

1 **UNITED STATES COURT OF APPEALS**
2 **FOR THE SECOND CIRCUIT**

3 August Term, 1999

4 (Argued: June 27, 2000

Decided: April 03, 2001

5 Errata Filed: April 10, 2001)

6 Docket No. 99-9081
7

8 -----X

9 ON DAVIS,

10 Plaintiff-Appellant,
11

12 v.

13 THE GAP, INC.,

14 Defendant-Appellee.
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16 ----- X
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18

19 Before: LEVAL, PARKER and KATZMANN, Circuit Judges.

20 Creator of nonfunctional jewelry worn in the manner of eyeglasses brought this action in the U.S.
21 District Court for the Southern District of New York (Sweet, J.) alleging copyright infringement after
22 the defendant, an international retailer, used a photograph of an individual wearing the plaintiff's design
23 as part of an advertising campaign for defendant's merchandise. The district court granted summary
24 judgment for the defendant. The Court of Appeals, Leval, Circuit Judge, affirms in part, but vacates the
25 judgment and remands, finding that (1) plaintiff pleaded a sustainable claim for declaratory relief, (2)
26 plaintiff's evidence was sufficiently concrete to justify a damage award under 17 U.S.C. § 504 based
27 on plaintiff's failure to collect a reasonable license fee, (3) punitive damages were not available, (4) the
28 action was not subject to dismissal under the de minimus rule, and (5) the defendant's use was not
29 protected by the fair use doctrine. Affirmed in part, vacated in part, and remanded for further
30 proceedings.

1 KENNETH SPOLE, Syosset, NY, (On Davis, pro se,
2 on the brief) for Appellant.

3 LORIN L. REISNER, Debevoise & Plimpton, New
4 York, NY (Suzanne J. Irving on the brief) for
5 Appellees.

6 LEVAL, Circuit Judge:

7 Plaintiff On Davis (“Davis”) appeals from an order of the United States District Court for the
8 Southern District of New York (Sweet, J.) granting summary judgment to the defendant, The Gap, Inc.
9 (“the Gap”), dismissing plaintiff’s claim of copyright infringement. See Davis v. The Gap, Inc., No. 97
10 CIV. 8606(RWS), 1999 WL 199005 (S.D.N.Y. Apr. 9, 1999) (“Davis I”); Davis v. The Gap, Inc.,
11 186 F.R.D. 322 (S.D.N.Y. 1999) (“Davis II”).

12 Davis is the creator and designer of nonfunctional jewelry worn over the eyes in the manner of
13 eyeglasses. The Gap, Inc. is a major international retailer of clothing and accessories marketed largely
14 to a youthful customer base with annual revenues of several billions of dollars. It operates several chains
15 of retail stores, some under the name “Gap.” It is undisputed that the Gap, without Davis’s permission,
16 used a photograph of an individual wearing Davis's copyrighted eyewear in an advertisement for the
17 stores operating under the “Gap” trademark that was widely displayed throughout the United States.
18 Davis brought this action seeking a declaratory judgment of infringement and damages, including
19 \$2,500,000 in unpaid licensing fees, a percentage of the Gap's profits, punitive damages of
20 \$10,000,000, and attorney's fees. The district court granted summary judgment for the Gap on the
21 grounds that (1) Davis’s claims for actual damages and profits under 17 U.S.C. § 504(b) (1994) were
22 too speculative to support recovery, or were otherwise barred by a prior ruling of this court, (2) he was

1 not eligible for statutory damages or attorney's fees because he had not timely registered his copyright,
2 and (3) the Copyright Act does not permit recovery of punitive damages. See Davis I, 1999 WL
3 199005, at *3-8. We affirm in part and, in part, vacate and remand.

4 BACKGROUND

5 Davis has created at least fifteen different designs of eye jewelry, which he markets under the
6 name “Onoculii Designs.” Davis describes Onoculii eyewear as “sculptured metallic ornamental
7 wearable art.” Am. Compl. ¶ 7. Each piece is made of gold, silver, or brass, and is constructed in a
8 manner similar to eyeglasses (a frame hinged to templates that hook over the ears), but with very
9 different effect. The frames support decorative, perforated metallic discs or plates in the place that
10 would be occupied by the lenses of a pair of eyeglasses. The discs effectively conceal the wearer’s
11 eyes, although the perforations permit the wearer to see through them. Some of Davis’s designs are of
12 flowery or abstract filagree shapes, some are crescents with protruding spokes or wings. The particular
13 piece that gives rise to this action consists of a horizontal bar at the level of the eyebrows from which are
14 suspended a pair of slightly convex, circular discs of polished metal covering the eyes, perforated with
15 dozens of tiny pinprick holes. Davis registered his copyright for the design at issue, effective May 16,
16 1997.

17 Davis sought to gain recognition for his Onoculii line by promoting and marketing his designs “in
18 carefully chosen media settings.” Am. Compl. ¶ 13. As part of his marketing plan, Davis encouraged
19 “known stylish and popular entertainers” to wear his creations in public settings. Pl's Counter 56.1(c)
20 Statement, ¶8. Entertainers who have worn Onoculii designs while appearing on stage, on MTV, in
21 magazine photographs or other media include Vernon Reid, Thomas Mapfumo, Don Cherry, Sun Ra,

1 Ryo Kawasaki, Cat Coore, Mr. Pepper Seed, Chuck Johnson, and Jack and Jill. Various fashion
2 designers have also featured Davis's eyewear as accessories in runway shows or photographs, and his
3 work has been noted in such publications as Vogue, Women's Wear Daily, Fashion Market, In Fashion,
4 The New York Times, The New York Post, and The Village Voice.

5 While Davis initially sold his designs on the street, since about 1995 he has marketed his
6 merchandise through boutiques and optical stores. The eyewear sold at a wholesale price of
7 approximately \$30-45 a pair. Evidence in the record indicates that it sold at retail for \$65-100 a pair in
8 1995. See Am. Compl., Ex. B. Davis asserts he has earned approximately \$10,000 from sales. He
9 testified that on one occasion he received a \$50 fee from Vibe magazine for the use of a photograph
10 depicting the musician Sun Ra wearing an Onoculii piece.

11 In May 1996, prior to Davis's registration of his copyright, the defendant created a series of
12 advertisements showing photographs of people of various lifestyles wearing Gap clothing. The campaign
13 was designed to promote the concept that Gap merchandise is worn by people of all kinds. The ad in
14 question, which bears the caption "fast" emblazoned in red (the "fast" ad), depicts a group of seven
15 young people probably in their twenties, of Asian appearance, standing in a loose V formation staring at
16 the camera with a sultry, pouty, provocative look. The group projects the image of funky intimates of a
17 lively after-hours rock music club. They are dressed primarily in black, exhibiting bare arms and partly
18 bare chests, goatees (accompanied in one case by bleached, streaked hair), large-brimmed, Western-
19 style hats, and distinctive eye shades, worn either over their eyes, on their hats, or cocked over the top
20 of their heads. The central figure, at the apex of the V formation, is wearing Davis's highly distinctive
21 Onoculii eyewear; he peers over the metal disks directly into the camera lens.

1 The “fast” photograph was taken by the Gap in May 1996 during a photo shoot in the Tribeca
2 area of Manhattan. The defendant provided the subjects with Gap apparel to wear for the shoot, and a
3 trailer in which to change. The Gap claims that it did not furnish eyewear to any of the subjects, and that
4 the subjects were told to wear their own eyewear, wristwatches, earrings, nose-rings or other incidental
5 items, thereby “permitting each person to project accurately his or her own personal image and
6 appearance.” Def.'s 56.1(c) Statement, ¶18.

7 The Gap's “fast” advertisement was published in a variety of magazines, including W, Vanity
8 Fair, Spin, Details, and Entertainment Weekly. Davis claims that the total circulation of these magazines
9 was over 2,500,000. For five weeks during August and September of 1996, the advertisement was
10 displayed on the sides of buses in New York, Boston, Chicago, San Francisco, Atlanta, Washington,
11 D.C., and Seattle. The advertisement may also have been displayed on bus shelters. According to
12 Davis, when used on buses the photograph was cropped so that only the heads and shoulders of the
13 subjects were shown.

