NOTE

The Polar Bear Loophole: Copyright Vulnerability After Polar Bear v. Timex

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INTRODUCTION

Brands are tremendously valuable.¹ Business analysts value the Coca-Cola brand at $67 billion.² The Microsoft brand is worth $61 billion; the IBM brand, $53 billion; and the GE brand, $44 billion.³ In their 2004 report, Business Week and Interbrand valued the combined top 100 brands at $1 trillion.⁴

The term “brand” encompasses more than a company’s trademark.⁵ A brand is a set of images and associations linked to a commercial identity that: (1) distinguishes it from other products; (2) creates specific consumer expectations; and (3) promotes specific consumer behavior.⁶ Experts define “brand equity” as the stored value built up in a brand, which companies can use to gain a market advantage.⁷ Brand equity exists in many forms, including brand resilience, brand leverage, and brand premium.⁸ Simplified, brand equity refers to the portion of a company’s value not attributable to its tangible assets.⁹ Therefore, brands are intangible assets.¹⁰

Brands are often the most valuable assets held by a company.¹¹ In fact,
some brands constitute the majority of the owning company’s value.\textsuperscript{12} For example, Levi Strauss & Co. sold all of its factories and now exclusively contracts with other manufacturers for its entire production.\textsuperscript{13} Levi Strauss itself no longer produces jeans. It instead produces only its “brand.”\textsuperscript{14} Similarly, Kraft has a brand value of $13 billion, an amount 600\% greater than the value of its tangible assets.\textsuperscript{15}

Although brands are clearly valuable, courts experience great difficulty in quantifying their value.\textsuperscript{16} In particular, this becomes problematic when courts attempt to value intangible gains obtained by brands through advertising.\textsuperscript{17} Part of this difficulty stems from the business, accounting, and financial communities’ disagreement on a system of brand valuation.\textsuperscript{18} Despite this lack of consensus, the fact

\begin{itemize}
  \item \cite{frontline} In 1980’s, asset strippers and corporate raiders purchased companies with substantial brands and paid significantly more than their net asset value in the process.
  \item \cite{entrepreneur} The value placed on intangibles assets, such as people, knowledge, relationships and intellectual property, is now a greater proportion of the total value of most businesses than is the value of tangible assets, such as machinery and equipment. And the creation and management of intangible assets is often essential to long-term success.
  \item \cite{aaker-biel} In his 1989 keynote address to the Advertising Research Foundation, Hamish Maxwell, the man behind the [Kraft] acquisition, emphasized that he was buying strong brands.
  \item \cite{knowles} The controversy about whether to include brand equity on a company’s books is not yet resolved.
\end{itemize}
remains that brands are valuable assets that courts must account for in the interests of justice.\textsuperscript{19}

In the recent case of \textit{Polar Bear Productions, Inc. v. Timex}, the Ninth Circuit reversed the trial court’s award of copyright infringement damages.\textsuperscript{20} The trial court had based these damages on a theory of enhanced brand value.\textsuperscript{21} The Ninth Circuit, however, dismissed the damages derived from brand premium profits as too speculative to establish a tort-based causal connection between infringement and profits.\textsuperscript{22}

This Note argues that \textit{Polar Bear} creates a loophole that rewards infringers and leaves copyright holders vulnerable to infringement.\textsuperscript{23} The momentous changes in our economy that increased the value of brands over the past century have compounded the significance of this loophole.\textsuperscript{24} The judge-made, tort-based causation requirement employed by the \textit{Polar Bear} court cannot adequately recognize the value of intangible assets such as brands.\textsuperscript{25} Abandoning this causation requirement would allow courts to better accommodate today’s business realities.\textsuperscript{26}

Part I of this Note explores the evolution of brands and the purpose that they serve in the modern economy.\textsuperscript{27} It then sets out the current state of copyright damage law and explains how this body of law relates to brand value.\textsuperscript{28} Part I concludes with a discussion of how courts have

\textsuperscript{19} See \textit{SHERRINGTON}, supra note 9, at 70 (“It is universally accepted that brands are a company’s most valuable asset . . . .”); \textit{Tom Blackett, The Nature of Brands, in BRAND VALUATION: ESTABLISHING A TRUE AND FAIR VIEW} 1 (John Murphy ed., 1989) (arguing that brands are genuine assets that appreciate considerably as result of careful management and development); \textit{Grant McCracken, The Value of the Brand: An Anthropological Perspective, in BRAND EQUITY & ADVERTISING, supra note 11, at 125; Foreword to BRANDS: THE NEW WEALTH CREATORS, at xi (Susannah Hart & John Murphy eds., 1998) (“Brands are no longer of interest because they provide their holders with a colourful way to compete; they are now recognised widely as business assets of genuine economic value . . . .”).

\textsuperscript{20} \textit{Polar Bear Prods., Inc. v. Timex}, 384 F.3d 700, 713 (9th Cir. 2004).

\textsuperscript{21} \textit{Id.}

\textsuperscript{22} \textit{Id.} at 713-14.

\textsuperscript{23} \textit{See infra Part III.C.}

\textsuperscript{24} \textit{See infra Part I.A.1.}

\textsuperscript{25} \textit{See infra Part III.B.}

\textsuperscript{26} \textit{See infra Parts I.A.2, III.B.}

\textsuperscript{27} \textit{See infra Part I.A.}

\textsuperscript{28} \textit{See infra Part I.B.1-2.}
dealt with advertising in other infringement cases. Part II examines the ruling in *Polar Bear*. Part III analyzes the problem with the existing judge-made causation requirement applied by the Ninth Circuit in *Polar Bear*. Part III ends by exposing a loophole that threatens copyright law’s ultimate goal of stimulating artistic creativity for the public good. This Note concludes by advocating for the elimination of the tort-based causation requirement in copyright infringement cases.

I. BACKGROUND

Brands are valuable, but articulating a universal standard for measuring their values is extremely difficult. Nonetheless, schemes to value brands do exist. It is not easy to understand these valuation systems without first understanding brands. Accordingly, Subpart A begins with a discussion of the historical development of brands. It concludes with a discussion on the role brands play in today’s economy. Subpart B then explores the existing statutory and judge-made copyright law relevant to the facts in *Polar Bear*.

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29 *See infra* Part I.B.3.
30 *See infra* Part II.
31 *See infra* Part III.
32 *Infra* Part III; *see also* Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (noting that by securing fair return for authors’ creative labor, copyright law realizes its “ultimately aim [of stimulating] artistic creativity for the public good” (emphasis added)); H.R. REP. NO. 94-1476, at 51-52 (1976) (explaining that, historically, copyright law has adapted to changes in technology and has expanded when necessary to protect new forms of expression); CRAIG JOYCE ET AL., COPYRIGHT LAW 3 (6th ed. 2003).
34 Alan Mitchell, *Beyond Brand Narcissism*, in BEYOND BRANDING 44 (Nicholas Ind ed., 2003); Murphy, *supra* note 33, at 1.
35 Sources cited *supra* note 34.
36 *See infra* Part I.A.1.
37 *See infra* Part I.A.2-3.
38 *See infra* Part I.B.
A. State of the Business Model

The function of brands has evolved over the centuries. In today’s economy, brands add value in a number of ways, including through a concept called “brand premium.” Analysts can measure the value a brand premium adds to a brand using a system called “brand premium analysis.”

