FRANK MUSIC CORP. v. METRO-GOLDWYN-MAYER, INC.

886 F.2d 1545 (9th Cir. 1989)

BETTY B. FLETCHER, Circuit Judge

In *Frank Music Corp. v. Metro-Goldwyn-Mayer Inc.*, 772 F.2d 505 (9th Cir. 1985) (*Frank Music I*), we affirmed the district court's holding that defendants infringed plaintiffs' copyright in the dramatico-musical play *Kismet*, but remanded for reconsideration of the amount of profits attributable to the infringement and for consideration of whether defendants Donn Arden and Metro-Goldwyn-Mayer, Inc. (MGM, Inc.) should be liable in addition to MGM Grand Hotel, Inc.. On remand, the district court awarded plaintiffs $343,724 against MGM Grand, dismissed the action against MGM, Inc. and Arden, and awarded plaintiffs $15,000 in attorney's fees. Plaintiffs appeal and defendants cross-appeal. We affirm in part, reverse in part, and remand.

I. FACTS.

The facts are fully set out in *Frank Music I*. We reiterate only selectively. Plaintiffs are the copyright owners and authors of *Kismet*, a dramatico-musical work. MGM, Inc. under license produced a musical motion picture version of *Kismet*. Beginning April 26, 1974, MGM Grand presented a musical revue entitled *Hallelujah Hollywood* in the [*1548] hotel's Ziegfeld Theatre. *Hallelujah Hollywood* was largely created by an employee of MGM Grand, Donn Arden,[1] who also staged, produced and directed the show. The show comprised ten acts, four billed as "tributes" to MGM motion pictures. Act IV was entitled "Kismet", and was a tribute to the MGM movie of that name. It was based almost entirely on music from *Kismet*, and used characters and settings from that musical. Act IV "Kismet" was performed approximately 1700 times, until July 16, 1976, when, under pressure resulting from this litigation, MGM Grand substituted a new Act IV.

Plaintiffs filed suit, alleging copyright infringement, unfair competition, and breach of contract. In *Frank Music I*, we affirmed the district court's conclusion that the use of *Kismet* in *Hallelujah Hollywood* was beyond the scope of MGM Grand's ASCAP license and infringed plaintiffs' copyright. In this appeal, the parties focus on the adequacy of damages and attorney's fees.

II. DISCUSSION

A. *Apportionment of Profits*

1. Direct Profits

In *Frank Music I*, we upheld the district court's conclusion that the plaintiffs failed to prove actual damages arising from the infringement, but vacated the district court's award of $22,000 in apportioned profits as "grossly inadequate," and remanded to the district court for reconsideration.

On remand, the district court calculated MGM Grand's net profit from *Hallelujah Hollywood* at $6,131,606, by deducting from its gross revenues the direct costs MGM Grand proved it had incurred. Neither party challenges this calculation.

In apportioning the profits between Act IV and the other acts in the show, the district court made the following finding:

> Act IV of "Hallelujah Hollywood" was one of ten acts, approximately a ten minute segment of a 100 minute revue. On this basis, the Court concludes that ten percent of the profits of "Hallelujah Hollywood" are attributable to Act IV.

Plaintiffs assert that this finding is in error in several respects. First, they point out that on Saturdays *Hallelujah Hollywood* contained only eight acts, not ten, and that on Saturdays the show ran only 75 minutes, not 100. Second, Act IV was approximately eleven and a half minutes long, not ten. Because the show was performed three times on Saturdays, and twice a night on the other evenings of the week, the district court substantially underestimated the running time of Act IV in relation to the rest of the show.[1]

If the district court relied exclusively on a quantitative comparison and failed to consider the relative quality or drawing power of the show's various component parts, it erred. *See ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 508 F. Supp. 798, 800 (S.D.N.Y. 1981), *modified on other grounds*, 722 F.2d 988 (2d Cir. 1983). However, the district court's apportionment based on comparative durations would be appropriate if the district court implicitly concluded that all the acts of the show were of roughly equal value. *Cf. Frank Music I*, 772 F.2d at 518 ("Each element contributed significantly to the show's success, but no one element was the sole or overriding reason for that success.") While a more precise statement of the district court's reasons [*1549] would have been desirable, we find support in the record for the conclusion that all the acts in the show were of substantially equal value.