14 Davis submitted evidence showing that during the fourth quarter of 1996, the period that Davis
15 asserts is relevant to the “fast” advertisement, the net annual sales of the parent company, Gap, Inc.,
16 increased by about 10 percent, compared to the fourth quarter of 1995, to \$1.668 billion dollars. There
17 was no evidence of what portion of the parent company’s revenues were attributable to the stores
18 operated under the Gap label, much less what portion was related to the ad in question.

19 Shortly after seeing the “fast” advertisement in October and November 1996, Davis contacted
20 the Gap by telephone and in writing. The Gap’s advertising campaign, which apparently ran during
21 August and September of 1996, had been completed by the time Davis wrote. Davis stated that he had

1 not authorized the use of his design and inquired whether the Gap might be interested in selling a line of
2 his eyewear.

3 Davis filed this action on November 19, 1997. The Gap then filed a motion for summary
4 judgment, arguing, inter alia, that Davis had no entitlement to damages and that his claims were barred
5 by the de minimis and fair use doctrines.

6 On April 9, 1999, the district court granted summary judgment for the Gap. See Davis I, 1999
7 WL 199005, at *10. The district court first noted that Davis was not eligible for “statutory damages”
8 under 17 U.S.C. § 504(c) due to the fact that he had not registered his copyright within three months of
9 his first “publication” of his work or prior to the allegedly infringing use by the Gap.¹ As regards
10 damages under 17 U.S.C. § 504(b), the court rejected Davis’s claim as unduly speculative and, insofar
11 as it sought damages for Davis’s failure to receive a license fee from the Gap, precluded by a prior
12 decision of this court. See Davis I, 1999 WL 199005, at *3-7. Since the court also found Davis
13 ineligible for punitive damages, it concluded that he was not entitled to any form of damages, and thus
14 dismissed his claims. See id. at *8, 10. Davis filed a motion for reconsideration on April 27, 1999,
15 which was denied on June 16, 1999. See Davis II, 186 F.R.D. 322.

16 On appeal, Davis argues principally that (1) the district court erred by granting summary
17 judgment without ruling on the merits of his claim for declaratory relief; and (2) he was entitled to both

¹17 U.S.C. § 412 specifies that a copyright holder is not entitled to elect statutory damages or receive attorney’s fees under §§ 504 and 505 if “any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work.” Because the allegedly infringing use of Davis’s eyewear occurred in the late summer of 1996, far more than three months after the first publication of the eyewear in 1991 but before registration of the copyright on May 16, 1997, Davis is ineligible for statutory damages or attorney’s fees. [SA 3.]

1 compensatory and punitive damages. The Gap defends the district court’s judgment and argues in
2 addition that the suit was subject to dismissal under the de minimis and fair use doctrines.

3 We affirm in part and reverse in part.

4 DISCUSSION

5 Summary judgment is proper when the record, viewed in the light most favorable to the party
6 against whom judgment is sought, reveals "no genuine issue as to any material fact" and the moving party
7 is entitled to summary judgment as a matter of law. See Fed.R.Civ.P. 56(c).

8 A. Declaratory Relief

9 Davis contends that it was improper for the district court to grant summary judgment on his
10 copyright claims without first determining whether the defendant infringed his copyright. The complaint
11 expressly sought “a declaratory judgment in favor of Mr. Davis against GAP, declaring” that the Gap
12 had infringed Davis’s copyright by its reproduction of his eyewear in its advertisement. Am. Compl., ¶

13 A. The district court granted the defendant’s motion for summary judgment on the basis of a variety of
14 theories that had no bearing on the demand for declaratory relief. No doubt because of the confusing
15 and prolix nature of the complaint, this aspect of the relief sought was overlooked. The existence of
16 damages suffered is not an essential element of a claim for copyright infringement. See Feist Publ’ns,
17 Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991) (to establish a prima facie case of copyright
18 infringement, “two elements must be proven: (1) ownership of a valid copyright, and (2) copying of
19 constituent elements of the work that are original”); 4 Melville B. Nimmer & David Nimmer, Nimmer on
20 Copyright §13.01, at 13-6 (1999) (“Notably absent from this formulation of the prima facie case is
21 damage or any harm to [the] plaintiff resulting from the infringement.”). The owner of a copyright is thus

1 entitled to prevail in a claim for declaratory judgment of infringement without showing entitlement to
2 monetary relief. Insofar as the judgment dismissed the claim for declaratory relief without discussion, we
3 are obliged to vacate the judgment and remand for consideration of that claim.

4 B. Compensatory Damages

5 17 U.S.C. § 504 imposes two categories of compensatory damages. Taking care to specify
6 that double recovery is not permitted where the two categories overlap, the statute provides for the
7 recovery of both the infringer's profits and the copyright owner's "actual damages."² It is important that
8 these two categories of compensation have different justifications and are based on different financial
9 data. The award of the infringer's profits examines the facts only from the infringer's point of view. If
10 the infringer has earned a profit, this award makes him disgorge the profit to insure that he not benefit
11 from his wrongdoing. The award of the owner's actual damages looks at the facts from the point of
12 view of the copyright owner; it undertakes to compensate the owner for any harm he suffered by
13 reason of the infringer's illegal act. See generally Fitzgerald Publ'g Co. v. Baylor Publ'g Co., 807 F.2d
14 1110, 1118 (2d Cir. 1986); Walker v. Forbes, Inc., 28 F.3d 409, 412 (4th Cir. 1994).

15 The district court granted summary judgment dismissing Davis's claims for damages. As for

²Section 504(a) makes the infringer liable for

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

17 U.S.C. § 504(a). Section 504(b) goes on to provide:

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

17 U.S.C. § 504(b).

1 Davis’s claim of entitlement to a part of the “infringer’s profits,” the district court believed Davis failed to
2 show any causal connection between the infringement and the defendant’s profits. With respect to
3 Davis’s claim of entitlement to “actual damages” based on the license fee he should have been paid for
4 the Gap’s unauthorized use of his copyrighted material, the district court believed that his evidence was
5 too speculative and that our decision in Business Trends Analysts, Inc. v. Freedonia Group, Inc., 887
6 F.2d 399 (2d Cir. 1989), precluded any such award.

7 We agree with the district court as to the defendant’s profits, but not as to Davis’s claim for
8 damages based on the Gap’s failure to pay him a reasonable license fee.

9 1. Infringer’s profits

10 Davis submitted evidence that, during and shortly after the Gap’s advertising campaign featuring
11 the “fast” ad, the corporate parent of the Gap stores realized net sales of \$1.668 billion, an increase of
12 \$146 million over the revenues earned in the same period of the preceding year. The district court
13 considered this evidence inadequate to sustain a judgment in the plaintiff’s favor because the overall
14 revenues of the Gap, Inc. had no reasonable relationship to the act of alleged infringement. See Davis I,
15 1999 WL 199005, at *6. Because the ad infringed only with respect to Gap label stores and eyewear,
16 we agree with the district court that it was incumbent on Davis to submit evidence at least limited to the
17 gross revenues of the Gap label stores, and perhaps also limited to eyewear or accessories. Had he
18 done so, the burden would then have shifted to the defendant under the terms of § 504(b) to prove its
19 deductible expenses and elements of profits from those revenues attributable to factors other than the
20 copyrighted work.

21 It is true that a highly literal interpretation of the statute would favor Davis. It says that “the

1 copyright owner is required to present proof only of the infringer's gross revenue," 17 U.S.C. § 504(b),
2 leaving it to the infringer to prove what portions of its revenue are not attributable to the infringement.
3 Nonetheless we think the term "gross revenue" under the statute means gross revenue reasonably related
4 to the infringement, not unrelated revenues.

5 Thus, if a publisher published an anthology of poetry which contained a poem covered by the
6 plaintiff's copyright, we do not think the plaintiff's statutory burden would be discharged by submitting
7 the publisher's gross revenue resulting from its publication of hundreds of titles, including trade books,
8 textbooks, cookbooks, etc. In our view, the owner's burden would require evidence of the revenues
9 realized from the sale of the anthology containing the infringing poem. The publisher would then bear the
10 burden of proving its costs attributable to the anthology and the extent to which its profits from the sale
11 of the anthology were attributable to factors other than the infringing poem, including particularly the
12 other poems contained in the volume. The point would be clearer still if the defendant publisher were
13 part of a conglomerate corporation that also received income from agriculture, canning, shipping, and
14 real estate development. While the burden-shifting statute undoubtedly intended to ease plaintiff's
15 burden in proving the defendant's profits, we do not believe it would shift the burden so far as to permit
16 a plaintiff in such a case to satisfy his burden by showing gross revenues from agriculture, canning,
17 shipping and real estate where the infringement consisted of the unauthorized publication of a poem. The
18 facts of this case are less extreme; nonetheless, the point remains the same: the statutory term
19 "infringer's gross revenue" should not be construed so broadly as to include revenue from lines of
20 business that were unrelated to the act of infringement.