1. Historical Development of Brands

In their earlier incarnations, brands designated ownership. They did not have significant monetary value in their own right. This began to change during the industrial revolution. The railroads brought about a proliferation of mass-produced goods and prompted manufacturers to brand their products. By branding their products, manufacturers afforded consumers a new tool for differentiating between an ever-increasing range of products. Consumers quickly learned to use brands

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39 See DAVID A. AAKER, MANAGING BRAND EQUITY: CAPITALIZING ON THE VALUE OF A BRAND NAME 7 (1991) ("There is evidence that even in ancient history names were put on such goods as bricks in order to identify their maker."); Murphy, supra note 33, at 1 ("Since the earliest times producers of goods have used their brands or marks to distinguish their products. More particularly, by identifying their products they have provided purchasers with a means of recognizing and specifying them . . . ."). See generally Tom Blackett, The Nature of Brands, in BRAND VALUATION: ESTABLISHING A TRUE AND FAIR VIEW 2 (John Murphy ed., 1989) (explaining that word “brand” is derived from Old Norse word “brandr,” which means “burn”).

40 See supra note 39 and accompanying text.

41 Biel, supra note 18, at 69 (“The first brands were developed by industrial concerns over 100 years ago to wrest control of sales of products from retailers.”); Frontline: The Persuaders (PBS television broadcast Nov. 9, 2004), available at http://www.pbs.org/wgbh/pages/frontline/shows/persuaders/interviews/atkin.html (interviewing Douglas Atkin who stated: “Initially brands signified ownership. When the Industrial Revolution happened products were distributed widely, away from where it was produced. This made it important to brand to signify quality. Now all of this has changed. Brands have a completely different function because the consumer, not the producer, is king.”); Frontline: The Persuaders, supra note 12 (interviewing Naomi Klein who stated: “[Brands are] very much intertwined with the dawn of industrialization, mechanization, mass transportation. The first sort of corporate mascots like Aunt Jemima, Uncle Ben’s [emerged when] people were buying products that were coming out of factories; that were coming off of trains, coming from long distances that they used to buy from a local shopkeeper, from a local farmer whom they had a relationship of trust with . . . . You would be looking in the eye of the person who made it, who grew it, and you would have that trust. So it was quite jarring for people to suddenly be getting products that were coming from distances and from people that they’d never met. So the original brands, the original logos, the role that they played was essentially as a surrogate relationship.”).

42 Supra note 41 and accompanying text.

43 Supra note 41 and accompanying text.
as signifiers of a product’s quality.44

Until the turn of the twentieth century, most of a company’s assets were tangible assets such as property, inventory, and cash.45 Over the course of the century and most notably at its end, the value of companies’ intangible assets increased dramatically.46 This change was brought about by advancements in manufacturing.47

In the 1980s, improved manufacturing processes enabled manufacturers to create products that were nearly identical in appearance and quality to those of their competitors.48 These improvements made it both difficult and unnecessary for consumers to use brands to identify product quality.49 Because consumers could no longer adequately distinguish between products based on quality, manufacturers began to compete for consumers through price.50 In

44 Supra note 41 and accompanying text.
45 Foreword, supra note 9, at xi.
46 "Frontline: The Persuaders, supra note 12 (interviewing Naomi Klein who stated: “The transition that happened since that time . . . [which] skyrocketed in the ’90’s . . . was the idea that if you wanted to really be successful in a highly competitive marketplace, simply having a mark of quality on your product isn’t enough to give you an edge. In a marketplace where it’s so easy to produce products, where your competitors can essentially match you on the product itself, you need to have something else. You need to have an added value, and that added value is the identity, the idea behind your brand.”).
47 BARUCH LEV, INTANGIBLES: MANAGEMENT, MEASUREMENT AND REPORTING 9 (2001) (“[T]he recent (since the mid-1980’s) surge in intangibles is [due to] the unique combination of two related economic forces. One is intensified business competition, brought on by the globalization of trade and deregulation in key economic sectors . . . . The second is the advent of information technologies, most recently exemplified by the Internet. These two fundamental developments . . . have dramatically changed the structure of corporations and have catapulted intangibles into the role of the major value driver of business in developed economies.”).
48 Knowles, supra note 18, at 28 (“Quality is now generic . . . [t]here is now so little to choose between products in terms of functionality that our choices are increasingly made on the basis of other, less tangible factors.”); Murphy, supra note 33, at 1 (“The brand qualities which consumers rely upon in making a choice between brands have become increasingly subtle and, at times, fickle.”); Aaker & Biel, Overview, supra note 11, at 2 (“[A]n impetus for interest in branding is the debilitating price competition that has occurred in industry after industry . . . .”).
49 See supra note 48 and accompanying text.
50 Knowles, supra note 18, at 21-22 (“Brands matter because of their ability to communicate meaning . . . . The effect of brands is to give the underlying asset an appeal over and above what can be explained by the functional benefits it offers . . . . The ability to endow a product, service or corporation with an emotional significance over and above its functional value is a substantial source of value creation.”); Frontline: The Persuaders, supra note 41 (interviewing Douglas Atkin who stated: “In today’s economy, [because] there are [more] products than consumers need . . . the producer must have some kind of different way of selling [its product].”).
effect, many products became fungible commodities.\footnote{See David A. Aaker, Preface and Acknowledgments to MANAGING BRAND EQUITY: CAPITALIZING ON THE VALUE OF A BRAND NAME, supra note 39, at x ("[A]n increased emphasis upon price, often involving the excessive use of price promotions, is resulting in the deterioration of industries into commodity-like business areas.").}

To gain an advantage over competitors and remain profitable in this new market, businesses developed their intangible assets.\footnote{Knowles, supra note 18, at 21-22; Frontline: The Persuaders, supra note 41 (interviewing Douglas Atkin who stated: "In today’s economy, [because] there are [more] products than consumers need . . . the producer must have some kind of different way of selling [its product].").} Brands were foremost among these assets.\footnote{See Aaker, supra note 39, at x (1991); Knowles, supra note 18, at 26-27; Murphy, supra note 33, at 1; Aaker & Biel, Overview, supra note 11, at 1.} Businesses found a means to compete beyond the tangible constraints of a pure commodities market by developing and adding value through their brands.\footnote{David A. Aaker, BRAND PORTFOLIO STRATEGY: CREATING RELEVANCE, DIFFERENTIATION, ENERGY, LEVERAGE, AND CLARITY 4-5 (2004) (describing how Intel developed its brands); Aaker, supra note 39, at 87 ("A perceived quality advantage provides the option of charging a premium price."); Ailawadi, supra note 18, at 2-3; Murphy, supra note 33, at 4; see John D. Ayer, GUIDE TO FINANCE FOR LAWYERS 155 (2001) (implying that competition in commodities market is constrained by tangible realities like manufacturing costs and distribution costs).}

