*, 960 F.2d 301, 313 (2d Cir. 1992).

130. 70 U.S. (30 Wall.) 315 (1865).

131. *Id.* at 320.

132. *United States Frumentum Co. v. Lauhoff*, 216 F. 610, 616–17 (6th Cir. 1914).

133. See *Menell & Nimmer*, *supra* note 72, at 986 (“Given that insofar as they constitute an ‘asset’ in a proprietor’s portfolio there is little to separate copyrights from patents, it is not

be helpful guidance in developing a framework for determining the contours of copyright liability based on their historic kinship in damages. The historic kinship connecting patent and copyright damages, however, cannot justify mere blind transplantation. Instead, courts must be sensitive to distinctions in their requirements and enforcement aspects by tailoring the reasonable royalty inquiry to the facts of each case.

IV. HOW COURTS SHOULD IMPLEMENT A REASONABLE ROYALTY SCHEME

Calculating a reasonable royalty requires courts to consider a broad range of factors to determine what type of agreement hypothetical negotiators would reach in each case. Patent law looks to the seminal *Georgia-Pacific*¹³⁵ case, which outlines fifteen factors used to carefully construct the inquiry.¹³⁶ The Federal Circuit adopted these factors as a method for determining the amount of a hypothetically negotiated royalty for a patent license based on the flexibility to properly tie the calculation to the facts of each case. However, blind adoption of patent law principles will not always yield correct results in the copyright context. Using the *Georgia-Pacific* factors as a baseline, the hypothetical license factors applied to copyrights (“Copyright Factors”) are as follows:

1. *Whether the Parties Would Have Entered into a Negotiation for the Copyright at Issue.*¹³⁷

Recovering actual damages requires the establishment of a “but for” nexus to the infringement.¹³⁸ This causal link must prove that but for the infringement, the copyright owner would have been able to license the

surprising that the Court would look to analogous assets”); *see also* *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948) (holding that insofar as antitrust law is concerned with leveraging one asset to extend control into other markets, copyrights and patents stand on the same footing); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932) (holding that “royalties from copyrights stand in the same position as royalties from the use of patent rights” for purposes of tax law).

134. *Sony*, 464 U.S. at 439 n.19 (1984).

135. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

136. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011). However, it is less clear whether and to what extent these factors apply to a determination of a hypothetical license fee in copyright cases.

137. *See Georgia-Pacific*, 318 F. Supp. 1116 at 1121 (considering “[t]he commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter”).

138. WILLIAM F. PATRY, *COPYRIGHT LAW AND PRACTICE* 22:111 (1994).

infringer's use.¹³⁹ As such, this first factor acts as a threshold requirement, precluding any hypothetical license recovery absent evidence of a lost opportunity to license. In *Encyclopedia Brown Productions, Ltd. v. Home Box Office, Inc.*,¹⁴⁰ the Southern District of New York provided three factors tending to suggest that such a license would have occurred: (1) a lack of ill motive of the defendant in infringing; (2) a pre-existing sale or licensing arrangement between the parties for the same or different copyrighted works; and (3) other aspects of the parties' relationship, such as their status as non-competitors.¹⁴¹ For instance, repeated refusal to purchase a license, along with evidence of a good faith basis for believing that no license was required, has been held to fall short of the threshold requirement.¹⁴² However, evidence of licensing discussions,¹⁴³ or proof that the infringer considered entering into a license agreement,¹⁴⁴ will rebut this presumption.

Most courts focus on the third factor, finding direct competition to have significant probative value because it tends to disprove the fact that the parties would have consummated the sale or license.¹⁴⁵ In *Business Trends*

139. *Oracle USA, Inc. v. SAP AG*, C 07-1658 PJH, 2011 WL 3862074, at *7 (N.D. Cal. Sept. 1, 2011) (“[T]o recover hypothetical license damages, Oracle was required to show that, but for infringement, the parties would have agreed to license the use of the copyrighted works at issue.”); *see* *On Davis v. The Gap, Inc.*, 246 F.3d 152, 164 (2d Cir. 2001) (upholding a hypothetical license after finding that, had the oversight not occurred, either the parties would have negotiated a reasonable licensing fee or The Gap would have eliminated the eyewear from its photograph); *Big Seven Music Corp. v. Lennon*, 554 F.2d 504, 509 (2d Cir. 1977) (holding that actual damages must bear a “necessary, immediate and direct causal connection” to the defendant’s infringement); *see also* *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 567 (1985) (holding that once plaintiff shows a causal connection, “the burden properly shifts to the infringer to show that this damage would have occurred had there been no taking of the copyrighted expression”).

