

JEFFREY HUNTER MENDLER, d.b.a. Jeffrey Hunter, Plaintiff
v. WINTERLAND CONCESSIONS COMPANY, a California
Corporation; SAN DIEGO YACHT CLUB, a California
Corporation, Defendants.

IN THE UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF CALIFORNIA

No. C 96-2624 TEH

INTRODUCTION

This action arose out of the use of one of plaintiffs photographs on apparel manufactured by defendant Winterland Concessions Company. Plaintiff licensed the photograph for limited use by Winterland. At trial, plaintiff asserted that Winterland breached the terms of the license by using a reproduction of the photograph on certain shirts created and sold by Winterland. Plaintiff thus claimed infringement of his copyright. This Court rejected plaintiffs argument but the Ninth Circuit, reversed on the matter of copyright infringement and remanded the case for a determination of damages. See Findings of Fact and Conclusions of Law After Trial, filed May 6, 1998 ("Findings"); Mendler v. Winterland Productions, Ltd., 207 F.3d 1119 (9th Cir. 2000).¹

On remand, plaintiff now seeks an award of \$113,966.30 against Defendant Winterland Concessions Company and \$13,173.68 against Defendant San Diego Yacht Club (SDYC). Defendants contend that Winterland's net profit is a mere \$5,174.00, and that the Court should award only one-sixth (1/6th) of that amount, resulting in a proposed award of \$856.00. Defendants contend that SDYC should not be required to pay any amount whatsoever.

This matter has been fully briefed, both sides having submitted simultaneous opening briefs and, upon further request of the Court, simultaneous opposition briefs. Based on the extensive briefing and upon consideration of the record as a whole, and with good cause appearing, the Court hereby awards plaintiff \$9,501.15 in damages against defendant Winterland, and no damages against defendant SDYC, for the reasons set forth below.

LEGAL STANDARD

Plaintiff is entitled to an award of "actual damages and any additional profits of the infringer." 17 U.S.C. Section 504(a)(1). Further, "[i]n 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. Section 504(b).

DISCUSSION

I. Plaintiffs Claim Against Winterland

Plaintiff satisfies his initial burden by showing that, according to Winterland records, Winterland earned gross income of \$113,966.30 from sales of infringing merchandise. Winterland does not contest this figure as a reflection of its gross income. However, Winterland responds by arguing that a portion of that gross income did not actually generate revenues, that Winterland had a high amount of expenses, and that some of its profit was attributable to factors other than plaintiff's artwork.

A. Winterland's Gross Income

As noted above, Winterland contends that a portion of its gross income did not actually generate revenue, and therefore should be subtracted from the figure of \$113,966.30. Winterland identifies four categories of gross income that did not generate actual proceeds to Winterland. (1) Rock Express product (\$924.22); (2) defective product (\$66.18); (3) discontinued product (\$2,131.69); and (4) internal transfers (\$16,923.55). These items (which the Court collectively will refer to as "transfers") total \$20,045.64. Defendants further argue that a freight allowance of \$3,180.51 must be subtracted from the amount of gross proceeds.²

Plaintiff argues that Winterland has not met its burden of introducing at trial documentary evidence to substantiate these deductions. Rather, defendants rely on testimonial evidence by two Winterland employees, Philip Cussen and John Crist. Plaintiff notes that the Court found Winterland's employees' testimony lacking in credibility on the conversion and breach of contract claims. However, the Court made no such finding regarding the testimony on the infringement claim. Furthermore, defendants were not limited to satisfying their burden with documentary evidence alone. The Court heard testimony of

witnesses who attested to their knowledge of the facts and for whom plaintiff had a full opportunity to conduct cross-examination. Transcript of proceedings, May 28, 1997 ("Transcript") at 132, 141, 160-162. As this case was tried to the Court and not to a jury, the Court must determine both the admissibility of the evidence and the weight to which each piece of evidence is entitled. 3 Upon review of the relevant portions of testimony regarding the transfer items listed above and the freight allowance, and the arguments of counsel, the Court determines that the testimony was sufficiently credible to support the fact of the transfer and freight allowance deductions, as well as the amounts for those deductions.

The Court therefore deducts \$20,045.69 as the total amount attributable to the transfers, and \$3,180.51 for the freight allowance.

A. Winterland's Deductible Expenses

Winterland claims that the total cost of the goods sold is \$68,963. The Court will review each claimed deductible expense characterized as costs of the goods sold on an item-by-item basis below.

1. Royalty Cost (\$9,054)

The royalty cost is an amount paid by Winterland to SDYC. While plaintiff claims that he is entitled to the royalty amount from SDYC, it was clearly an expense to Winterland.