21 The district court relied on the Seventh Circuit's ruling in Taylor v. Meirick, 712 F.2d 1112 (7th

1 Cir. 1983). In that case the defendant was a map-maker, who copied and sold three of the plaintiff's
2 copyrighted maps. During the relevant time period the defendant sold 150 maps, as well as other
3 merchandise. Plaintiff submitted evidence of gross revenues and profits deriving from the defendant's
4 overall sales. The court rejected plaintiff's claim, reasoning:

5 all [the burden shifting language of § 504(b)] means is that [the plaintiff] could have
6 made out a prima facie case for an award of infringer's profits by showing [the
7 defendant's] gross revenues from the sale of the infringing maps. It was not enough to
8 show [the defendant's] gross revenues from the sale of everything he sold...

9 Id. at 1122.

10 Applying this reasoning to our case, we think the district court was correct in ruling that Davis
11 failed to discharge his burden by submitting The Gap, Inc.'s gross revenue of \$1.668 billion – revenue
12 derived in part from sales under other labels within the Gap, Inc.'s corporate family that were in no way
13 promoted by the advertisement, not to mention sales under the “Gap” label of jeans, khakis, shirts,
14 underwear, cosmetics, children's clothing, and infantwear.

15 2. The copyright owner's actual damages: Davis's failure to receive a reasonable licensing fee

16 Among the elements Davis sought to prove as damages was the failure to receive a reasonable
17 license fee from the Gap for its use of his copyrighted eyewear. The complaint asserted an entitlement to
18 a \$2.5 million licensing fee. The district court rejected the claim on two grounds. First, the court found
19 that Davis's claim was too speculative – that is, insufficiently supported by evidence. See Davis I, 1999
20 WL 199005, at *5. Second, the court believed that our decision in Business Trends, 887 F.2d 399,
21 bars a copyright owner's claim for actual damages consisting of the infringer's failure to pay the fair
22 market value of a license fee for the use the infringer made. See Davis I, 1999 WL 199005, at *6-7.

1 a. Was Davis’s evidence too speculative?

2 While there was no evidence to support Davis’s wildly inflated claim of entitlement to \$2.5
3 million, in our view his evidence did support a much more modest claim of a fair market value for a
4 license to use his design in the ad. In addition to his evidence of numerous instances in which rock music
5 stars wore Onoculii eyewear in photographs exhibited in music publications, Davis testified that on one
6 occasion he was paid a royalty of \$50 for the publication by Vibe magazine of a photo of the deceased
7 musician Sun Ra wearing Davis’s eyewear.

8 On the basis of this evidence, a jury could reasonably find that Davis established a fair market
9 value of at least \$50 as a fee for the use of an image of his copyrighted design. This evidence was
10 sufficiently concrete to support a finding of fair market value of \$50 for the type of use made by Vibe.
11 And if Davis could show at trial that the Gap used the image in a wider circulation than Vibe, that might
12 justify a finding that the market value for the Gap’s use of the eyewear was higher than \$50. Therefore,
13 to the extent the district court dismissed the case because Davis’s evidence of the market value of a
14 license fee was too speculative, we believe this was error.

15 b. Our decision in Business Trends

16 The district court believed our decision in Business Trends interprets § 504(b) to foreclose
17 “actual damages” to compensate a plaintiff for the defendant’s failure to pay for the reasonable value of
18 what the defendant took. We believe this was a misreading of the holding in Business Trends. The
19 district court decision under review in that case had not made an award of “actual damages” under this
20 theory. The award we reviewed and rejected in that case was fashioned under the other prong of §
21 504(b) – the infringer’s profits. See Business Trends, 887 F.2d at 402. While there is indeed some

1 language in our Business Trends decision expressing disfavor for Davis’s theory of actual damages, it
2 was not at issue in that case. Furthermore, our decision did not purport to lay down an absolute rule;
3 the decision made clear that our ruling depended on the particular factual circumstances – circumstances
4 that are not present here. Finally, as we discuss below, both before and after Business Trends, we have
5 either awarded such damages or implied that they were appropriate. See Rogers v. Koons, 960 F.2d
6 301, 310-13 (2d Cir. 1992); Abeshouse v. Ultragraphics, Inc., 754 F.2d 467, 470-72 (2d Cir. 1985);
7 Szekely v. Eagle Lion Films, Inc., 242 F.2d 266, 268-69 (2d Cir. 1957). Moreover, other courts have
8 adopted the same analysis, and the Supreme Court has suggested, albeit obliquely, that such a measure
9 of damages is appropriate. See Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 562
10 (1985).

11 In Business Trends, the plaintiff and defendant were competitors in the publication of economic
12 analyses and forecasts – not a relationship where the defendant was a potential licensee of the plaintiff.
13 Each produced a study of the robotics industry. The plaintiff BTA marketed copies of its study for
14 \$1,500. The defendant TFG produced a similar study which it initially offered at the same price as
15 BTA’s study. In response to slow sales, defendant TFG cut its price by 90% to \$150 during a three-
16 month special-offer period. It sold 37 copies at the reduced price. Plaintiff BTA registered its study
17 with the Copyright Office but only after the defendant had begun selling its version. See Business Trends,
18 887 F.2d at 401.

19 BTA sued TFG alleging that TFG’s report included portions that were copied from BTA’s. The
20 district court found copying and substantial similarity. It awarded damages of \$54,028.35. The
21 damages were found solely for the infringer’s profits under the second prong of § 504(b). No damages

1 were awarded under the first prong for the “actual damages” suffered by the owner. In fact, the district
2 court expressly found that plaintiff “failed to establish actual damages as a consequence of defendants’
3 infringement of BTA’s robotics study.” Business Trends Analysts, Inc. v. Freedonia Group, Inc., 700 F.
4 Supp. 1213, 1233 (S.D.N.Y. 1988).

5 The infringer’s profits awarded were derived from two components: a smaller component
6 consisting of TFG’s cash profit (revenues minus expenses) on its sale of the robotics study, and a larger
7 amount consisting of non-cash profit attributed in part to the value of acquired goodwill (a “value of
8 use”) deriving in part from TFG’s giving the report to customers at a 90% markdown. See Business
9 Trends, 700 F. Supp. at 1237-41. In justifying the proposition that the profits of the infringement could
10 properly include non-cash benefits to the infringer resulting from the infringement, the district court
11 referred to the Seventh Circuit’s conclusion in Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357 (7th
12 Cir. 1985), that “‘saved acquisition cost is a measure of damages or profit’ when calculating value of use
13 under the statute, where cash was not generated.” Business Trends, 700 F. Supp. at 1238 (quoting
14 Deltak, 767 F.2d at 362 n.3).

15 We affirmed the award insofar as it was based on TFG’s cash profit from the sale of the
16 infringing report. However, insofar as the district court had attributed profits to the defendant based on
17 non-cash elements consisting either of goodwill achieved by giving the infringing study to customers at a
18 heavily discounted price, or the “value of use” the defendant achieved by acquiring for free material for
19 which it might otherwise have paid the plaintiff, we found such attribution of profit to the defendant
20 inappropriate. See Business Trends, 887 F.2d at 404-407.

21 We noted that the district court had based its analysis of the non-cash elements of the

1 defendant's profits in part on Deltak's reasoning. See Business Trends, 887 F.2d at 404-405. We
2 declined to adopt Deltak's approach, relying primarily on two reasons. See id. at 405. First, we
3 believed the instructions of § 504(b) relating to the proof of the "infringer's profits" indicated "that
4 Congress means 'profits' in the lay sense of gross revenue less out-of-pocket costs, not the fictive
5 purchase price that TFG hypothetically chose not to pay to BTA." Id. at 405-06. Second, given the
6 defendant's larcenous intent and the competitive relationship between the plaintiff and the defendant, we
7 believed it was unreasonable to find that the defendant profited within the meaning of the statute by
8 copying for free rather than paying the price it might have negotiated with the plaintiff. See id. at 405
9 ("TFG no more priced the BTA study and then decided to copy than a purse-snatcher decides to forego
10 friendly negotiations.").