140. 25 F. Supp. 2d 395 (S.D.N.Y. 1998).

141. *Id.* at 401–02.

142. *Polygram Intern. Pub., Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1334–35 (1994) (holding that lost license fees are not an appropriate award where Interface refused to purchase a license from ASCAP based on a good faith belief that, under existing law, no license was required).

143. *Thoroughbred Software Intern., Inc. v. Dice Corp.*, 488 F.3d 352, 359–60 (6th Cir. 2007) (upholding a reasonable license fee based on the causal connection due to the parties’ “dealer agreement”).

144. *Marshall & Swift v. BS & A Software*, 871 F. Supp. 952, 964 (1994) (awarding Marshall a lost license fee based on evidence that “defendants at least at one point before their infringing activity considered entering into a license agreement with Marshall”).

145. *See* *Encyclopedia Brown Prods., Ltd. V. Home Box Office, Inc.*, 25 F. Supp. 2d 395, 401–02 (S.D.N.Y. 1998) (finding that the fact that the parties “are not direct competitors supports a reasonable inference that licensing of the [copyright] would have been a viable alternative”); *Bus. Trends Analysts, Inc. v. Freedomia Group, Inc.*, 887 F.2d 399, 405 (2d Cir. 1989) (emphasizing the parties’ status as direct competitors in finding that

Analysts, Inc. v. Freedomia Group, Inc.,¹⁴⁶ the Second Circuit held that there was no possibility of future negotiations due to the parties' direct competition in the marketplace. However, the *On Davis* court warned against a per se rule precluding a hypothetical negotiation involving direct competitors.¹⁴⁷ In restricting *Business Trends* to the facts of the case, *On Davis* explained that the "competitive relationship" prong should look more to the larcenous intentions of the infringer than to mere direct competition in establishing the threshold.¹⁴⁸ The court noted that *Business Trends* was motivated by the perception of an unrealistic negotiation because "the defendant before it was no more inclined to negotiate a purchase price than a 'purse snatcher'"¹⁴⁹ On the contrary, the parties involved in *On Davis* "could have happily discussed the payment of a fee" despite their competitive relationship. A court may also determine that direct competitors would have freely negotiated when honest users infringe by reason of oversight or good faith mistake.¹⁵⁰

If the copyright owner proves the lost opportunity to license the copyright, the hypothetical license inquiry still accounts for factors that may or may not bring the negotiators to the bargaining table. For instance, although a competing commercial relationship might not be enough to bar the plaintiff from recovery under this Copyright Factor, the parties' status as competitors will likely result in a higher price for a license, as the copyright owner will be reluctant to license a work to companies targeting the same customers. While it is true that there is no formula by which these factors can be rated in the order of their relative importance, this first Copyright Factor should take priority, as a reasonable royalty will not be granted absent its satisfaction.

"[t]he last thing the infringers wanted to buy and to sell was the actual material produced under their competitor's name").

146. 887 F.2d 399, 405 (2d Cir. 1989).

147. *On Davis v. The Gap, Inc.*, 246 F.3d 152, 163 (2d Cir. 2001).

148. *Id.* (holding that *Business Trends* did "not lay[] down an absolute rule, but rather ma[de] a ruling that was heavily influenced by the particular facts of that case").

149. *Id.* at 163–64.

150. *Id.* at 172 (holding that declining a hypothetical license fee in all cases would be improper because "[t]he infringer may have mistakenly believed in good faith that the work was in the public domain, that his licensor was duly licensed, or that his use was protected by fair use").