The district court went on to apportion the parties' relative contributions to Act IV itself:

> The infringing musical material was only one of several elements contributing to the segment. A portion of the profits attributable to Act IV must be allocated to other elements, including the creative talent of the producer and director, the talents of performers, composers, choreographers, costume designers and others who participated in creating Act IV, and the attraction of the unique Ziegfeld Theatre with its elaborate stage effects. . . . While no precise mathematical formula can be applied, the Court concludes that . . . a fair approximation of the value of the infringing work to Act IV is twenty-five percent.

The district court was correct in probing into the parties' relative contributions to Act IV. Where a defendant alters infringing material to suit its own unique purposes, those alterations and the creativity behind them should be taken into account in apportioning the profits of the infringing work. *Cf. Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 49-51 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940). However, the district court appears to have ignored its finding in its previous decision that defendants used not only the plaintiffs' music, but also their lyrics, characters, settings, and costume designs, recreating to a substantial extent the look and sound of the licensed movie version of *Kismet.*

While it was not inappropriate to consider the creativity of producers, performers and others involved in staging and adapting excerpts from *Kismet* for use in *Hallelujah Hollywood*, the district

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[1] There were twelve shows weekly which ran for 100 minutes, plus three on Saturdays which ran 75, totaling 1425 minutes per week. Act IV remained constant throughout the week, for a total of approximately 173 minutes. Accordingly, Act IV comprised 12% of the total weekly running time of *Hallelujah Hollywood*. Because the district court's findings differ from those previously found and affirmed in *Frank Music I*, we substitute 12% as the appropriate figure on which we base our subsequent calculations.

court erred in weighing these contributions so heavily. In performing the apportionment, the benefit of the doubt must always be given to the plaintiff, not the defendant. And while the apportionment may take into account the role of uncopyrightable elements of a work in generating that work's profits, *see Sheldon*, 106 F.2d at 50-51 (considering role of movie's actors, scenery, producers and directors); *cf. McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 320 (9th Cir. 1987) (substantial similarity analysis can include examination of uncopyrightable elements), the apportionment should not place too high a value on the defendants' staging of the work, at the expense of undervaluing the plaintiffs' more substantive creative contributions. Production contributions involving expensive costumes and lavish sets will largely be taken into account when deducting the defendants' costs. Indeed, defendants concede that had they produced *Kismet in toto*, it would have been proper for the district court to award 100% of their profits, despite their own creative efforts in staging such a production.

The district court found that defendants' staging of the *Kismet* excerpts was highly significant to Act IV's success. While we believe that a defendant's efforts in staging an infringing production will generally not support more than a *de minimis* deduction from the plaintiff's share of the profits, we cannot say the district court's conclusion that the defendants' contributions were substantial in this case is clearly erroneous. We recognize that there will be shows in which the attraction of the costumes, scenery or performers outweighs the attraction of the music or dialogue. On the other hand, a producer's ability to stage a lavish presentation, or a performer's ability to fill a hall from the drawing power of her name alone, is not a license to use freely the copyrighted works of others.

We conclude that apportioning 75% of Act IV to the defendants grossly undervalues the importance of the plaintiffs' contributions. Act IV was essentially *Kismet*, [*1550] with contributions by the defendants; it was not essentially a new work incidentally plagiarizing elements of *Kismet*. A fairer apportionment, giving due regard to the district court's findings, attributes 75% of Act IV to elements taken from the plaintiffs and 25% to the defendants' contributions.[2]

2. Indirect Profits

In *Frank Music I*, we held that the plaintiffs were entitled to recover, in addition to direct profits, a proportion of ascertainable indirect profits from defendants' hotel and gaming operations attributable to the promotional value of *Hallelujah Hollywood*. The district court considered the relative contributions of *Hallelujah Hollywood* and other factors contributing to the hotel's profits, including the hotel's guest accommodations, restaurants, cocktail lounges, star entertainment in the "Celebrity" room, the movie theater, Jai Alai, the casino itself, convention and banquet facilities, tennis courts, swimming pools, gym and sauna, and also the role of advertising and general promotional activities in bringing customers to the hotel. The district court concluded that two percent of MGM Grand's indirect profit was attributable to *Hallelujah Hollywood*. In light of the general promotion and the wide variety of attractions available at MGM Grand, this conclusion is not clearly erroneous. [3]

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[2] Based on this allocation, plaintiffs are entitled to $551,844.54 as direct profits from the infringement.