2. How Brands Add Value

Brands are valuable for many reasons.\footnote{See Aaker, supra note 39, 16-17, 19 ("(B)rand equity has the potential to add value for the firm by generating marginal cash flow in at least half a dozen ways. . . . (B)rand equity dimensions can enhance [long-term stability through] through brand loyalty. . . . The loyalty of the customer base reduces the vulnerability to competitive action."); Ailawadi, supra note 18, at 7 ("[B]rands can have multiple impacts. First, they increase choice per se. Second, they decrease sensitivity to price increases, which allows them to command a price premium. Third, they make other activities such as advertising more effective. More generally, the impact of brands is multi-faceted and involves a complex series of relationships among the elements of the marketing mix."); Aaker & Biel, Overview, supra note 11, at 2 (explaining that brand contribution to company’s value is “future discounted value of the profit stream that can be attributed to the price premium or enhanced loyalty generated by the brand name”); McCracken, supra note 19, at 125 ("[I]t is the brand, not the product or the corporation, that wins the consumer’s loyalty."); McDonald, supra note 6, at 2 ("What makes [brand] value hard to quantify, especially before the fact, is that it can be realized in a variety of ways: (1) Brand Resilience: Resistance to new competitors in the category; (2) New Product Trial: Increased consumer willingness to try new products or line extensions under the name . . . ; (3) Brand Premium: Consumer willingness to pay a premium for your current product or a new one under that name; (4) Channel Leverage: Increased or sustained access to distribution channels."); Murphy, supra note 33, at 3, 5 ("(B)rands are enduring assets . . . capable of surviving in adversity."); Frontline: The Persuaders (PBS television broadcast Nov. 9, 2004), available at http://www.pbs.org/wgbh/pages/frontline/shows/persuaders/interviews/roberts.html (interviewing Kevin Roberts). The Persuaders (PBS television broadcast Nov. 9, 2004), available at http://www.pbs.org/wgbh/pages/frontline/shows/persuaders/interviews/roberts.html (interviewing Kevin Roberts).} Most relevant to this Note,
however, is a brand’s ability to allow a company to charge a brand premium for its products. A “brand premium” is the additional amount a company can charge for a branded product over a generic product. Two notable examples of substantial brand premiums are those charged by Morton Salt and Nike.

Morton Salt is the best-selling brand of salt in the United States. One out of every two cans of salt sold in the United States is a can of Morton Salt. It sells its salt for twenty cents more per can than competing generic brands. Morton Salt’s brand allows it to sell salt, an otherwise indistinguishable commodity, for twenty cents more than its generic competitors.

Nike’s Air Jordan shoes illustrate an even more striking brand premium. By hiring Michael Jordan for its advertising campaign, Nike was able to charge an additional brand premium to that of its own brand, Nike. Each pair of “Jordan-branded” shoes sold for $130 more than its regular “Nike-branded” shoes. Nike and Morton Salt are just two examples of how integral a brand premium can be to a company’s

Roberts who stated that marketing managers should “engender consumer loyalty throughout life so that no matter what competition does, consumers will stay with you and pay a premium”).

56 Supra note 55 and accompanying text.
57 Tim Kitchin, Brand Sustainability: It’s About Life . . . or Death, in BEYOND BRANDING 72 (Nicholas Ind ed., 2003) (“Since a brand’s value comes from its ability to apply a consistent premium to a customer transaction, brands have gradually come to be seen as having a financial value in their own right . . . .”); Knowles, supra note 18, at 36 (“The effect of a brand is to give the underlying asset an appeal beyond the functional benefits it offers . . . .”); id. at 38 (“[Brands] derive their value from the ability to create perceived relationships rather than to meet an objective, functional need . . . [A]ny asset derives its value from two distinct sources — its ability to fulfil a given set of functional needs and its ability to fulfil a set of emotional needs. A brand unites these two dimensions to present a customer with a proposition that appeals on the rational level and the emotional level.”).
58 See supra notes 58-65 and accompanying text.
60 Id.
61 Id.
62 Id.
63 Frontline: The Persuaders, supra note 55 (interviewing Kevin Roberts who stated: “[Michael Jordan] took the price of Nikes from $70 to $200. People didn’t care anymore; you had loyalty beyond reason.”); cf. Ron Harris, If Looks Could Kill, S.F. CHRON., Dec. 6, 1989, at B3 (“[A] 15-year old [was] killed by a 17-year old for his Nike Air Jordan shoes . . . . ‘We’ve seen that to today’s kids, the clothes and footwear are a sense of who they are,’ said Betty Richardson, vice president of marketing for Reebok.”).
64 Supra note 63 and accompanying text.
65 Supra note 63 and accompanying text.
overall value.  

3. Accuracy of Brand Premium Analysis

One universally accepted method of determining a brand’s value is to sell the company. The difference between the value of the tangible assets and the amount paid for the company is presumptively its brand value. Of course, because owners rarely sell entire companies, this form of valuation has limited practical use.

The basic principle behind this valuation technique is more helpful when analysts apply it to the sale of individual products. While corporate buyouts are relatively rare, consumer purchases of individual products occur every day. Applying the same valuation technique to an individual product yields the value of the brand premium for that particular product. Analysts call this system of valuation “brand premium analysis.”

Under brand premium analysis, analysts compare a branded product’s price with the price of its generic equivalent. In its simplest form, brand premium analysis is an effective means of determining the value that a brand adds to a particular product. Despite its effectiveness in the business world, courts have not fully accepted the legitimacy of brand premium analysis in the legal world.