2. *The Royalties Received by the Copyright Owner for Licensing the Copyright at Issue, Tending to Prove an Established Royalty.*¹⁵¹

Perhaps the best evidence of the value of a license is proof that the copyright owner previously licensed the same copyright for a certain price. This established royalty is the primary evidence analyzed in copyright hypothetical license cases.¹⁵² Previous negotiations between the parties for the copyright at issue, even if unsuccessful, are also instructive.¹⁵³ For example, in *Polar Bear Productions, Inc. v. Timex Corp.*, the Ninth Circuit accepted the value of a hypothetical license based on an amount previously quoted to the infringer for the same copyright.¹⁵⁴ In *McRoberts Software, Inc. v. Media 100, Inc.*, the Seventh Circuit upheld the value of a hypothetical license fee based on past agreements between Media 100 and MSI under previous versions of the copyright at issue.¹⁵⁵ However, even if the copyright owner establishes such royalties, it is important to continue to consider the realities of the bargaining position of the hypothetical buyer. Particular buyers and sellers might value the copyright differently than in previous negotiations, or perhaps possess more leverage, depending on their financial position as it changes over time. Thus, it is incorrect to look solely to this Copyright Factor in establishing a reasonable royalty for a copyright.

3. *Royalties Received by Licensors of Other Comparable Copyrighted Works in Similar Markets.*¹⁵⁶

Proof of industry practice is crucial to the calculation of actual damages.¹⁵⁷ Such evidence might assist the court in determining the scope of

151. *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (holding that the first factor considers “[t]he royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty”).

152. *See Oracle USA, Inc. v. SAP AG*, C 07-1658 PJH, 2011 WL 3862074, at *10–11 (N.D. Cal. Sept. 1, 2011) (denying hypothetical license damages because “Oracle offered no evidence of the type on which plaintiffs ordinarily rely to prove that they would have entered into such a license, such as past licensing history or a plaintiff’s previous licensing practices”).

153. *See id.* at 14 (“[T]he court expected to see objective evidence showing some licensing activity . . . from Oracle/SAP’s prior dealings . . .”).

154. *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 709 (2004).

155. *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 567 (7th Cir. 2003).

156. *See Georgia-Pacific*, 318 F. Supp. at 1121 (holding that the second factor considers “[t]he rates paid by the licensee for the use of other patents comparable to the patent in suit”).

the license at issue,¹⁵⁸ or even prove that the parties rarely negotiate using a license fee,¹⁵⁹ tending to weigh against Copyright Factor #1. License prices paid in similar markets are also instructive.¹⁶⁰ Indeed, a court's determination of the fair market value of a license is often facilitated by the use of benchmark agreements between similar parties in similar industries.¹⁶¹ However, courts must be mindful of the differences between these

157. *Bruce v. Weekly World News, Inc.*, 310 F.3d 25, 29 (1st Cir. 2002); *see also* *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 170–71 (1985) (assuming that Congress intended to incorporate prevailing industry practices when it enacted the Copyright Act).

158. *See* *Straus v. DVC Worldwide*, 484 F. Supp. 2d 620, 648–49 (2007) (looking to industry practice to award a higher retroactive license fee for unauthorized or infringing uses); *see also* *Bruce*, 310 F.3d at 30 (“[U]nder the prevailing industry practice, Bruce almost surely would not have been able to negotiate with World News for anything other than a single, lump-sum, up-front licensing fee”); *Fournier v. Erickson*, 242 F. Supp. 2d 318, 337 (2003) (finding that “whether a general fee standard prevailed in the industry” provides objective evidence of fair market value); *United States v. Am. Soc’y of Composers, Authors, Publishers*, 627 F.3d 64, 76, 81–82 (2d Cir. 2010) (looking to other licenses in the music industry to determine fee structures); *On Davis v. The Gap, Inc.*, 246 F.3d 152, 163 (2d Cir. 2001) (finding sufficiently concrete evidence that \$50 was the fair market value of the license at issue based on previous licenses of \$50 for similar use).

159. *See* *Bruce*, 310 F.3d at 29–30 (“[T]here was no realistic prospect whatsoever that Bruce could negotiate a per-use licensing fee with World News.”).