[3] We do, however, need to correct an error in calculation or typography noted by the plaintiffs. In subtracting MGM Grand's direct profits of $6,131,606 from its total net profit of approximately $395,000,000, the district court arrived at the figure of $380,868,394. The correct figure is $388,868,394. Plaintiffs are entitled to 9% (75% of 12%) of 2% of this figure, or $699,963.10.

B. *Prejudgment Interest*

* * * Interpreting the 1909 Act in light of patent law doctrine existing at the time of its enactment and during much of its effective period, we cannot conclude that Congress intended from its silence that prejudgment interest would not be available under the 1909 Act. Just as courts awarded prejudgment interest in order to provide adequate compensation to patent holders before the enactment of 35 U.S.C. § 284, this same remedy should be available to copyright owners for the same purpose.

We therefore hold that prejudgment interest is an available remedy under the 1909 Act. Whether the circumstances of this case warrant the remedy is a separate question. The common-law rule during much of the effective period of the 1909 Act awarded prejudgment interest only on [*1552] damages that were liquidated or readily ascertainable by mathematical computations and did not rely on opinion or discretion. But even where damages were not liquidated or readily ascertainable, courts had the power to award prejudgment interest on unliquidated damages when necessary to compensate the plaintiff fairly.

Because the 1909 Act allows plaintiffs to recover only the greater of the defendant's profits *or* the plaintiff's actual damages, an award of profits or damages under the 1909 Act will not necessarily [**16] be adequate to compensate a prevailing copyright owner. Accordingly, we conclude prejudgment interest ordinarily should be awarded.

Awarding prejudgment interest on the apportioned share of defendant's profits is consistent with the purposes underlying the profits remedy. Profits are awarded to the plaintiff not only to compensate for the plaintiff's injury, but also and primarily to prevent the defendant from being unjustly enriched by its infringing use of the plaintiff's property. For the restitutionary purpose of this remedy to be served fully, the defendant generally should be required to turn over to the plaintiff not only the profits made from the use of his property, but also the interest on these profits, which can well exceed the profits themselves. Indeed, one way to view this interest is as another form of indirect profit accruing from the infringement, which should be turned over to the copyright owner along with other forms of indirect profit. It would be anomalous to hold that a plaintiff can recover, for example, profits derived from the promotional use of its copyrighted material, but not for the value of the use of the revenue generated by the infringement.[4]

We accordingly remand to the district court to enter an award of prejudgment interest.[5] The award should be based on the fifty-two week Treasury bill rate, unless the district court concludes that the equities demand a different rate.

C. *Liability of MGM, Inc.*

In *Frank Music I*, we remanded to the district court to determine whether MGM, Inc., MGM Grand's parent corporation, should be liable for the infringement. We held that "[a] parent corpora-

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[4] Prejudgment interest will, of course, be available on both the direct and indirect profits earned by MGM Grand, since both forms of profit are equally attributable to the infringement.

[5] Plaintiffs requested prejudgment interest only from the date of the last infringing performance. This is an acceptable date from which to start the running of interest. We need not decide in this case whether an award of prejudgment interest from some earlier point in time, such as the first infringement or date of notice, would be appropriate.

tion cannot be held liable for the infringing actions of its subsidiary unless there is a substantial and continuing connection between the two with respect to the infringing acts."

The district court found that plaintiffs failed to establish such a substantial and continuing connection. According to the district court, the only evidence of a connection between MGM, Inc. and MGM Grand was MGM Grand's use of MGM Inc.'s studio facilities for planning the production prior to the opening of MGM Grand. The district court also noted, as a fact it believed favorable to MGM, Inc., that MGM Grand paid rent for the facilities and bore all the costs associated with the production of *Hallelujah Hollywood*.