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66 See supra notes 58-65 and accompanying text.
67 See SHERRINGTON, supra note 9, at 70 (explaining that one can accurately value brands after they are sold).
68 Id.
69 Id.
70 Id.
71 Id.
72 Knowles, supra note 18, at 41.
73 Kitchin, supra note 57, at 72.
75 Biel, supra note 18, at 69 (noting that brand premium can be valued as “the price a product is sold for beyond the physical assets associated with its manufacture and distribution”); cf. Jerre B. Swann & Theodore H. Davis, Jr., Dilution, An Idea Whose Time Has Gone: Brand Equity as Protectable Property, The New/Old Paradigm, 84 TRADEMARK REP. 267, 272 (1994) (explaining that problem with this approach is that “[i]n our economy, even generics engage in brand competition”).
76 Joel Axelrod & J. Richard Dindorf, The Definition and Measurement of Brand Equity, in EXPLORING BRAND EQUITY 91 (1995); see also Biel, supra note 18, at 69 (discussing concept of brand equity).
77 Polar Bear Prods., Inc. v. Timex, 384 F.3d 700, 708 (9th Cir. 2004); Frank Music Corp. v. Metro-Goldwyn-Mayer Inc. (Frank I), 772 F.2d 505, 514 (9th Cir. 1985); Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 361 (7th Cir. 1985).
B. State of the Law

In addition to understanding the history of brands, evaluating the Ninth Circuit’s opinion in Polar Bear also necessitates an understanding of existing copyright law. Therefore, this Subpart begins by discussing section 504(b) of the Copyright Act of 1976. It then discusses the tort-based principles adopted by judges in their application of the Copyright Act. This Subpart concludes with an examination of how courts have applied these principles to cases involving the valuation of intangible assets.

1. Profit Awards Under Section 504(b) of the Copyright Act of 1976

Congress drafted section 504(b) of the Copyright Act of 1976 to prevent copyright infringers from unfairly benefiting from a wrongful act. Section 504(b) requires infringers to disgorge all of the profits that they obtained through a copyright infringement. Congress based these profit awards on the legal principle of unjust enrichment. Unlike other remedies, unjust enrichment serves to benefit society rather than the individual. By requiring infringers to surrender all profits attributable to the copyright infringement, Congress removed all monetary

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78 See infra Part I.B.2.
79 See infra Part I.B.3.
80 17 U.S.C. § 504(b); H.R. REP. NO. 94-1476, at 161 (1976) (“different purposes [are] served by awards of damages and profits and damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act”).
81 Sources cited supra note 80.
82 Throughout this Note, I will use the term “unjust enrichment” instead of “restitution.” RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 1 cmt. b (Discussion Draft 2000) (explaining that law of restitution is law of unjust enrichment, but “unjust enrichment” is term of art concerned with identifying those forms of enrichment that law treats as “unjust” for purposes of imposing liability). Nonetheless, some sources use these terms interchangeably. Stephen A. Smith, Justifying the Law of Unjust Enrichment, 79 TEX. L. REV. 2177, 2178 (2001) (“even the subject’s most ardent defenders cannot agree upon its proper name — whether it should be ‘restitution,’ ‘unjust enrichment,’ or ‘restitution and unjust enrichment’”).
83 Peter Jaffey, The Nature and Scope of Restitution: Vitiated Transfers, Imputed Contracts and Disgorgements 136 (2000) (“Disgorgement is a quasi-punitive sanction . . . that reflects the principle that a wrongdoer should not benefit from his wrong, and its purpose is to promote the public interest, not to protect a private interest of the plaintiff. Thus the purpose of disgorgement is achieved if the defendant is deprived of the benefit received . . . [I]t is an accident of civil procedure that gives the benefit to the plaintiff, for whom it is a windfall, as if it were a remedy.”).
incentives to infringe on a copyrighted work. In turn, protecting a copyright holder’s right to control his work ensures that he will continue to create. Therefore, the proper focus of an unjust enrichment inquiry is on the benefit received by the infringer.

Given this emphasis on unjust enrichment, copyright law places the evidentiary burden for determining profit damages squarely on the infringer. Once a copyright holder establishes infringement, she must merely show the infringer’s gross profits. At this stage, section 504(b) provides a rebuttable presumption that all of the infringer’s profits came from the infringement. The burden then shifts to the infringer to demonstrate which profits are not attributable to the infringement. Courts award any remaining profits as damages.
2. Section 504(b) in the Courts

Section 504(b) does not differentiate between direct and indirect profits.\(^92\) Courts, however, do.\(^93\) Direct profits result if an infringer directly profits from the sale of a copyrighted work.\(^94\) For example, if an infringer sells prints of a copyrighted painting, the profit generated by the sale of the prints constitutes direct profit.\(^95\)

In contrast, indirect profit results when an infringer uses a copyrighted work to sell another product.\(^96\) An example is a Las Vegas revue infringing on a copyrighted song.\(^97\) The revue might draw additional crowds into a casino.\(^98\) This, in turn, might generate extra gambling proceeds.\(^99\) The additional gambling proceeds generated by the infringement are indirect profits.\(^100\) The profits are indirect because the product sold is not the copyrighted song, but rather gambling.\(^101\) In other words, customers are paying for the gambling, not the song.\(^102\)

Since awarding indirect profits can amount to a windfall to copyright holders, courts hesitate to apply the rebuttable presumption in section 504(b) to indirect profits.\(^103\) Instead, courts have reduced the potential harshness of section 504(b) by requiring a causal nexus between an infringement and the claimed profits.\(^104\)

\(^92\) See 17 U.S.C. § 504(b) (stating that copyright holders need only to show gross-profits since Congress uses phrase “profits attributable to the infringement”).
\(^93\) Polar Bear Prods., Inc. v. Timex, 384 F.3d 700, 708 (9th Cir. 2004); Frank I, 772 F.2d at 514; Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 361 (7th Cir. 1985); Melville B. Nimmer, Nimmer on Copyright § 14.02 (1963); see also Key West Hand Print Fabrics, Inc. v. Serbin, Inc., 269 F. Supp. 605, 613 (S.D. Fla. 1965) (noting need for causal connection between anticipated revenue and infringement).
\(^94\) Frank I, 772 F.2d at 514.
\(^95\) See Mackie v. Rieser, 296 F.3d 909, 914 (9th Cir. 2002) (defining direct profits as “those that are generated by selling an infringing product”).
\(^96\) Frank I, 772 F.2d at 514.
\(^97\) Id.
\(^98\) Id.
\(^99\) Id.
\(^100\) Id.
\(^101\) Id.
\(^102\) Id.
\(^103\) Polar Bear Prods., Inc. v. Timex, 384 F.3d 700, 710 (9th Cir. 2004); Frank I, 772 F.2d at 512; Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 361 (7th Cir. 1985); Nimmer, supra note 93, § 14.02; see also Key West Hand Print Fabrics, Inc. v. Serbin, Inc., 269 F. Supp. 605, 613 (S.D. Fla. 1965) (noting need for causal connection between anticipated revenue and infringement).
\(^104\) Mackie v. Rieser, 296 F.3d 909, 914 (9th Cir. 2004); Deltak, 767 F.2d at 361; Nimmer, supra note 93, § 14.02; see also Serbin, 269 F. Supp. at 613 (noting need for causal connection between anticipated revenue and infringement).
This requirement prevents copyright holders from recovering profits from an infringer’s entire product line when the infringement involves only one product.