160. *Am. Soc’y*, 627 F.3d at 76 (2d Cir. 2010) (finding that fundamental to the reasonableness of the royalty “is a determination of what an applicant would pay in a competitive market . . .”).

161. *Oracle USA, Inc. v. SAP AG*, C 07-1658 PJH, 2011 WL 3862074, at *7 (N.D. Cal. Sept. 1, 2011) (“An objective, non-speculative license price is established through objective evidence of benchmark transactions, such as licenses previously negotiated for comparable use of the infringed work, and benchmark licenses for comparable uses of comparable works.”); *id.* at 14 (“[T]he court expected to see objective evidence showing some licensing activity . . . by Oracle or by some other company in the related industry”); *Am. Soc’y*, 627 F.3d at 76 (2d Cir. 2010) (quoting *United States v. Broad. Music, Inc.*, 426 F.3d 91, 94 (2d Cir. 2005) (“‘A rate court’s determination of the fair market value of the music is often facilitated by the use of benchmarks-agreements reached after arms’ length negotiation between other similar parties in the industry.’”)); *Fournier*, 242 F. Supp. at 337 (S.D.N.Y. 2003) (finding that “what Fournier received from other customers for similar work” was objective evidence tending to prove the fair market value of the license); *Kleier Adver., Inc. v. John Deery Motors, Inc.*, 834 F. Supp. 311, 314 (N.D. Iowa 1993) (using the same licensing fee for each of the three infringing markets, although two of the markets were unknown); *see, e.g.*, *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 566–67 (7th Cir. 2003) (upholding hypothetical license award based on evidence of the value of other licenses purchased by Media 100 for similar services in the software industry based on the relative size of the Macintosh market as compared to the Windows market for such products).

industries, comparing only those substantially similar to the industry at issue.¹⁶²

This Copyright Factor is identical to the second *Georgia-Pacific* factor.¹⁶³ However, this factor will weigh considerably less in the copyright context due to the corroboration requirement in Copyright Factor #1. Because copyright law places the burden of proof on the owner to prove that she would have actually licensed the copyrighted work, it is likely that the owner will be required to present proof that she previously licensed the product. With evidence of the exact market at issue, this factor will become important only if the previous licenses vary in price. To establish a fair price in each case, courts would then be required to analyze other copyrights of comparable value in similar markets to determine a reasonable price.

4. *The Established Profitability of the Copyrighted Item, its Commercial Success, and its Current Popularity.*¹⁶⁴

It is acknowledged in the patent context that one of the most important factors in ascertaining the value of a patent for royalty purposes is the ability of the invention to make money.¹⁶⁵ This Copyright Factor will be instructive as to how much the infringer would actually pay for the copyright, considering her expected profits arising from the asset. In a hypothetical negotiation, the owner would be reasonable in taking the position that she will not accept a royalty amount significantly less than the profit she is currently making from that product. On the other hand, the hypothetical buyer would likely examine this information in considering how valuable the copyright would be to her business.

162. GOLDSTEIN, *supra* note 7, § 12.1.1 (2005) (“The market value measure of damages will be correct so long as the court takes care to capture the value of the work in the specific market in which the infringer used it.”); *see Am. Soc’y*, 627 F.3d at 84–85 (comparing royalty rates from different online music platforms, but refusing to compare them to television networks based on the companies’ music use).

163. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (considering “[t]he rates paid by the licensee for the use of other patents comparable to the patent in suit”).

164. *Id.* at 1120 (considering “[t]he established profitability of the product made under the patent; its commercial success; and its current popularity”).

165. *Id.* at 1127.

5. *Economic Benefit of the Copyright at Issue.*

The amount of a hypothetical license should be based in part on the current value of the underlying asset.¹⁶⁶ This factor is a combination of (1) *Georgia-Pacific* factor #9, accounting for the utility and advantages of the patent;¹⁶⁷ (2) *Georgia-Pacific* factor #6, accounting for the value of the invention as a generator of sales for other items;¹⁶⁸ (3) *Georgia-Pacific* factor #7, accounting for the duration of the patent and the term of the license;¹⁶⁹ (4) *Georgia-Pacific* factor #10, considering the nature and character of the invention, and the benefits to those who have used it;¹⁷⁰ and (5) *Georgia-Pacific* factor #13, distinguishing the profit credited to the patent from the non-patentable elements and business risks involved in attaining the expected profit.¹⁷¹ This Copyright Factor should be considered from the perspective of both the licensee and licensor.