2. Royalty Write-Off (\$11,799)

The royalty write-off is a "pro rata computation of the amount of royalty that was not recovered based upon the sales." Transcript at 146:20-21. Plaintiff again argues that defendant failed to produce evidence to support the deduction, directing the Court to the trial transcript. In the portion identified, Mr. Cussen testified that he was unaware as to whether the document underlying his knowledge of the royalty write-off had been produced during discovery. Transcript at 170. Plaintiff's counsel stated: "Your Honor, I would submit that the defendant has not met its burden as to royalty write-off expense." *Id.* This was not an objection, and the Court did not respond. Subsequently, Mr. Crist testified as to the precise amount of the royalty write-off, stated that the document underlying his knowledge had been produced to the plaintiff, and that the witness had the document

before him. Id. at 216-218. Indeed, the document was shown to plaintiff's counsel, who stated: "I would like to question the witness about the document, but I have no objection to it." Id. at 218:9-10. Thus, the Court finds that the testimony had a sufficient foundation and that the evidence establishes that the royalty write-off was a legitimate expense to Winterland.

3. Blank Shirt Cost (\$35,064)

Plaintiff does not contest that Winterland purchased blank shirts upon which it printed the infringing image; rather, plaintiff argues that the precise cost of those blank shirts was not sufficiently established. The testimony at trial established a narrow range for the cost of the blank T-shirts. Winterland was unable to produce evidence of the exact cost of these shirts, since it buys in bulk at various times and does not segregate its blank shirt purchases for each particular design. Nonetheless, the Court finds that the testimony was sufficient to establish the cost. Mr. Crist testified that there is a slight variation in the price of the blank shirts depending upon the size of the lot and the supplier Id. at 216. He also testified that he reviewed a purchase order with a price of \$35.40 per dozen, but that he gave defendants "the benefit of the doubt" by using the slightly lower figure of \$34.68. Id.

Plaintiff argues that any doubt as to the computation of profits must be resolved in his favor, and that the entire sum for the cost of the shirts should stand as a part of Winterland's profits, thereby entitling plaintiff to a windfall. While it is true that significant doubt should be resolved in favor of the copyright holder, as the Ninth Circuit expressed in *Frank Music corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 515 (9th Cir. 1985), defendant's proof need not be precise and perfect especially where there is no evidence of bad faith. *Design v. K-Mart Apparel Corp.*, 13 F.3d 559, 564 (2nd Cir. 1994). In *Frank Music*, the Ninth Circuit stated that summaries of costs may be considered, even though they may be challenged as "self-calculated" and "unverified," so long as their proponents are subject to cross-examination so that any inaccuracies can be revealed. *Frank Music*, 772 F.2d at 515 n. 9. Based on the testimony at trial, the Court is satisfied that the figure used by Winterland, which amounts to \$2.89 per blank shirt, is sufficiently supported by the evidence.

4. Freight/Delivery (\$544)

In challenging Winterland's freight and delivery costs, plaintiff again relies solely on its argument that defendant must provide documentary evidence of its costs, despite the live testimony at trial. Again plaintiff's argument is rejected.

5. Print Cost (\$7,154)

In challenging Winterland's printing costs, plaintiff again relies solely on its argument that defendant must provide documentary evidence of its costs; despite the live testimony at trial. Again, plaintiff's argument is rejected.

6. Material Handling (\$1,739)

Plaintiff challenges the accuracy of the "costing sheets" upon which Winterland's witnesses testified regarding material and handling costs. In contrast to the testimony regarding the costs of the blank shirts, the testimony regarding material handling costs did not state the amount of the cost, nor did the witness explain how the cost was calculated. Thus, the Court finds that Winterland has failed to meet its burden with respect to material handling costs.

7. Obsolescence (\$1,221)

Plaintiff argues that Winterland is attempting to subtract the cost of its defective and discontinued products twice -- once as a non-revenue producing aspect of gross income (i.e., defective product), and again as an expense deduction (i.e., obsolescence). However, plaintiff's counsel thoroughly examined Mr. Cussen on this point, and the testimony clearly indicates that defendant subtracted the defective product amount from the obsolescence figure, so that the possibility of double-subtracting was avoided. Transcript at 175-177. Plaintiff is wasting the Court's time with argument that is flatly contradicted by the record.

8. Fulfillment (\$2,044)

Plaintiff challenges the deduction for the cost of staff in the warehouse. The testimony regarding fulfillment cost did not state the amount of the cost nor did the witness explain how the cost was calculated. Thus, the Court finds that Winterland has failed to meet its burden in this regard.

9. Stickers (\$344)

Plaintiff challenges the deduction for the cost of stickers that are added to garments. The testimony regarding the cost of such stickers did not state the amount of the cost, nor did the witness explain how the cost was calculated. Thus, the Court finds that Winterland has failed to meet its burden in this regard.

10. Commissions (\$10,211)

Mr. Cussen testified that another cost incurred by Winterland was the commissions paid to outside sales representatives in the amount of roughly 8.8% of sales, and an override commission of roughly 2.5% to an inside salesperson. Transcript at 150-151. Plaintiff's objection that defendant has provided no documentary evidence again must fail.