11 The sole issue before us was whether either the expenses saved by the infringer resulting from its
12 decision to infringe rather than purchase or the goodwill the defendant generated by offering the infringing
13 material to its customers at a greatly reduced price can be considered "infringer's profits" recoverable
14 under § 504(b). The decision did not involve the question we now consider – whether the amount the
15 owner failed to collect as a reasonable royalty or license fee could be considered as constituting the
16 owner's actual damages under § 504(a) and (b).³

17 It is true that the Business Trends decision, in a digression, observed "that [actual damages] is
18 hardly a reasonable description of the entirely hypothetical sales to TFG lost by BTA." Id. at 405. The

³See Encyclopedia Brown Prods. Ltd. v. Home Box Office, Inc., 25 F. Supp. 2d 395, 400-02 (S.D.N.Y. 1998) (reading Business Trends to preclude license fee under "profits" prong of § 504(b), but not to preclude license fee under "actual damages" prong); Childress v. Taylor, 798 F. Supp. 981, 991 (S.D.N.Y. 1992) (questioning "whether Business Trends precludes as a matter of law [plaintiff's] claim for lost royalties").

1 opinion also quoted a lengthy passage from the Nimmer treatise which asserts “it is open to question”
2 whether Deltak’s “value of use” standard fits within the statutory limits for either actual damages or
3 infringer’s profits. See Business Trends, 887 F.2d at 406.

4 For two reasons, we believe Business Trends does not foreclose the use of the owner’s loss of a
5 reasonable royalty as its “actual damages” under § 504(a) and (b). First, as noted, that issue was not
6 before the court. Whatever comments we made about “actual damages” were dicta. Second, we went
7 to pains in Business Trends to make clear that we were not laying down an absolute rule, but rather
8 making a ruling that was heavily influenced by the particular facts of that case. We rejected the
9 defendant’s argument that a “value of use” standard is always impermissible, saying “we see no legal
10 barrier to such an award under Section 504(b) so long as the amount of the award is based on a factual
11 basis rather than ‘undue speculation.’” Id. at 404. Again at the conclusion of the opinion we
12 “emphasize[d] that we are not rejecting as a matter of law” a recognition of the “value of use” theory. Id.
13 at 407. We held “only that the proof in the instant case is inadequate to support such an award.” Id.⁴

14 To the extent that the Business Trends decision was based on its observation that the defendant
15 before it was no more inclined to negotiate a purchase price than a “purse snatcher,” the facts of our
16 case are significantly different. The Gap was not seeking, like the Business Trends defendant, to
17 surreptitiously steal material owned by a competitor. There is no reason to suppose that the Gap’s use
18 of Davis’s copyrighted eyewear without first receiving his permission was attributable to anything other
19 than oversight or mistake. To the contrary, the facts of this case support the view that the Gap and

⁴See Sunset Lamp Corp. v. Alsy Corp., 749 F. Supp. 520, 524 (S.D.N.Y. 1990) (reading Business Trends as “merely limit[ing] the extent of actual recovery to amounts proved to have resulted from a defendant’s infringement, as demonstrated by credible evidence”).

1 Davis could have happily discussed the payment of a fee, and that Davis’s consent, if sought, could have
2 been had for very little money, since significant advantages might flow to him from having his eyewear
3 displayed in the Gap’s ad. Alternatively, if Davis’s demands had been excessive, the Gap would in all
4 likelihood have simply eliminated Davis’s eyewear from the photograph. Where the Business Trends
5 decision was motivated by its perception of the unrealistic nature of a suggestion that the infringer might
6 have bargained with the owner, see 887 F.2d at 405, such a scenario was in no way unlikely in the
7 present case.

8 c. Actual damages under § 504(a) and (b)

9 Because Business Trends did not rule on, much less foreclose, the use of a reasonable license
10 fee theory as the measure of damages suffered by Davis when the Gap used his material without
11 payment, we proceed to consider whether that measure of damages is permissible under the statute.

12 The question is as follows: Assume that the copyright owner proves that the defendant has
13 infringed his work. He proves also that a license to make such use of the work has a fair market value,
14 but does not show that the infringement caused him lost sales, lost opportunities to license, or diminution
15 in the value of the copyright. The only proven loss lies in the owner’s failure to receive payment by the
16 infringer of the fair market value of the use illegally appropriated. Should the owner’s claim for “actual
17 damages” under § 504(b) be dismissed? Or should the court award damages corresponding to the fair
18 market value of the use appropriated by the infringer?

19 Neither answer is entirely satisfactory. If the court dismisses the claim by reason of the owner’s
20 failure to prove that the act of infringement cause economic harm, the infringer will get his illegal taking
21 for free, and the owner will be left uncompensated for the illegal taking of something of value. On the

1 other hand, an award of damages might be seen as a windfall for an owner who received no less than he
2 would have if the infringer had refrained from the illegal taking. In our view, the more reasonable
3 approach is to allow such an award in appropriate circumstances.

4 Section 504(a) and (b) employ the broad term “actual damages.” Courts and commentators
5 agree it should be broadly construed to favor victims of infringement. See William F. Patry, Copyright
6 Law and Practice 1167 (1994) (“Within reason, any ambiguities should be resolved in favor of the
7 copyright owner.”); 4 Nimmer §14.02[A], at 14-12 (“[U]ncertainty will not preclude a recovery of
8 actual damages if the uncertainty is as to amount, but not as to the fact that actual damages are
9 attributable to the infringement.”); Fitzgerald Publ’g Co., 807 F.2d at 1118 (“[A]ctual damages are
10 not... narrowly focused.”); Sygma Photo News, Inc. v. High Society Magazine, 778 F.2d 89, 95 (2d
11 Cir. 1985) (stating that when courts are confronted with imprecision in calculating damages, they “should
12 err on the side of guaranteeing the plaintiff a full recovery”). Cf. In Design v. K-Mart Apparel Corp., 13
13 F.3d 559, 564 (2d Cir. 1994) (noting that any doubts in calculating profits which result from the
14 infringer’s failure to present adequate proof of its costs are to be resolved in favor of the copyright
15 holder), abrogated on other grounds by Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994).

16 A principal objective of the copyright law is to enable creators to earn a living either by selling or
17 by licensing others to sell copies of the copyrighted work. See U.S. Const. Art. I, § 8, cl. 8 (“Congress
18 shall have the power... [t]o promote the Progress of Science and useful Arts, by securing for limited
19 Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”);
20 Statute of Anne, 1709, 8 Anne, ch. 19 (Eng.), reprinted in III Patry, supra, at 1461 (first establishing
21 copyright protection for authors because “Printers, Booksellers, and other Persons, have of late

1 frequently taken the liberty of printing, reprinting, and publishing...books, and other writings, without the
2 consent of the authors or proprietors of such books and writings, to their very great detriment, and too
3 often to the ruin of them and their families”).

4 If a copier of protected work, instead of obtaining permission and paying the fee, proceeds
5 without permission and without compensating the owner, it seems entirely reasonable to conclude that
6 the owner has suffered damages to the extent of the infringer’s taking without paying what the owner
7 was legally entitled to exact a fee for. We can see no reason why, as an abstract matter, the statutory
8 term “actual damages” should not cover the owner’s failure to obtain the market value of the fee the
9 owner was entitled to charge for such use.

10 The problem is roughly analogous to illegal takings or uses in other contexts outside the realm of
11 copyright. For example:

12 (a) D, who lives on property adjacent to P, without authorization regularly swims and canoes in P’s
13 lake and uses a road crossing P’s land because it provides more direct access to town. The
14 right to use P’s property for such purposes has a fair market value. P proves neither harm to his
15 property nor loss of opportunity to license others to use the property for such recreation.