The district court apparently did not consider several other important pieces of evidence. During the time of the infringing performances, MGM Grand was wholly owned by MGM, Inc. MGM, Inc.'s legal counsel responded to inquiries about the use of *Kismet* in *Hallelujah Hollywood*. Donn Arden's office was at MGM, Inc., and he was selected for the job with MGM Grand by a representative of MGM, Inc. In addition to drawing patrons to the hotel and casino, *Hallelujah Hollywood* had another purpose: to promote MGM, Inc. and its "Leo the Lion" symbol. Only material that had been used in MGM, Inc. films was used in the tribute segments of the show. Arden actively consulted with personnel from MGM, Inc. in preparing the show. MGM, Inc. made its movie version of *Kismet* available to Arden and Marvin Laird, who viewed it in a production room at MGM, Inc. Arden and Laird got clearances for the material they wanted to use in *Hallelujah Hollywood*, including a clearance to use *Kismet*, from MGM, Inc. Laird, who worked on the music to Act IV, used material and was assisted by employees from MGM Inc.'s music library.

The district court clearly erred in not finding that MGM, Inc. and MGM Grand had a substantial and continuing relationship with respect to the infringing activities. Therefore, we conclude that MGM, Inc. is jointly and severally liable for the judgment against MGM Grand.

Plaintiffs also argue that MGM, Inc. should be liable additionally for an award of its own profits or, in lieu of such an award, for statutory damages. We disagree. Our conclusion that MGM, Inc. had a substantial and continuing relationship with MGM Grand with respect to the infringement permits us to treat the two corporate entities as the same for purposes of imposing an award of profits. Nevertheless, the downstream corporate benefits to MGM, Inc. from the infringement are simply too attenuated and too speculative to support a further award from an apportionment of its corporate profits. The question of whether specific profits were made from an infringement is similar to that of proximate cause in the tort context: just as there comes a point beyond which effects cannot legally be attributed to an initial tortious action, so too there comes a point beyond which an infringer's profits, from its enterprises as a whole, cannot legally be attributed to a particular act of infringement. The profits of a hotel may well, as here, have a sufficient nexus with an infringing performance in the hotel's showroom to justify attributing some percentage [*1554] of the hotel's profits to the infringement.[6] The profits of MGM, Inc. from its own interests and activities other

[6] Thus, the result would be the same in this case even if the showroom where *Hallelujah Hollywood* was performed were a distinct corporate entity from the hotel as a whole, provided there was the requisite relationship between the two with respect to the infringement. *See generally Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963) ("When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials -- even in the absence of knowledge [of the infringement] -- the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation."). Similarly, had MGM, Inc. received a more definite, ascertainable financial benefit from the infringement, beyond the profits received by its hotel subsidiary, an award reaching those profits would be entirely proper. Joint liability for profits among interrelated corpo-

than the MGM Grand lack such a nexus. Although MGM, Inc. may have reaped some marginal benefit from the infringement, for example from a slight increase in movie revenue as a result of the advertising value of the MGM Grand, or from a rise in stock value attributable in part to the success of the hotel, the percentage of such profits attributable to the infringing material in Act IV of *Hallelujah Hollywood* is too speculative and the relationship between such profits and the infringement too attenuated to justify the award of additional damages based on any profits received by MGM, Inc. * * *

F. *Attorney's Fees*

Both parties appeal from the district court's award of attorney's fees to the plaintiffs. The plaintiffs argue that the district court awarded them too small a fee. The defendants argue that the plaintiffs are not entitled to a fee at all, and even if they are, the fee awarded was too high.

The decision to award fees, and the amount of fees awarded, are both reviewed for abuse of discretion.[7] *Moore v. Jas. H. Matthews & Co.*, 682 F.2d 830, 838 (9th Cir. 1982). Plaintiffs in copyright actions may be awarded attorney's fees simply by virtue of prevailing in the action: no other precondition need be met, although the fee awarded must be reasonable. The district court correctly noted that such awards to prevailing plaintiffs serve the purpose of encouraging private enforcement and deterring infringements. The district court did not abuse its discretion in determining that the plaintiffs are entitled to an award of attorney's fees.