Furthermore, courts have concluded that tort causation principles best fulfill this added evidentiary requirement. Tort law does not award damages based on speculation. Instead, it provides a well established model for proving causation. Tort law requires a nonspeculative correlation between act and injury, known as the “but-for” test. As applied to section 504(b), this test requires copyright holders to show that, but-for the infringement, the infringer would not have obtained the profits. Accordingly, speculative causal connections remotely attributed to the infringement are insufficient to recover damages.

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105 *Polar Bear*, 384 F.3d at 708 (reaffirming that plaintiff in section 504(b) action has burden of establishing a causal connection between infringement and indirect profits); *Frank I*, 772 F.2d at 514; *Deltak*, 574 F. Supp. at 407; *Nimmer*, *supra* note 93, § 14.02; see also *Serbin*, 269 F. Supp. at 613 (noting need for causal connection between anticipated revenue and infringement).

106 *Polar Bear*, 384 F.3d at 714; *Taylor v. Meirick*, 712 F.2d 1112, 1122 (7th Cir. 1983).

107 *Polar Bear*, 384 F.3d at 708 (explaining that copyright indirect profit causal connection requirement is akin to tort principles of causation and damages); *Mackie*, 296 F.3d at 915 n.6, 916-17 (applying tort principles to evaluate claim for indirect profits, and assessing quantum of actual damages). A court has explained that applying tort principles is appropriate for copyright law because copyright infringement is a tortious act. *Data Gen.*, 36 F.3d at 1170 (noting it is “useful to borrow familiar tort principles of causation and damages”).

108 RESTATEMENT (THIRD) OF TORTS § 26 (Tentative Draft No. 2, 2002) (“An actor’s tortious conduct must be a factual cause of another’s physical harm for liability to be imposed. Conduct is a factual cause of harm when the harm would not have occurred absent the conduct.”); TWERSKI & HENDERSON, TORTS: CASES AND MATERIALS 188 (1st ed. 2003) (discussing “but-for” causation requirement).

109 RESTATEMENT (THIRD) OF TORTS § 26 cmt. f (“Before the causal inquiry by this section can be conducted, it must be framed. Framing requires two steps: the initial step is to identify the relevant, legally cognizable harm for which recovery is sought. The second step requires a determination of the conduct of the actor alleged to be tortious.”); TWERSKI, *supra* note 108, at 188 (discussing “but-for” causation requirement).

110 RESTATEMENT (THIRD) OF TORTS § 26 cmt. b (“[T]he standard for factual causation is familiarly referred to as the ‘but-for’ test.”).

111 *Davis v. Gap, Inc.*, 246 F.3d 152, 160 (2d Cir. 2001) (arguing that term “gross revenue” under section 504(b) means gross revenue reasonably related to infringement, not unrelated revenues); *Taylor v. Meirick*, 712 F.2d 1112, 1122 (7th Cir. 1983) (finding that fact that defendant’s infringing products represent two percent of its total inventory does not necessarily mean that its gross revenues attributable to infringement equal two percent of its gross revenues from sales of all of its products).

112 *Polar Bear*, 384 F.3d at 711-12; *Mackie v. Rieser*, 296 F.3d 909, 915 (9th Cir. 2002); *Hamil Am. Inc. v. GFI*, 193 F.3d 92, 108 n.7 (2d Cir. 1999), *cert. denied*, 528 U.S. 1160 (2000).
requiring a causal connection, courts can temper the potentially severe effects of section 504(b) while still providing reasonable protection for the copyright holder. By ensuring that copyright holders only recover the infringer’s profits attributable to the copyright infringement, courts avoid awarding copyright holders a windfall.


The courts’ reliance on tort principles of causation limits the application of section 504(b) to a tort-based causal nexus requirement. Sometimes this principle works. For example, when copyright holders claim profits clearly outside the scope of the infringement, courts routinely find that the causal connection is too speculative. However,
sometimes the but-for test fails. This is because the test is incapable of recognizing a causal connection between a copyright infringement and profits indirectly attributable to the infringement. As a result, courts routinely find that profits derived from advertising are too speculative because the value gained by advertising is often indirect and difficult to quantify. The speculative nature of an indirect gain is especially apparent when copyright infringers acquire profits from the exploitation of less tangible factors, such as brand equity. When advertising adds to the intangible value of an overall brand, courts are less likely to find a causal connection. This is because of the difficulty of determining how much value advertising adds to a brand. Thus, in practice, the use of the causal connection requirement does more than prevent unnecessary damage awards that lack a causal connection. It also prevents deserved damage awards that are difficult to value.

118 See, e.g., JULES L. COLEMAN, RISKS AND WRONGS 374-82 (1992) (explaining that for deterrence purposes, so long as actor’s conduct increases risk of harm, that actor is at least candidate for bearing costs of accidental harm); STEVEN SHAVELL, ECONOMIC ANALYSIS OF ACCIDENT LAW 105-15 (1987) (discussing scope of causation requirements in tort law); Arthur S. Hartkamp, UNJUST ENRICHMENT ALONGSIDE CONTRACTS AND TORTS, in UNJUST ENRICHMENT AND THE LAW OF CONTRACT 27 (E.J.H. Schrage ed., 2001) (noting that but-for test “will not always function properly in unjust enrichment cases, especially in cases of indirect enrichment.”); Richard W. Wright, CAUSATION IN TORT LAW, 73 CAL. L. REV. 1735, 1775 (1985) (“In the vast majority of cases, the but-for test works quite well as a test of actual causation. But in certain types of cases, it results in a finding of no causation even though it is clear that the act in question contributed to the injury.”).

119 See cases cited supra note 118 and accompanying text.


121 Polar Bear Prods., Inc. v. Timex, 384 F.3d 700, 713 (9th Cir. 2004); Getaped.com, 188 F. Supp. 2d at 404; Deltak, 574 F. Supp. at 411 (holding that sales arising from infringing advertising were too speculative on facts, although acknowledging in principle that such recovery may be possible); Fedtro, 313 F. Supp. at 990; Sebring Pottery, 9 F. Supp. at 384; see Hartkamp, supra note 118, at 27 (noting that but-for test “will not always function properly in unjust enrichment cases, especially in cases of indirect enrichment.”); supra Part I.A.2.

122 See supra note 120 and accompanying text.

123 See e.g., Foreword to BRAND VALUATION: ESTABLISHING A TRUE AND FAIR VIEW, at xi (John Murphy ed., 1989) (discussing valuation problems surrounding goodwill, which is created by advertising among other things).

124 Polar Bear, 384 F.3d at 713; Getaped.com, 188 F. Supp. 2d at 405-06; Deltak 574 F. Supp. at 411; Fedtro, 313 F. Supp. at 997-99; Sebring Pottery, 9 F. Supp. at 384.