16 Nonetheless P has lost the revenue he would have recovered if D had paid the fair market value
17 of what he took.C. (b) P, the owner of a baseball stadium charges \$50 for admission to

18 games. D, through a corrupt arrangement with a stadium usher,
19 sneaks in free on days when the stadium has excess seating
20 capacity. P shows no economic injury inflicted by D’s free
21 entrance, other than the hypothetical loss of the revenue for the

1 tickets D did not purchase.(c) P Telephone Company charges
2 set rates for calls on its lines. D
3 devises an electronic “black
4 box” that emits signals mimicking
5 the telephone company’s codes,
6 enabling D to place calls without
7 charge. D places free calls at
8 late-night, off-peak hours when
9 the telephone lines are
10 underutilized, and P is unable to
11 prove any loss inflicted by the
12 unauthorized use, other than its
13 failure to collect its regular
14 rates.(d) P is a public
15 transportation
16 system. D, a
17 subway rider,
18 jumps the
19 turnstile and
20 avoids paying
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It is important to note that under the terms of § 504(b), unless such a foregone payment can be considered “actual damages,” in some circumstances victims of infringement will go uncompensated. If the infringer’s venture turned out to be unprofitable, the owner can receive no recovery based on the statutory award of the “infringer’s profits.” And in some instances, there will be no harm to the market value of the copyrighted work. The owner may be incapable of showing a loss of either sales or licenses to third parties. To rule that the owner’s loss of the fair market value of the license fees he might have exacted of the defendant do not constitute “actual damages,” would mean that in such circumstances an infringer may steal with impunity. We see no reason why this should be so. Of course, if the terms of the statute compelled that result, our perception of inequity would make no difference; the statute would control. But in our view, the statutory term “actual damages” is broad enough to cover this form of deprivation suffered by infringed owners.

We recognize that awarding the copyright owner the lost license fee can risk abuse. Once the defendant has infringed, the owner may claim unreasonable amounts as the license fee -- to wit Davis’s demand for an award of \$2.5 million. The law therefore exacts that the amount of damages may not be based on “undue speculation.” Abeshouse, 754 F.2d at 470. The question is not what the owner would have charged, but rather what is the fair market value. In order to make out his claim that he has

⁵Whether such damages should be imposed may be influenced by such factors as whether the infringement was innocent, whether the owner is reasonably compensated by other elements of the award, and whether such an award would impose an unreasonable burden on the infringer. Cf. F.W. Woolworth Co. v. Contemporary Arts, Inc., 344 U.S. 228, 232 (1952) (courts must have “necessary flexibility to do justice in the variety of situations which copyright cases present”).

1 suffered actual damage because of the infringer's failure to pay the fee, the owner must show that the
2 thing taken had a fair market value. But if the plaintiff owner has done so, and the defendant is thus
3 protected against an unrealistically exaggerated claim, we can see little reason not to consider the market
4 value of the uncollected license fee as an element of "actual damages" under § 504(b).⁶

5 We recognize also that finding the fair market value of a reasonable license fee may involve some
6 uncertainty. But that is not sufficient reason to refuse to consider this as an eligible measure of actual
7 damages. Many of the accepted methods of calculating copyright damages require the court to make
8 uncertain estimates in the realm of contrary to fact. See 4 Nimmer §14.02[A], at 14-9. A classic
9 element of the plaintiff's copyright damages is the profits the plaintiff would have earned from third
10 parties, were it not for the infringement. See 4 Nimmer §14.02[A], at 14-9 to 10. This measure
11 requires the court to explore the counterfactual hypothesis of the contracts and licenses the plaintiff
12 would have made absent the infringement and the costs associated with them. See Fitzgerald Publ'g,
13 807 F.2d at 1118 (actual damages measured by "the profits which the plaintiff might have earned were it
14 not for the infringement"); Stevens Linen Assocs. v. Mastercraft Corp., 656 F.2d 11, 15 (2d Cir. 1981)
15 (same). A second accepted method, focusing on the "infringer's profits," similarly requires the court to
16 explore circumstances that are counterfactual. The owner's entitlement to the infringer's profits is limited
17 to the profits "attributable to the infringement." 17 U.S.C. § 504(b). The court, therefore, must compare
18 the defendant's actual profits to what they would have been without the infringement, awarding the

⁶Furthermore, the fair market value to be determined is not of the highest use for which plaintiff might license but the use the infringer made. Thus, assuming the defendant made infringing use of a Mickey Mouse image for a single performance of a school play before schoolchildren, teachers and parents with tickets at \$3, the fair market value would not be the same as the fee customarily charged by the owner to license the use of this image in a commercial production.

1 plaintiff the difference. Neither of these approaches is necessarily any less speculative than the approach
2 that requires the court to find the market value of the license fee for what the infringer took. Indeed, it
3 may be far less so. Many copyright owners are represented by agents who have established rates that
4 are regularly paid by licensees. In such cases, establishing the fair market value of the license fee of
5 which the owner was deprived is no more speculative than determining the damages in the case of a
6 stolen cargo of lumber or potatoes. Given our long-held view that in assessing copyright damages
7 “courts must necessarily engage in some degree of speculation,” *id.* at 14, some difficulty in quantifying
8 the damages attributable to infringement should not bar recovery. *See* 4 *Nimmer* §14.02[A], at 14-12
9 (“[U]ncertainty will not preclude a recovery of actual damages if the uncertainty is as to amount, but not
10 as to the fact that actual damages are attributable to the infringement.”); II Paul Goldstein, *Copyright* §
11 12.1.1, at 12:6 (2d ed. 2000) (“Once the copyright owner shows a connection between infringement
12 and damage, uncertainty about the amount of damages will not bar an award.”); *Szekely*, 242 F.2d at
13 269 (where “legal injury is certain... [w]e should not allow difficulty in ascertaining precisely the value of
14 the right destroyed, which difficulty arises largely from the destruction, to enable the infringer to escape
15 without compensating the owner of the right”).

16 d. Governing Authority

17 The decisions of this and other courts support the view that the owner’s actual damages may
18 include in appropriate cases the reasonable license fee on which a willing buyer and a willing seller would
19 have agreed for the use taken by the infringer.

20 Although the Supreme Court has never directly addressed this question, it has suggested in the
21 somewhat different context of a fair use analysis that a critical question is “whether the user stands to

1 profit from exploitation of the copyrighted material without paying the customary price.” Nation Enters.,
2 471 U.S. at 562.

3 In Szekely, a 1909 Act case, we awarded such damages. A screenwriter sued a film distributor
4 for damages based on its distribution of a film employing the plaintiff’s screenplay. The plaintiff had
5 contracted with a movie producer to sell the screenplay for \$35,000. However, the producer
6 encountered financial difficulties, and failed to complete the purchase, leaving the ownership of the
7 screenplay with the plaintiff. The production company nonetheless made the film using the plaintiff’s
8 screenplay. The screenwriter sued the distributor for infringement, and the distributor was held liable.
9 The plaintiff’s award of damages was based on the amount of the license fee the plaintiff would have
10 been entitled to charge, calculated by reference to the contract the plaintiff had made with the production
11 company. See Szekely, 242 F.2d at 268-69.

12 In Abeshouse, under the current Act, we again awarded such damages. The plaintiff had
13 licensed the defendant to be the plaintiff’s exclusive distributor for a poster design showing a Rubik’s
14 Cube solution. The defendant secretly caused infringing posters to be printed by an independent source
15 and sold them. We upheld an award of damages under § 504(b) in two parts: one part consisting of the
16 infringer’s profits from its sale of the infringing posters; the second part representing the payments the
17 plaintiff would have received if the defendant had obtained the infringing posters from the plaintiff. See
18 Abeshouse, 754 F.2d at 470-71.

19 In Koons, the defendant, a famous pop art sculptor, appropriated the plaintiff’s copyrighted
20 photograph of a couple with a litter of puppies, and caused his workshop to fabricate a work of
21 sculpture copying the plaintiff’s image. In rejecting the defendant’s claim of fair use, we observed that

1 while a finding of infringement would not necessarily prevent the defendant from publishing his
2 expression, “it does recognize that any such exploitation must at least entail ‘paying the customary
3 price.’” Koons, 960 F.2d at 310 (quoting Nation Enters., 471 U.S. at 562). In remanding to the district
4 court to assess the plaintiff’s actual damages we observed that “a reasonable license fee for the use of
5 [the plaintiff’s work] best approximates the market injury sustained by [the plaintiff] as a result of [the
6 defendant’s] misappropriation.” Id. at 313. See also Ringgold v. Black Entertainment Television, 126
7 F.3d 70, 81 (2d Cir. 1997) (fact that infringement had little likelihood of adversely affecting sales of
8 licensed poster of copyrighted artwork “deserves little weight [in fair use analysis] against a plaintiff
9 alleging appropriation without payment of a customary licensing fee”).

10 Szekely, Abeshouse, and Koons are supported by the decisions of other Circuits, as well as
11 district courts. In Nucor Corp. v. Tennessee Forging Steel Serv., Inc., 513 F.2d 151, 152 (8th Cir.
12 1975), a 1909 Act case, the defendant infringed on the plaintiff’s architectural plans. After a trial on
13 damages, the jury returned with a verdict of no damages. See id. On appeal, the Eighth Circuit held that
14 the district court had erred by failing to instruct the jury that the defendants were liable for the “fair
15 value,” or market value, of the infringed plans. See id. at 153 & n.3.