11. Remaindered COG (\$6,192)

Mr. Cussen testified that "remaindered COG" is the cost of leftover product less the liquidation value. Transcript at 151:17-19. Plaintiff argues that this is a double subtraction, since defendant also deducts "discontinued product" from gross earnings. However, plaintiff's counsel cross-examined Mr. Cussen on this point, and the witness explained how the liquidation value is calculated, and that this is different than the figure attributed to discontinued product. Transcript at 177-179. While not a model of clarity on the record, the testimony was sufficiently clear to support the deduction.

Thus, Winterland has justified deductions from gross income in the amount of \$104,465.25. Subtracting this amount from the gross income figure of \$113,966.30, the Court calculates Winterland's net profit as \$9,501.15. A chart summarizing the deductions is attached hereto as Attachment A.

B. Whether a Portion of Winterland's Profits are Attributable to Factors Other than Plaintiff's Artwork

Winterland claims that its profit from the sale of the apparel in question was attributable in equal parts to three factors: the actual t-shirts and sweatshirts, the use of the licensed America's Cup mark, and the use of plaintiff's photographic image. Defendants rely on *Cream Records, Inc. v. Jos. Schlitz Brewing Co*, 754 F.2d 826, 828 (9th Cir. 1985), where infringed music was used in a beer commercial, and an apportionment was made. *Id.* In contrast, however, this Court finds that defendants here have not shown that the sale of the apparel in question was at all

attributable to any factors other than the artwork.

Winterland further contends that it made its own creative contribution to plaintiff's image by altering the photograph and rendering it suitable for use on a T-shirt. On that basis, Winterland argues that any remaining profit figure should be cut in half. The Court does not find this argument persuasive. In fact, the Ninth Circuit remanded this case precisely because the image that Winterland used is essentially the same as the photograph provided by plaintiff. To argue now that the plaintiff only contributed 50% to the image that was finally used simply is not consistent with the Ninth Circuit's holding.⁴

II. Plaintiff's Claim Against the San Diego Yacht Club

With respect to the San Diego Yacht Club, plaintiff argues that SDYC received a 10% royalty payment in the amount of \$11,396.63, and that SDYC received 99 infringing T-shirts, at a value of \$1,777.05. Defendants acknowledge that the royalty payment was made, but argue that it was unrelated to the use of plaintiff's photographic image since Winterland would have made the payment to license the America's Cup mark for any T-shirts bearing that mark, regardless of whether the shirts bore plaintiff's artwork. Defendants also acknowledge that Winterland gave 99 T-shirts to SDYC free of charge, but they argue that plaintiff has failed to offer evidence to suggest that any of those shirts were actually sold.

This Court has already ruled that, apart from the issue of whether a copyright infringement had occurred, "there is no evidence from which this Court could find that SDYC was liable for any alleged conduct by Winterland." Findings at 2. The Ninth Circuit noted that SDYC was named as a defendant in the complaint, but the Court of Appeal did not otherwise address this Court's ruling with respect to SDYC. See *Mendler*, 207 F.3d at 1121 n.2. Therefore, the Court determines that plaintiff is not entitled to any recovery from SDYC.⁵

CONCLUSION

Based on the analysis provided above, and with good cause appearing, the Court hereby orders that plaintiff is entitled to payment of \$9,501.15 from defendant Winterland, and that plaintiff is not entitled to any damage award from defendant San

Diego Yacht Club.

IT IS SO ORDERED.

THELTON E. HENDERSON,

UNITED STATES DISTRICT COURT

Dated: 9/6/00

Footnotes:

1. A more detailed description of the factual background of the case can be found in the Ninth Circuit opinion. See Mendler, 207 F.3d at 112-21.

2. The parties dispute whether these amounts should be "taken off the top," thereby reducing the base figure of gross income, or whether they should be deducted as expenses from gross income. As will be seen in Section B, *infra*, this dispute is irrelevant because no apportionments or percentage reductions to gross income are being made. Since the only calculations being performed are subtractions from the total figure for all reported income, it does not matter whether some of those subtractions are made "off the top" or as expenses.

3. When defense counsel was examining Mr. Cussen, plaintiff's counsel objected that the testimony lacked foundation. The Court overruled the objection, holding that the objections went "to the weight of [the evidence] rather than its admissibility." Transcript at 146. The same is true now.

4. Plaintiff's argument that apportionment should be made where the infringement was conscious or deliberate is moot, due to the Court's ruling above. The Court notes, nonetheless, that plaintiff's position is without merit, since the evidence at trial did not support a finding of conscious or deliberate infringement.

5. Even if plaintiff were somehow entitled to recover from SDYC, the Court agrees with defendants that the licensing fee

for the America's Cup mark is not attributable to plaintiff's artwork and therefore cannot be considered a profit by SDYC resulting from the infringement. Further, plaintiff's failure to provide evidentiary support for his claim that SDYC profited from its receipt of the 99 t-shirts, and plaintiff's guesswork as to the price of those shirts, cannot sustain an award of damages.