125 See supra notes 121-23 and accompanying text.
In summary, advertising adds to brand value in ways that are difficult to quantify. Nonetheless, analysts can ascertain the value of a company’s brand premium through brand premium analysis. Section 504(b) shifts the burden of demonstrating a brand’s value onto the infringer. In practice, however, courts will only shift the burden if the copyright holder shows a tort-based causal connection between the infringement and the profits. Unfortunately, it is difficult for a copyright holder to prove such a causal connection where the value an infringement adds to a brand is intangible. The Ninth Circuit confronted these exact problems in Polar Bear.

II. POLAR BEAR PRODUCTIONS, INC. V. TIMEX

In Polar Bear Productions, Inc. v. Timex, a watch manufacturer, Timex, entered into an agreement with Polar Bear Productions, a film production company, to sponsor an extreme kayaking film. The film featured extreme kayaking stars kayaking in exotic locales. In the film, the stars wore Timex gear and logos. Timex paid Polar Bear $25,000 and assisted in the promotion of the film. In return, Timex received a one-year license to use the film in marketing its Expedition-brand watches. Timex used the film at trade shows by playing it on a continuous loop. According to Timex, the promotion was an “unqualified success.”

After the one-year licensing period expired, however, Timex continued to use the film. Specifically, Timex used the film over an
additional three-year period at twelve different trade shows. \(^{138}\) Timex also used images from the film in a promotional campaign with the soft drink Mountain Dew. \(^{139}\) Timex did not dispute that these subsequent uses infringed upon Polar Bear’s copyright. \(^{140}\)

During the period Timex used the film, its gross revenue from sales of Expedition-brand watches in the United States rose steadily. \(^{141}\) In 1996 the gross revenue was $49,161,111; in 1997, $62,893,698; and in 1998, $74,373,250. \(^{142}\) Similarly, during this period, Timex raised the price of Expedition-brand watches from $19.54 to $20.32, a seventy-eight-cent increase. \(^{143}\)

Polar Bear brought copyright and trademark infringement claims against Timex in the U.S. District Court for the District of Montana. \(^{144}\) Polar Bear sought damages derived from the gross sales of the trade shows and the Mountain Dew promotion under section 504(b) of the Copyright Act of 1976. \(^{145}\) Polar Bear also sought damages associated with the seventy-eight-cent brand premium increase. \(^{146}\)

Applying section 504(b), the district court awarded Polar Bear $315,000 in actual damages. \(^{147}\) The jury based its calculation of actual damages on the losses of profit, licensing fees, and renewal fees. \(^{148}\) The jury also awarded Polar Bear $2.1 million in unjustly attained profit. \(^{149}\) The jury recognized three sources for the profit award: \(^{150}\) (1) the profit gained

\(^{138}\) Id.

\(^{139}\) Id.

\(^{140}\) Id.

\(^{141}\) Appellant’s Reply Brief at 10, Polar Bear, 384 F.3d 700 (No. 03-35188) (“Timex’s gross revenue from sales of Expedition watches in the United States was $49,161,111 in 1996, $62,893,698 in 1997, and $74,373,250 in 1998, for a total gross revenue from Expedition sales of $186,428,059.00 for the period of 1996 through 1998.”).

\(^{142}\) Id.

\(^{143}\) Id. at 24-25.

\(^{144}\) Polar Bear, 384 F.3d at 703.

\(^{145}\) Appellant’s Reply Brief, supra note 141, at 24-25 (“Timex was able to raise its retail price for the Expedition in 1997 to $20.32, a price increase of 78 cents. Of that 78 cent price increase, Hansen attributed 50% (i.e., 39 cents) to Timex’s use of PaddleQuest . . . . Significantly, Hansen’s attribution of a 39 cent price increase under the brand premium method did not affect Timex’s profit of more than $10.00 per watch, which was already built into its base price. In other words, Hansen’s attribution of 39 cents of wrongful profits from the watch constitutes less than 3.5% of the total profit Timex received from the sale of each Expedition watch.”).

\(^{146}\) Polar Bear, 384 F.3d at 713.

\(^{147}\) Id. at 708.

\(^{148}\) Id.

\(^{149}\) Id. at 705.

\(^{150}\) Id. at 712.
from the sale of Expedition-brand watches at the trade shows; \textsuperscript{(2)} the profit earned from sales associated with the Mountain Dew promotion; \textsuperscript{(3)} the profit attained through the increase in brand equity attributable to the infringement. \textsuperscript{153}

On appeal, the Ninth Circuit upheld two of the damage awards, vacating only the award for lost profits. \textsuperscript{154} It also upheld damages for the profits that Timex obtained directly from the infringement. \textsuperscript{155} The Ninth Circuit based these awards on Expedition-brand watch sales at trade shows and Expedition-brand watch sales associated with the Mountain Dew promotion. \textsuperscript{156}

The Ninth Circuit, however, vacated the $2.1 million profit award. \textsuperscript{157} It refused to uphold an award for the brand premium price increase attributable to Timex’s association with the infringed film footage. \textsuperscript{158} In its analysis, the Polar Bear court applied a causation requirement based on tort principles to section 504(b) damages. \textsuperscript{159}

Polar Bear attempted to show causation by arguing that the additional price Timex charged for its Expedition-brand watches was a brand premium derived from the infringement. \textsuperscript{160} As additional proof, Polar Bear presented evidence that Timex significantly relied on the film footage and considered the promotion an “unqualified success.” \textsuperscript{161} The Ninth Circuit acknowledged that brand premium analysis may be a valid method of calculating the impact of advertising on the value of a product. \textsuperscript{162} However, it explained that brand premium analysis fails to satisfy the legal, causal connection requirement. \textsuperscript{163} The Ninth Circuit held that brand premium analysis fails because brand premium theory

\textsuperscript{151} Id.
\textsuperscript{152} Id.
\textsuperscript{153} Id.
\textsuperscript{154} Id. \textsuperscript{at 710.}
\textsuperscript{155} Id. \textsuperscript{at 708} (remanding this portion of award to determine amount absent indirect profits).
\textsuperscript{156} Id. \textsuperscript{at 703.}
\textsuperscript{157} Id. \textsuperscript{at 708} (reaffirming that plaintiff in section 504(b) action must establish this causal connection and that this requirement is akin to tort principles of causation and damages).
\textsuperscript{158} Id. \textsuperscript{at 714.}
\textsuperscript{159} Id.
\textsuperscript{160} Id. \textsuperscript{at 713} (explaining that brand premium may be valuable method of “calculating the impact of advertising on the profitability of a product . . . since the use of this methodology does not alleviate the [copyright holder’s] obligation of establishing a causal nexus between the infringement and profits sought”).
\textsuperscript{161} Id.
cannot establish the required causal connection between the infringement and the actual profits.\textsuperscript{164} Thus, the Ninth Circuit determined that Polar Bear’s attempt to demonstrate a nonspeculative causal link between the infringement and the profits was “woefully insufficient.”\textsuperscript{165}