16 In Sid & Marty Krofft Television Prods. Inc. v. McDonald’s Corp., 562 F.2d 1157, 1174 (9th
17 Cir. 1977), where the defendant had produced commercials infringing on the plaintiff’s television show,
18 the Ninth Circuit approved a jury instruction that allowed the jury to award an amount approximating
19 “what a willing buyer would have been reasonably required to pay to a willing seller for plaintiffs’ work.”

20 In Kleier Adver., Inc. v. Premier Pontiac, Inc., 921 F.2d 1036, 1039 (10th Cir. 1990), the
21 defendant automobile dealership infringed for twenty-two months upon an advertising agency’s

1 syndicated advertising program. The Tenth Circuit upheld the jury’s award of damages, concluding that
2 the jury had intended an award of actual damages that represented the plaintiff’s lost license fees over
3 the twenty-two month period. See id. at 1040.

4 In Encyclopedia Brown, a cable television company and various cable operators infringed on the
5 plaintiff’s television program. The district court rejected the defendants’ argument that the plaintiff’s
6 claim for a reasonable license fee was not cognizable as a matter of law. The court reasoned that if the
7 lost sale of a product to a third party customer constitutes “actual damages,” then the lost sale of a
8 license to a defendant who, absent the infringement would have paid for a license, may constitute “actual
9 damages” as well. See Encyclopedia Brown, 25 F. Supp. 2d at 399-402. The court found authorization
10 for such an award in Koons. See Encyclopedia Brown, 25 F. Supp. 2d at 401 (quoting Koons, 960
11 F.2d at 313).

12 In Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Constr. Co., 542 F. Supp. 252 (D. Neb.
13 1982) the defendant construction company, after first engaging the plaintiff architectural firm to design an
14 apartment complex, subsequently copied and used the plaintiff’s plans in construction of an apartment
15 complex on a neighboring parcel of land. The court determined that the fair market value of the modified
16 architectural plans was the relevant measure for actual damages, and calculated that amount by
17 determining “the amount [defendant] would reasonably have paid to the plaintiff and the plaintiff would
18 reasonably have expected to receive for the revision and use of the [first set of] plans.” Id. at 263. In
19 Kleier Adver. Co. v. James Miller Chevrolet, Inc., 722 F. Supp. 1544, 1546 (N.D. Ill. 1989), where
20 the facts were similar to the Tenth Circuit’s Kleier case cited above, the court awarded lost license fees,
21 which it characterized as “actual damages,” as well as the infringer’s profits. See also Curtis v. General

1 Dynamics Corp., No. C89-566S, 1990 WL 302725, at *11 (W.D. Wash. Sept. 26, 1990) (awarding
2 plaintiff photographer the fee he would have been paid had defendant hired him instead of infringing his
3 copyright); Bishop v. Wick, No. 88 C 6369, 1988 WL 166652, at *5 (N.D. Ill. Dec. 29, 1988)
4 (“Plaintiffs shall recover the fair market value of the [infringed computer program] in an amount equal to
5 the ordinary licensing fees charged to licensees of plaintiffs, multiplied by each time that defendants
6 illegally copied or utilized the [program].” (emphasis omitted)); Sherry Mfg. Co. v. Towel King, 220
7 U.S.P.Q. 855, 859 (S.D. Fla. 1983) (awarding actual damages based on reasonable royalty which
8 should have been paid for license to use infringed design), rev’d on other grounds, 753 F.2d 1565 (11th
9 Cir. 1985).

10 e. Commentators

11 Commentators on copyright law are divided on the question whether actual damages may be
12 calculated based on lost license or royalty fees. Professor Goldstein’s treatise regards an award to the
13 copyright owner representing the fair market value of the royalty payment that the defendant avoided by
14 infringing as clearly included within the concept of the copyright owner’s “actual damages.” See II
15 Goldstein § 12.1, at 12:4. Indeed this discussion is prominently featured in opening discussion of
16 “Damages and Profits.” At the outset of his discussion of damages, Professor Goldstein offers the
17 illustrative hypothetical in which Publisher B publishes an unauthorized French translation of Publisher
18 A’s novel. The treatise postulates:

19 If, instead of infringing, . . . B had negotiated with . . . A for a license . . . , the parties
20 would probably have agreed upon a license fee giving ... A royalties roughly equal to the
21 royalties that some other translator would have been willing to pay for the license and, at
22 the same time, offering the prospect of profit to ... B. The negotiated license fee that
23 Publishers A and B would have agreed upon represents the damage that Publisher A will

1 suffer when Publisher B publishes its translation without obtaining a license.

2 Id. (emphasis added) (footnote omitted).

3 In exploring the subject in greater detail, Goldstein remarks:

4 If the infringer occupies the same market as the copyright owner, courts usually employ
5 [the owner’s] lost sales as the measure of damages on the assumption that every sale
6 made by the defendant is one that the plaintiff otherwise could have made. If the
7 infringer occupies a market that the copyright owner has not yet entered, courts usually
8 employ a market value or reasonable royalty measure of damages on the assumption that
9 the value of the copyrighted work in defendant’s market corresponds to the sum that the
10 copyright owner and the infringer would have agreed upon for licensing the work’s use
11 in that market.

12 II Goldstein § 12.1.1.1, at 12:7 (emphasis added) (footnote omitted).

13 In cases where, before the infringement, the copyright owner had licensed the infringer
14 or a third party . . . , courts will generally employ the [hypothetical] negotiated license fee
15 as the measure of the copyright owner’s damages from the infringement.

16 II Goldstein § 12:1.1.1, at 12:11. Goldstein thus justifies such an award by the fact that the infringer has
17 illegally taken something of value and may properly be required to pay for its fair market value.

18 The Nimmer treatise takes the opposite view, expressing the opinion that a “reasonable royalty”
19 measure of actual damages should not be regarded as authorized by § 504(b). See 4 Nimmer §
20 14.02[A], at 14-13 to 17. The argument proceeds as follows. First it postulates that such damages
21 were not available under the 1909 Act. See id. at 14-16. Under the terms of that Act, discretionary
22 statutory damages were easily available to all plaintiffs. Because of the availability of statutory damages,
23 courts shied away from awards of “actual damages” that were impossible or difficult to quantify.

24 [G]iven the availability of statutory damages, the courts under the 1909 Act rejected the
25 “reasonable royalty” standard, a patent measure of damages that looks to the royalties
26 customarily paid for the type of use to which the defendant has put the infringing
27 material....

1 Id.

2 Nimmer recognizes that under the 1976 Act, Congress altered the availability of statutory
3 damages, making them much less widely available. See id. Nonetheless, Nimmer asserts that use of the
4 term “actual damages” in the 1976 Act does not encompass the loss of the royalties payable by the
5 infringer. See id.

6 To justify this conclusion, Nimmer discusses Deltak, in which the Seventh Circuit found the
7 owner entitled to an award of the value of use the infringer had for free. The court believed this value
8 could constitute the owner’s actual damages. Nimmer contends that the court’s “logic relies on the most
9 transparent of fictions – if not for the infringement, there would have been no saved acquisition costs to
10 [the defendant] and a fortiori no losses to [the plaintiff].” Id. at 14-16 to 17. The reason that it would be
11 a “transparent fiction” to postulate the price at which the defendant might have purchased a license from
12 the plaintiff was that the defendant in Deltak, being the plaintiff’s competitor seeking to steal business
13 from the plaintiff, would not have paid the plaintiff’s price to buy each of the copies the defendant
14 subsequently sold. See id. at 14-16 to 17. Had the infringer not taken by infringement, it would not have
15 taken at all, and the owner would have earned no additional revenue.

16 Recognizing that the unavailability of reasonable royalties as a measure of actual damages,
17 combined with the absence of statutory damages for owners who failed to register their copyrights
18 would, in certain circumstances, deprive copyright owners of all compensation, Nimmer suggests that
19 perhaps Congress intended to leave such copyright owners remediless to create an incentive to owners
20 to register their copyrights so as to qualify for statutory damages. See id. at 14-17.