Using information from Copyright Factor #4, the hypothetical buyer will consider her expected economic profit. Such a consideration requires analyzing the size of the market and the possibility of capturing a given share of that market.¹⁷² She will also consider the duration of the license and the risk involved, such as competing products. The hypothetical buyer might also consider the amount of investment that would be required to commercialize the intellectual property, such as marketing and manufacturing costs. These economic considerations assume that the hypothetical buyer comes to the negotiating table looking to pay less for a license than her expected profit.

166. *Oracle USA*, 2011 WL 3862074 at *11 (“The amount of the hypothetical license must be based on the actual use the defendant made of the work . . .”).

167. *Georgia-Pacific*, 318 F. Supp. at 1120 (considering “[t]he utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results”).

168. *Id.* at 1120 (considering “[t]he effect of selling the patented specialty in promoting sales of other products of the licensee; that existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoked sales”).

169. *Id.* at 1120 (considering “[t]he duration of the patent and the term of the license”).

170. *Id.* at 1120 (considering “[t]he nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention”).

171. *Id.* at 1120 (considering “[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer”).

172. *See Kleier Adver., Inc. v. John Deery Motors, Inc.*, 834 F. Supp. 311, 314 (1993) (“Kleier’s licensing fee depends on the size of the exclusive geographical market in which the licensee does business.”).

On the other hand, a hypothetical licensor would consider the same effects to her company as a result of the license. She would consider to what extent the license will take away her share of the market,¹⁷³ as well as what other risks she might bear with a competing product on the market. She might also consider the existing value of the copyright as a generator of sales of other items not at issue. These factors provide more realistic, business-based criteria that more accurately reflect a true arm's-length negotiation.¹⁷⁴

6. *The Portion of the Realizable Profit That Should Be Credited to the Expression at Issue as Distinguished from Non-Copyrighted Items and Other Significant Features or Improvements Added by the Infringer.*¹⁷⁵

This Copyright Factor addresses the apportionment issue when analyzing the value of the copyright to the infringer. It reflects the notion that an infringer may add value to the copyrighted item, which should be extracted from the calculation of its fair market value. However, apportionment is improper where the “copyrighted portions are so intermingled with the rest of the piratical work” that they cannot be distinguished.¹⁷⁶ The purpose is thus to provide just compensation for the value of the license, not to impose an extra penalty for the infringer’s additional expression.

Though seemingly aimed at preventing an entire market value rule violation in patent law, the Supreme Court has recognized the usefulness of apportionment in the copyright context.¹⁷⁷ Thus, courts should consider whether the infringer created profits by the addition of non-infringing and valuable improvements, and should narrowly tailor the calculation of profits to features attributable to the infringement.¹⁷⁸ For example, where a motion

173. *See, e.g.,* Cream Records, Inc. v. Jos. Schlitz Brewing Co., 754 F.2d 826 (1985) (considering licensor’s loss of opportunity to license to another in determining the value of the license at issue).

174. *See* WESTON ANSON, IP VALUATION AND MANAGEMENT, 206–07 (2010) (providing a list of updated *Georgia-Pacific* factors more truly reflecting negotiation and business realities).

175. *See Georgia-Pacific*, 318 F. Supp. at 1121 (considering “[t]he portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions”).

176. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 401–02 (1940).

177. *Id.* at 405 (“We see no reason why these principles should not be applied to copyright cases.”); *see also* NIMMER & NIMMER, *supra* note 7, § 14.03(c) (“*Sheldon*’s result has now won express adoption in the 1976 Act,” which allows the court to exclude from recovery elements of profit attributable to factors other than the copyrighted work.).