### III. Analysis

In \textit{Polar Bear Productions, Inc. v. Timex}, the Ninth Circuit created an impossible causation standard that effectively ignored congressional intent and gave copyright infringers a loophole through which to retain indirect profits. Subpart A demonstrates how the Ninth Circuit circumvented congressional intent by failing to shift the evidentiary burden to the copyright infringer once Polar Bear proved infringement.\textsuperscript{166} It then addresses the Ninth Circuit’s concern that without a causation requirement, plaintiffs would receive a profit windfall.\textsuperscript{167} Subpart A concludes by describing why shifting the burden of showing tort-based, counter-factual causation to the infringer may still be an inappropriate response to the problem.\textsuperscript{168} Next, Subpart B explains why the tort-based causation model is ill equipped to evaluate brand premium profits.\textsuperscript{169} Subpart C then argues that by failing to protect brand equity, the Ninth Circuit created a loophole that will incentivize infringement of copyrighted works.\textsuperscript{170}

#### A. Requiring a Copyright Holder to Demonstrate Causation Contradicts Congressional Intent

By requiring Polar Bear to show causation, the Ninth Circuit improperly circumvented Congress’s intent to shift this evidentiary burden to the infringer.\textsuperscript{171} Both the Copyright Act of 1976 and the Copyright Act of 1909 entitle the copyright holder to all profits

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\textsuperscript{164} Id. at 715 (“[I]t is impossible to connect the dots [with a brand premium] theory because there is a gap between the infringement and actual sales revenue.”).

\textsuperscript{165} Id. at 714.

\textsuperscript{166} \textit{Polar Bear}, 384 F.3d at 703; \textit{see infra} Part III.A.

\textsuperscript{167} \textit{See infra} Part III.A.1.

\textsuperscript{168} \textit{See infra} Part III.A.2.

\textsuperscript{169} \textit{See infra} Part III.B.

\textsuperscript{170} \textit{See infra} Part III.C.

attributable to the infringement.\textsuperscript{172} The 1976 Act, however, expressly added the requirement that the infringer bear the burden of showing which profits are not attributable to the infringement.\textsuperscript{173} This addition reflects Congress’s intent to strengthen the unjust enrichment provision in section 504(b).\textsuperscript{174} The Ninth Circuit undermined this intent by imposing the causation burden on Polar Bear instead of Timex.\textsuperscript{175}

Section 504(b) is a damage provision.\textsuperscript{176} Thus, in Polar Bear, as in any case evaluating damages, the copyright holder has already established infringement.\textsuperscript{177} Timex only disputed the extent of its unjust enrichment.\textsuperscript{178}

In compliance with section 504(b), Polar Bear provided the court with an Expedition-brand watch gross profit figure of $10 million.\textsuperscript{179} Polar Bear then surpassed its statutory burden by approximating that only $1.5 million to $3 million of that figure was attributable to Timex’s infringement.\textsuperscript{180} Because Polar Bear met and exceeded its statutory burden, the Ninth Circuit should have shifted the burden of proving causation to Timex.\textsuperscript{181} Timex had better knowledge of how it increased its profits and was thus better equipped to bear the causal burden.\textsuperscript{182} If


\textsuperscript{173} Haus, supra note 172, at 13 ("The change from the 1909 Act to the 1976 Act added to the defendant’s burden of proof the responsibility to show how much of the profit should be allocated between infringing and noninfringing elements of the work."). See generally GOLDSTEIN, supra note 112, § 14.1 n.1 (comparing section 101(b) of 1909 Copyright Act with section 504(b) of 1976 Copyright Act, and explaining that under 1909 Act, “[t]he Second and the Ninth Circuits divided in their interpretation of section 101(b) . . . [because the] Second Circuit read the section to authorize cumulative recovery of damages and profits, . . . [whereas the] Ninth Circuit read section 101(b) to authorize one or the other, but not both damages and profits").

\textsuperscript{174} H.R. Rep. No. 94-1476, at 161 ("[D]ifferent purposes are served by awards of damages and profits. Damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act."); RESTATMENT (THIRD) OF RESTITUTION § 1 (2004) ("There are significant instances of liability based on unjust enrichment that do not involve the restoration of anything the claimant previously possessed. Salient examples include cases involving the disgorgement of profits, or other benefits wrongfully obtained, in excess of the plaintiff’s loss."); see supra Part I.B.1.

\textsuperscript{175} See infra Part III.A.1-2.

\textsuperscript{176} 17 U.S.C. § 504.

\textsuperscript{177} Polar Bear Prods., Inc. v. Timex, 384 F.3d 700, 704 (9th Cir. 2004).

\textsuperscript{178} Id. at 707.

\textsuperscript{179} Id. at 713 (stating that Polar Bear provided amount of gross profits associated with Expedition watches during infringement period).

\textsuperscript{180} Id.

\textsuperscript{181} 17 U.S.C. § 504(b).

\textsuperscript{182} Orgel v. Clark Boardman Co., 301 F.2d 119, 121 (2d Cir. 1962) (explaining that
Timex in fact derived its increased price premium from other sources, it bore the burden of proving this.\(^{183}\)

The Polar Bear court, however, never shifted the causation burden to Timex.\(^{184}\) This is because the Polar Bear court incorrectly focused on the potential windfall to the copyright holder.\(^{185}\) Instead, the court should have focused on the actual unjust enrichment of the infringer.\(^{186}\) In its desire to avoid granting Polar Bear a windfall, the Ninth Circuit undermined congressional intent by failing to shift the causation burden to Timex.\(^{187}\)

1. Why the Windfall Argument Fails

The Polar Bear court argued that freeing copyright holders from the existing causal connection requirement would lead to windfall profit awards completely unrelated to the actual infringement.\(^{188}\) Judge Richard Posner made this same, oft-repeated argument in the Seventh Circuit case, Taylor v. Meirick.\(^{189}\) Without a causal connection requirement, copyright holders could submit to the court a copy of “General Motors’ corporate income tax return and rest [their] case.”\(^{190}\) Of course, in his example of a “corporate tax return,” Judge Posner alluded to section 504(b)’s requirement that a copyright holder “need only show gross profits.”\(^{191}\)

The windfall argument exemplified by Judge Posner’s opinion in Taylor fails for two reasons. First, it ignores the second component of section 504(b) determinations.\(^{192}\) As discussed above, section 504(b)

defendants “must be content to accept much of the embarrassment resulting from mingling the plaintiffs’ property with their own”); Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45, 51 (2d Cir. 1939) (“it is not our best guess that must prevail, but [a] figure [that] will favor the plaintiffs in every reasonable chance of error”); Defendant’s Opposition to Plaintiffs’ Motions in Limine at 3, Jarvis v. K-2 Inc. (No.C03-1265Z), 2004 WL 2976503 (W.D. Wash. Nov. 29, 2004) (citing to Polar Bear in case where copyright owner cannot understand infringer’s financial documents).