21 We are not persuaded by Nimmer’s reasoning. First, but perhaps least important, the Nimmer

1 treatise’s assertion that “the courts under the 1909 Act rejected the ‘reasonable royalty standard,’” id. at
2 14-16, seems overstated. Nimmer cites only one case which so held.⁷ See Widenski v. Shapiro,
3 Bernstein & Co., 147 F.2d 909 (1st Cir. 1945). However, other courts, including ours, took the
4 contrary position under the 1909 Act. See, e.g. Szekely, 242 F.2d at 268-69 (assessing damages based
5 on the hypothetical license fee the infringer avoided paying); Nucor, 513 F.2d at 153 & n.3 (defendants
6 liable for market value of infringed architectural plans).

7 Second, even if under the 1909 Act Widenski’s ruling had been universally accepted, it would
8 not necessarily follow that courts should similarly decline to award such damages under the 1976 Act.
9 Nimmer does not argue that the Widenski ruling was required by the definitional terms of the 1909 Act.
10 To the contrary, the treatise explains that the reason underlying reluctance to award such damages under
11 the 1909 Act was that courts could more easily accomplish the same result, avoiding problems of
12 speculative proof, by making a discretionary award of statutory damages which were then freely
13 available. But when the 1976 Act made statutory damages less widely available, explicitly denying them
14 to copyright owners who had not registered their copyright at the time of the infringement, see 17 U.S.C.
15 § 412, the reason supporting the Widenski court’s ruling disappeared.

16 Third, Nimmer’s argument with respect to Deltak, that an effort to estimate the royalty the
17 defendant might have paid had it negotiated with the owner rests on “the most transparent of fictions,” 4

⁷The other cases Nimmer lists, see Nimmer at § 14.02[A], at 14-16 n.44, are, as he implicitly acknowledges, not directly on point. See Woolworth Co., 344 U.S. at 232-33 (holding that district court did not abuse its discretion in awarding higher statutory damages where defendant had proved a lower figure for profits but evidence of plaintiff’s actual damages had been excluded); Childress, 798 F. Supp. at 990-91 (noting disagreement between Nimmer, who finds “reasonable royalties” impermissible, and Goldstein, who believes they are not inconsistent with the 1976 Act); Lundberg v. Welles, 93 F. Supp. 359, 362 (S.D.N.Y. 1950) (questioning Widenski as applied to evidentiary question whether inquiry into infringer’s profits is permissible where there is no established royalty and no direct evidence of plaintiff’s loss).

1 Nimmer, § 14.02[A], at 14-16 to 17, may be pertinent to the peculiar facts of that case, but for two
2 reasons does not justify a general rule denying damages based on the market value of the use
3 appropriated by the infringer.

4 As the Goldstein treatise explains, whether the infringer might in fact have negotiated with the
5 owner or purchased at the owner's price is irrelevant to the purpose of the test. See II Goldstein §
6 12.1.1.1, at 12:13. The pertinence of the test is not premised on the fictive belief that the copyright
7 owner is worse off than if the infringer, instead of infringing, had done nothing. It proceeds on a different
8 basis. The hypothesis of a negotiation between a willing buyer and a willing seller simply seeks to
9 determine the fair market value of a valuable right that the infringer has illegally taken from the owner.
10 The usefulness of the test does not depend on whether the copyright infringer was in fact himself willing
11 to negotiate for a license. The honest purchaser is hypothesized solely as a tool for determining the fair
12 market value of what was illegally taken.

13 Furthermore, even if the larcenous intentions of the Deltak infringer furnished a valid reason to
14 decline to award damages in that case for the fair market value of what the infringer took for free, that
15 circumstance, as noted above, would not apply to all copyright infringement cases. Honest users can
16 infringe by reason of oversight or good faith mistake. The infringer may have mistakenly believed in
17 good faith that the work was in the public domain, that his licensor was duly licensed, or that his use was
18 protected by fair use. On the record before us, there is no reason to believe the Gap had any intention
19 to infringe a copyright.

20 ***

21 We conclude that Section 504(b) permits a copyright owner to recover actual damages, in

1 appropriate circumstances, for the fair market value of a license covering the defendant's infringing use.
2 Davis adduced sufficiently concrete evidence of a modest fair market value of the use made by the Gap.
3 The Gap's use of the infringed matter was substantial. If Davis were not compensated for the market
4 value of the use taken, he would receive no compensation whatsoever. On remand, the district court
5 should consider such factors as whether the infringement was innocent and whether for any reason it
6 would be inequitable to impose an award.

7 C. Punitive Damages

8 The district court correctly held that Davis is not entitled to punitive damages under the
9 Copyright Act. See Davis I, 1999 WL 199005, at *8. As a general rule, punitive damages are not
10 awarded in a statutory copyright infringement action. See 4 Nimmer § 14.02[B], at 14-23 to 24; Oboler
11 v. Goldin, 714 F.2d 211, 213 (2d Cir. 1983). The purpose of punitive damages – to punish and
12 prevent malicious conduct – is generally achieved under the Copyright Act through the provisions of 17
13 U.S.C. § 504(c)(2), which allow increases to an award of statutory damages in cases of willful
14 infringement. See 4 Nimmer § 14.02[B], at 14-23 to 24; Kamakazi Music Corp. v. Robbins Music
15 Corp., 534 F. Supp. 69, 78 (S.D.N.Y. 1982). In any event, the question need not detain us long
16 because Davis has failed to show willfulness on the Gap's part.

17 D. De Minimis Use The Gap contends that even if we find fault with the district court's
18 reasons, its dismissal should be affirmed under the doctrine de minimis non curat lex because any
19 copying of protected matter was trivial. The de minimis doctrine essentially provides that where
20 unauthorized copying is sufficiently trivial, "the law will not impose legal consequences."
21 Ringgold, 126 F.3d at 74. See also Knickerbocker Toy Co. v. Azrak-Hamway Int'l, Inc., 668

1 F.2d 699, 703 (2d Cir. 1982) (denying relief under de minimis doctrine where defendant had
2 made a copy of plaintiff's work, but copy was never used); American Geophysical Union v.
3 Texaco, Inc., 60 F.3d 913, 916 (2d Cir. 1994) (suggesting that if photocopying for individual
4 use in research is de minimis, it would not constitute an infringement); Pierre N. Leval, Nimmer
5 Lecture: Fair Use Rescued, 44 U.C.L.A. L. Rev. 1449, 1457-58 (1997).

6 The de minimis doctrine is rarely discussed in copyright opinions because suits are rarely brought
7 over trivial instances of copying. Nonetheless, it is an important aspect of the law of copyright. Trivial
8 copying is a significant part of modern life. Most honest citizens in the modern world frequently engage,
9 without hesitation, in trivial copying that, but for the de minimis doctrine, would technically constitute a
10 violation of law. We do not hesitate to make a photocopy of a letter from a friend to show to another
11 friend, or of a favorite cartoon to post on the refrigerator. Parents in Central Park photograph their
12 children perched on José de Creeft's Alice in Wonderland sculpture. We record television programs
13 aired while we are out, so as to watch them at a more convenient hour.⁸ Waiters at a restaurant sing
14 "Happy Birthday" at a patron's table. When we do such things, it is not that we are breaking the law
15 but unlikely to be sued given the high cost of litigation. Because of the de minimis doctrine, in trivial
16 instances of copying, we are in fact not breaking the law. If a copyright owner were to sue the makers
17 of trivial copies, judgment would be for the defendants. The case would be dismissed because trivial
18 copying is not an infringement.

19 The Gap seeks to avail itself of the de minimis rule. It argues that even in advertising, it is a trivial

⁸ The Supreme Court in Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 447-56 (1984) found such recording would also be protected by the fair use doctrine.

1 matter for persons to be shown wearing their eyeglasses or wristwatches. The Gap’s argument may well
2 be valid in other circumstances, but does not fit these facts.

3 Here, the combination of circumstances convinces us that the de minimis doctrine is not
4 applicable. In the “fast” advertisement, the infringing item is highly noticeable. This is in part because
5 Davis’s design and concept are strikingly bizarre; it is startling to see the wearer peering at us over his
6 Onoculii. Because eyes are naturally a focal point of attention, and because the wearer is at the center
7 of the group – the apex of the V formation – the viewer’s gaze is powerfully drawn to Davis’s creation.
8 The impression created, furthermore, is that the models posing in the ad have been outfitted from top to
9 bottom, including eyewear, with Gap merchandise. All this leads us to conclude that the Gap’s use of
10 Davis’s jewelry cannot be considered a de minimis act of copying to which the law attaches no
11 consequence.