We conclude, however, that the district court erred in failing to explain the basis for the amount awarded. Plaintiffs' counsel did not provide the district court with contemporaneous time records. His "reconstructed records" claim 1707.5 hours spent on this case from 1975 through mid-May 1980. This reconstruction is memorialized in an itemized list. In addition, he estimated that he expended another 3500 hours on the case from mid-May 1980 to the summer of 1987, listing the services performed during that period but not allocating his time among the various services. Counsel sought compensation at the rate of [*1557] $250 per hour. Counsel's only explanation for his failure to keep track of seven years of his work was that he "got out of the habit of keeping time on the case."

The district court found that counsel expended much unwarranted time -- as much as 300 hours of work where only a single hour was necessary. The court found the facts simple, but noted that complicated legal issues relating to damages were presented. As additional reasons for reducing the amount of the fees award, the court remarked that plaintiffs prevailed on only one of three claims, and that "both sides engendered numerous delays and petty discovery disputes, resulting in the inordinate length of time necessary to resolve this case." The court, "in view of all these factors," concluded that a reasonable attorney's fee was $115,000. The district court made no specific findings either as to the number of hours reasonably spent or what was a reasonable hourly rate.

The trial court correctly refused to accept uncritically plaintiffs' counsel's representations concerning the time expended. Plaintiffs bear the burden of showing the time spent and that it was reasonably necessary to the successful prosecution of their copyright claims. The lack of contempora-

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rate defendants serves the purpose of giving a successful copyright plaintiff its due reward without subjecting that award to the vagaries of corporate structures which, in the context of the particular infringement, should in fairness be ignored.

[7] 17 U.S.C. § 116 (1909 Act) provides: "the court may award to the prevailing party a reasonable attorney's fee as part of the costs." 17 U.S.C. § 505 (1976 Act) provides for attorney's fees in virtually identical language.

neous records does not justify an automatic reduction in the hours claimed, but such hours should be credited only if reasonable under the circumstances and supported by other evidence such as testimony or secondary documentation. Time spent by plaintiffs' counsel responding to motions or actions by the defendants should not be excluded from the fee award. "Although [defendants] had the right to play hardball in contesting [plaintiffs'] claims, it is also appropriate that [defendants] bear the cost of their obstructionist strategy." The district court blamed both sides for delays and petty discovery disputes, without differentiating those delays and disputes properly the fault of the plaintiffs from those properly the fault of the defendants.

In setting a reasonable attorney's fee, the district court should make specific findings of the rate and hours it has determined to be reasonable. In *Moore*, the district court reduced counsels' fee request because, in the district court's opinion, they "were . . . inclined to produce a large volume of less than useful material." We reversed and remanded that award, holding that the district court abused its discretion by reducing counsels' claimed hours by half and allowing less than half their normal billing rate solely on the ground that some of their work was less than useful. Plaintiffs' counsel's inadequate showing has invited substantial discounting of his fee. Still, he is entitled to a reasonable amount. Before determining the appropriate fee, the district court should make a more detailed analysis of the time records presented and a finding as to the reasonable hourly rate. We accordingly remand to the district court to reconsider its award and to substantiate whatever fee it awards. In its discretion, it can require the parties to supplement the record.

III. CONCLUSION

We vacate the damages award. We conclude that the proper apportionment entitles plaintiffs to 9% of the direct profits from *Hallelujah Hollywood*. We affirm the district court's finding as to the percentage of indirect profits attributable to *Hallelujah Hollywood*. We correct the award however for a mathematical error. Accordingly, plaintiffs are entitled to $551,844.54 as their share of direct profits and $699,963.10 as their share of indirect profits. We conclude that prejudgment interest should have been awarded, and remand for a calculation of the appropriate amount. We reverse the district court's finding that MGM, Inc. lacked a substantial and continuing [*1558] connection with MGM Grand with respect to the infringement, and hold MGM, Inc. jointly and severally liable for the award of profits and prejudgment interest against MGM Grand. We affirm the district court's finding that Donn Arden is not jointly liable for the infringement, and decline to hold him severally liable for a separate award of profits or statutory damages. We vacate the award of attorney's fees so that the district court may make the necessary findings and recompute the amount to be awarded. We remand to the district court for further proceedings consistent with this opinion.

AFFIRMED in part, REVERSED in part, and REMANDED with directions.