178. *Sheldon*, 309 U.S. 390, 402–08 (1940); *see also* MGE UPS Systems, Inc. v. GE Consumer and Indus., Inc. 622 F.3d 361, 369 (5th Cir. 2010) (“MGE needed to present a more narrowly tailored calculation of PMI’s profits in order to cognize a claim for damages

picture infringes upon a copyrighted play, courts should utilize expert testimony to analyze the extent to which the use of the copyrighted material contributed to the profits in question.¹⁷⁹ Indeed, apportionment is almost always available in the context of infringing derivative works because original expression added by the infringer is itself entitled to copyright protection.¹⁸⁰ It is also used when only a small portion of a copyrighted song is infringed¹⁸¹ and when the parties are large companies involved in different markets.¹⁸²

7. *The Relative Strength of the Parties at the Time of the Negotiation.*

This Copyright Factor essentially considers the realities of the bargaining table.¹⁸³ However, it is important to revert to the parties' pre-infringement state of mind in determining their bargaining positions, as this would otherwise create an unfair advantage for the copyright owner. The patent context, for example, considers "a prudent licensee who wished to obtain a license but was not so compelled and a prudent patentee, who wished to grant a license but was not so compelled."¹⁸⁴

Courts may consider the licensor's notoriety and related ability to demand high prices for the work. The hypothetical licensor will likely assess her leverage by considering the market position of each party, including the risk that the licensee will explore alternatives to enter into the marketplace.

'attributable to infringement.'"); *United States v. Am. Soc'y of Composers, Authors, Publishers*, 627 F.3d 64, 80 (2d Cir. 2010) (requiring "a more precise way . . . to account for the value of the music use . . . in light of the fact that some components of the subscription do not involve the streaming of content . . ."); *Orgel v. Clark Boardman Co.*, 301 F.2d 119, 121 (2d Cir. 1962) ("In cases . . . where an infringer's profits are not entirely due to the infringement, and the evidence suggests some division . . . it is the duty of the court to make some apportionment.").

179. *Sheldon*, 309 U.S. at 407.

180. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1176 (1st Cir. 1994).

181. *See, e.g., Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826, 827–29 (9th Cir. 1985).

182. *See, e.g., Am. Soc'y*, 627 F.3d at 80 (requiring superior calculations to apportion music use revenue in light of the fact that some components of the subscription do not involve streaming the copyrighted work); *Data Gen.*, 36 F.3d at 1176 ("[A]pportionment is almost always available in the context of infringing derivative works, perhaps in part because original expression added by the infringer is itself entitled to copyright protection.").

183. *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1121 (S.D.N.Y. 1970) ("Where a willing licensor and a willing licensee are negotiating for a royalty, the hypothetical negotiations would not occur in a vacuum of pure logic. They would involve a market place confrontation of the parties, the outcome of which would depend upon . . . their relative bargaining strength . . .").

184. *Horvath v. McCord Radiator & Mfg. Co.*, 100 F.2d 326, 335 (6th Cir. 1938).

She will also consider the novelty of the copyright at issue. The hypothetical licensee will consider the possibility of exploring other markets, design around alternatives, and the cost of noninfringing alternatives. Essentially, this considers the licensee's best alternative to a negotiated agreement ("BATNA"), meaning that she will not purchase a license if it is less attractive than her next best alternative.

8. *The Licensor's Established Policy and Marketing Program to Maintain Her Monopoly by Not Licensing Others or by Granting Licenses Under Special Conditions Designed to Preserve That Monopoly.*¹⁸⁵

This factor is important because it establishes the hypothetical licensor's likelihood of achieving a higher price due to her resistance in negotiating. For example, the Second Circuit has held that ASCAP's monopolistic tendencies and disproportionate power over the market for music rights must be considered by rate-setting courts to reasonably determine the rate it requires from licensees.¹⁸⁶ Courts should also consider special conditions typically required by the licensor.¹⁸⁷ However, in situations where a license from the copyright owner is unprecedented due to her preservation of a monopoly, courts may find that a license would never have been reached.¹⁸⁸ Therefore, this analysis requires a delicate balance with Copyright Factor #1.

9. *The Opinion Testimony of Qualified Experts.*¹⁸⁹

Expert testimony is an important aspect of a reasonable royalty determination even in cases relying on past licenses of the copyrighted

185. See *Georgia-Pacific*, 318 F. Supp. at 1120 (considering "[t]he licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly").