12 E. Fair Use

13 Finally, the Gap contends its advertisement was protected by the fair use doctrine, and that the
14 dismissal could be affirmed on that basis. Fair use is a judicially created doctrine dating back nearly to
15 the birth of copyright in the eighteenth century, see Burnett v. Chatwood, 2 Mer. 441, 35 Eng. Rep.
16 1008-09 (Ch. 1720); Gyles v. Wilcox, 26 Eng. Rep. 489 (Ch. 1740), but first explicitly recognized in
17 statute in the Copyright Act of 1976. See 17 U.S.C. § 107 (1994).⁹

⁹17 U.S.C. § 107 provides:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –

(1) the purpose and character of the use, including whether such use is of a

1 We review the Gap’s claim of fair use in light of the Supreme Court’s clarification in Campbell v.
2 Acuff-Rose Music, Inc., 510 U.S. 569 (1994), of the relationship among the four factors specified in the
3 statute as appropriate for consideration.

4 The heart of the fair use inquiry is into the first specified statutory factor identified as “the
5 purpose and character of the use.” 17 U.S.C. § 107(1). This formulation, as the Supreme Court
6 observed in Campbell, 510 U.S. at 578, draws on Justice Story’s famous reference in Folsom v. Marsh,
7 9 F. Cas. 342, 348 (C.C.D. Mass. 1841) (No. 4901), to “the nature and objects of the selections
8 made.” As the Campbell Court explained,

9 The central purpose of this investigation is to see, in Justice Story’s words, whether the
10 new work merely “supersede[s] the objects” of the original creation, or instead adds
11 something new, with a further purpose or different character, altering the first with new
12 expression, meaning, or message . . . , in other words, whether and to what extent the
13 new work is “transformative.” Although such transformative use is not absolutely
14 necessary for a finding of fair use, the goal of copyright, to promote science and the arts,
15 is generally furthered by the creation of transformative works. Such [transformative]
16 works thus lie at the heart of the fair use doctrine’s guarantee of breathing space

17 Campbell, 510 U.S. at 579 (emphasis added) (alteration in original) (citations omitted).

18 Pausing for the moment at that inquiry, we find nothing transformative about the Gap’s
19 presentation of Davis’s copyrighted work. The ad shows Davis’s Onoculii being worn as eye jewelry in
20 the manner it was made to be worn – looking much like an ad Davis himself might have sponsored for

commercial nature or is for nonprofit educational purposes;
(2) the nature of the copyrighted work;
(3) the amount and substantiality of the portion used in relation to the
copyrighted work as a whole; and
(4) the effect of the use upon the potential market for or value of the copyrighted
work.
The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made
upon consideration of all the above factors.

1 his copyrighted design.

2 The first factor, as spelled out in the statute, goes on to mention “whether such use is of a
3 commercial nature or is for nonprofit educational purposes.” 17 U.S.C. § 107(1). By reason of dicta in
4 the Supreme Court’s opinion in Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417,
5 451 (1984), to the effect that commercial uses of a copyrighted work are “presumptively . . . unfair,”
6 courts have sometimes given “dispositive weight” to whether the secondary use was commercial.
7 Campbell, 570 U.S. at 584 (criticizing Acuff-Rose Music, Inc. v. Campbell, 972 F.2d 1429 (6th Cir.
8 1992)). The Supreme Court in Campbell rejected the notion that the commercial nature of the use could
9 by itself be a dispositive consideration. The Campbell opinion observes that “nearly all of the illustrative
10 uses listed in the preamble paragraph of § 107, including news reporting, comment, criticism, teaching,
11 scholarship, and research . . . are generally conducted for profit,” and that Congress “could not have
12 intended” a rule that commercial uses are presumptively excluded. Id. at 584 (internal quotation marks
13 and citation omitted). The commercial objective of the secondary work is merely a factor. “[T]he more
14 transformative the new work, the less will be the significance of other factors, like commercialism, that
15 may weigh against a finding of fair use.” Id. at 579.

16 In this case, as in Sony, the secondary use is not transformative. The question whether the new
17 use is commercial thus acquires an importance it does not have when the new work is transformative. In
18 Sony, however, the copied work was saved by its private, noncommercial character. See Sony, 464
19 U.S. at 449. Here the work, being an advertisement, is at the outer limit of commercialism. See
20 Campbell, 510 U.S. at 585 (“The use, for example, of a copyrighted work to advertise a product . . .
21 will be entitled to less indulgence under the first factor . . . than the sale of [the new work] for its own

1 sake.”).

2 The second statutory factor, the nature of the copyrighted work, see 17 U.S.C. § 107(2), is
3 rarely found to be determinative. Campbell explained that “[t]his factor calls for recognition that some
4 works are closer to the core of intended copyright protection than others, with the consequence that
5 [with the former] fair use is more difficult to establish.” Campbell, 510 U.S. at 586. In this case, as in
6 Campbell, the plaintiff’s copyrighted work is in the nature of an artistic creation that falls close to “the
7 core of the copyright’s protective purposes.” Id.

8 The third factor, which looks at the “amount and substantiality of the portion used in relation to
9 the copyrighted work as a whole,” 17 U.S.C. § 107(3), recognizes that fragmentary copying is more
10 likely to have a transformative purpose than wholesale copying. In this case, the Gap’s ad presents a
11 head-on full view of Davis’s piece, centered and prominently featured. The Gap cannot benefit from the
12 third factor.

13 The fourth factor looks at “the effect of the use upon the potential market for or value of the
14 copyrighted work.” Id. § 107(4). Although the Supreme Court had observed in dictum in Nation
15 Enters., 471 U.S. at 566, that this is perhaps the “most important” of the factors, Campbell made clear
16 that this dictum, if misunderstood, was capable of causing confusion. As the Campbell opinion
17 explained, if the secondary work harms the market for the original through criticism or parody, rather
18 than by offering a market substitute for the original that supersedes it, “it does not produce a harm
19 cognizable under the Copyright Act.” Campbell, 510 U.S. at 592. “[T]he role of the courts is to
20 distinguish between biting criticism that merely suppresses demand and copyright infringement, which
21 usurps [the market for the original].” Id. (internal quotation marks omitted) (alterations in original

1 unmarked).

2 Thus, when secondary uses harms the market for, or value of, the original, courts must examine
3 the source of the harm. If the harm resulted from a transformative secondary use that lowered the
4 public's estimation of the original (such as a devastating review of a book that quotes liberally from the
5 original to show how silly and poorly written it is), this transformative use will be found to be a fair use,
6 notwithstanding the harm. If, on the other hand, the secondary use, by copying the first, offers itself as a
7 market substitute and in that fashion harms the market value of the original, this factor argues strongly
8 against a finding of fair use.

9 Campbell explains that the market effect must be evaluated in light of whether the secondary use
10 is transformative.

11 [W]hen a commercial use amounts to mere duplication of the entirety of an original, it
12 clearly 'supersede[s] the objects,' Folsom v. Marsh [9 F. Cas. at 348], of the original
13 and serves as a market replacement for it, making it likely that cognizable [actionable]
14 market harm to the original will occur. But when, on the contrary, the second use is
15 transformative, market substitution is at least less certain, and market harm may not be
16 so readily inferred.

17 Campbell, 510 U.S. at 591 (citation omitted). Notwithstanding harmful effect, the use may be a fair use.

18 In this case, as noted, the Gap's use is not transformative. It supersedes. By taking for free
19 Davis's design for its ad, the Gap avoided paying "the customary price" Davis was entitled to charge for
20 the use of his design. See Nation Enters., 471 U.S. at 562. Davis suffered market harm through his loss
21 of the royalty revenue to which he was reasonably entitled in the circumstances, as well as through the
22 diminution of his opportunity to license to others who might regard Davis's design as preempted by the

1 Gap's ad.

2 In our view, all the fair use factors favor Davis. We cannot accept the Gap's claim that its use of
3 Davis's design is protected by the fair use doctrine.

4 CONCLUSION

5 Finding no merit to the parties' other contentions, we affirm the grant of summary judgment in
6 favor of the defendant denying Davis's claims for infringer's profits under 17 U.S.C. § 504(b), and for
7 punitive damages; as regards Davis's claims for declaratory relief and "actual damages" under § 504(b),
8 the judgment of the district court is vacated and the case remanded for further proceedings.