186. *Am. Soc'y*, 627 F.3d at 76 (citing *United States v. Broad. Music, Inc.*, 426 F.3d 91, 96 (2d Cir. 2005) ("Fundamental to the concept of 'reasonableness' [in calculating a rate] is a determination of what an applicant would pay in a competitive market, taking into account the fact that ASCAP, as a monopolist, 'exercise[s] disproportionate power over the market for music rights.'").

187. See, e.g., *Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826, 827 (1985) ("There was no evidence that . . . Cream was willing to grant[] a license for use of less than the entire copyrighted work . . .").

188. See, e.g., *Oracle USA, Inc. v. SAP AG*, 2011 WL 3862074 at *7 (finding that Oracle cannot receive hypothetical license damages because "Oracle has never granted a comparable license that would permit a competitor to use Oracle software to compete for Oracle's customers . . . such a license would be 'unique' and 'unprecedented'").

189. See *Georgia-Pacific*, 318 F. Supp. at 1121 (considering "[t]he opinion testimony of qualified experts").

work.¹⁹⁰ In these cases, expert opinion is required to confirm the similarity of the licenses and the markets at issue. As long as it is relevant and reliable, expert testimony can also be used to prove prevailing industry practice,¹⁹¹ the similarity of markets or copyrighted works,¹⁹² to apportion copyrightable subject matter and to determine the extent to which the copyrighted material contributed to profits,¹⁹³ and to calculate fair market value.¹⁹⁴

V. CONCLUSION

Congress has implicitly blessed the reasonable royalty technique in copyright law. The Copyright Act is a statute that deserves flexible judicial interpretation based on congressional intent to defer to courts to develop in a common law fashion. A first principles analysis shows that Congress left courts free to mold the contours of copyright law on a case-by-case basis to fill statutory gaps based on tort law principles. Moreover, in contemplating amendments to the Copyright Act, Congress actually discussed the possibility that courts would engage in a reasonable royalty analysis to calculate copyright damages. The historic kinship that exists in the co-evolution of copyright and patent damages provides further justification for the incorporation of a reasonable royalty scheme. Courts, however, must be sensitive to the distinctions in their requirements and enforcement aspects to avoid mere blind transplantation across regimes.

Patent law's robust reasonable royalty scheme will provide helpful guidance for courts to determine the true value of a copyright license. Adapting the *Georgia-Pacific* factors to fit the requirements unique to copyright law will allow courts to more closely tether the hypothetical negotiation award to the facts of each case. This will enable courts to adhere to congressional intent by affording copyright owners adequate compensatory

190. PAUL GOLDSTEIN, COPYRIGHT PRINCIPLES, LAW AND PRACTICE 317 (1989) (“Courts admit expert testimony . . . to prove market value.”).

191. *See, e.g.*, *Bruce v. Weekly World News, Inc.*, 310 F.3d 25, 29–30 (1st Cir. 2002) (relying on expert testimony that, given the prevailing industry practice, there was no realistic prospect that Bruce could negotiate a per-se licensing fee with World News).

192. *See, e.g.*, *Semerdjian v. McDougal Littell*, 641 F. Supp. 2d 233 (S.D.N.Y. 2009) (confirming the relevancy of expert testimony regarding a market for images in textbooks in calculating a reasonable license fee).

193. *See, e.g.*, *Sheldon v. Metro-Goldwyn Pictures Corporation*, 309 U.S. 390 (1940) (relying on expert witness testimony in finding that, for apportionment purposes, the portion of the profits attributable to the use of a copyrighted play was small).

194. *See, e.g.*, *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 709 (9th Cir. 2004) (finding substantial evidence for a license fee award based on the testimony of a certified accountant, who calculated a reasonable license fee by determining fair market value).

damages when they would otherwise have no remedy.¹⁹⁵ Indeed, adopting a reasonable royalty scheme will help achieve copyright's utilitarian goals by promoting creation to benefit society.

195. *See* H.R. REP. NO. 94-1476, at 161 (1976) ("Damages are awarded to compensate the copyright owner for losses from the infringement.").