\(^{183}\) 17 U.S.C. § 504(b); see supra note 181 and accompanying text.

\(^{184}\) Polar Bear, 384 F.3d at 714-16.

\(^{185}\) Id.

\(^{186}\) See infra Part III.1.A.

\(^{187}\) 17 U.S.C. § 504(b).

\(^{188}\) See infra Part III.1.A.

\(^{189}\) Polar Bear, 384 F.3d at 711; Davis v. Gap, Inc., 246 F.3d 152, 160-61 (2d Cir. 2001); accord Taylor v. Meirick, 712 F.2d 1112, 1122 (7th Cir. 1983).

\(^{189}\) Taylor, 712 F.2d at 1122.

\(^{190}\) Id.

\(^{191}\) 17 U.S.C. § 504(b).

\(^{192}\) Id.
allows infringers to reduce an award by demonstrating which profits are not attributable to the infringement. This allowance gives infringers, like General Motors in Taylor, an opportunity to show that the infringement did not benefit all aspects of its business. Infringers should know the sources of their profits. In Polar Bear, if the Ninth Circuit had shifted the causation burden, Timex would have had the opportunity to show that it derived the increase in brand premium from a different source. Thus, infringers have every opportunity to avoid handing copyright holders a windfall.

Second, the windfall argument fails because it is irrelevant to the purpose of an unjust enrichment claim. As discussed above, Congress’s sole objective with profit awards was to prevent unjust enrichment. Accordingly, it is immaterial if a copyright holder receives a windfall.

2. A Tort-Based, Counterfactual Burden on the Infringer Is Inappropriate

One might argue that the Ninth Circuit could have upheld congressional intent by imposing the tort-based causal requirement on Timex instead of Polar Bear. Under this scheme, Timex could have reduced the profit award by showing counterfactual tort causation. A counterfactual inquiry asks whether a result would have happened even in the absence of a particular act.

Using a counterfactual inquiry, Timex could have shown that it would have increased its brand premium even if it had not infringed on the film. The appeal of the counterfactual model is that it satisfies both Congress’s burden-shifting requirement and the Ninth Circuit’s tort-based causation requirement. The trouble with this model is that it

193 Id.
194 Id.
195 See sources cited supra note 185.
196 17 U.S.C. § 504(b); see also Estate of Vane v. Fair, Inc., 849 F.2d 186, 188 (5th Cir. 1988) (allowing infringer to present expert testimony to show uncertain profits.
197 See sources cited supra note 196 and accompanying text.
198 See supra notes 80-86 and accompanying text.
199 See supra notes 80-86 and accompanying text.
201 RESTATEMENT (THIRD) OF TORTS § 26 cmt. e (Tentative Draft No. 2, 2002) (“One must ask what would have occurred if the actor had not engaged in the tortious conduct. In some cases, the counterfactual inquiry may pose difficult problems of proof.”).
202 Id.
203 Id.
204 See supra Part I.B.1-2.
does not solve a more fundamental problem: the but-for causation model cannot value brand premium.\footnote{R ESTATEMENT (THIRD) OF TORTS § 26 cmt. f.}

\section*{B. But-For Causation Is Ill-Suited to Value Brand Premium}

The \textit{Polar Bear} but-for causation model cannot recognize contributions to intangible value. But-for causation requires a jury to conclude that it is more likely than not that a particular action caused the injury.\footnote{W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS 269 (5th ed. 1984).} Therefore, juries cannot find for a plaintiff if causation is merely speculative.\footnote{Id.; see also R ESTATEMENT (THIRD) OF TORTS § 26 ("An actor's tortious conduct must be a factual cause of another's physical harm for liability to be imposed. Conduct is a factual cause of harm when the harm would not have occurred absent the conduct."); TWERSKI, supra note 108, at 188 (discussing “but-for” causation requirement).} Intangible value is by definition speculative, vague, and difficult to define.\footnote{See WEBSTER'S NEW WORLD DICTIONARY 316 (Warner Books ed. 1983) (defining adjective “intangible” as that “that cannot be easily defined; vague”).} Thus, it is impossible for copyright holders to show a but-for causal connection between advertising and brand premium.\footnote{See supra Part I.B.3; cf. Folsom v. Marsh, 9 F. Cas. 342, 344 (C.C.D. Mass. 1841) (explaining that copyright law “approaches nearer than any other class of cases . . . to what may be called the metaphysics of the law, where the distinctions are, or at least may be, very subtle and refined, and sometimes, almost evanescent”).}

The decision in \textit{Polar Bear} exemplifies this problem.\footnote{Polar Bear Prods., Inc. v. Timex, 384 F.3d 700, 713 (9th Cir. 2004).} Under the Ninth Circuit’s application of section 504(b), \textit{Polar Bear} faced the difficulty of proving that Timex derived its increased brand premium price from the infringement.\footnote{Id. at 710-11.} Timex limited its use of the film to the tradeshow looptapes and the Mountain Dew promotion.\footnote{Id.} \textit{Polar Bear} had to prove that these isolated promotions influenced consumers’ willingness to purchase and pay more for an Expedition-brand watch.\footnote{Id.} Of course, ascertaining why a consumer makes a particular purchase is as speculative as the brand valuation methods themselves.\footnote{See Julie A. Edell & Marian Chapman Moore, \textit{The Impact and Memorability of Ad-Induced Feelings: Implications for Brand Equity}, in BRAND EQUITY & ADVERTISING, supra note 11, at 96 ("[A]dvertising can influence brand equity by influencing the consumer’s memory structure for a brand."); H. Shanker Krishnan & Dipankar Chakravarti, \textit{Varieties of Brand Memory Induced by Advertising: Determinants, Measures, and Relationships}, in BRAND EQUITY & ADVERTISING, supra note 11, at 214 ("[A]dvertising exposure may create memories that translate into nonconscious, but reliable, behavioral predispositions toward a brand. These .

[1234567890]
dots” between the infringement and the effect on brand equity is impossible in practice.\textsuperscript{215}

Polar Bear could only prove that it added to Timex’s brand premium by showing the resulting increase in the price of Expedition brand-watches after the infringement.\textsuperscript{216} This leaves only a circular proof of causation.\textsuperscript{217} Timex was able to increase its brand premium because of the promotion and, as proof, Polar Bear can show that Timex charged a higher brand premium.\textsuperscript{218} Circular proof of causation can never satisfy the rigid standards of a tort-based, but-for causation test.\textsuperscript{219}

Thus, in determining intangible profits, burdening either party with the insurmountable but-for causation requirement is unjust.\textsuperscript{220} Burdening copyright holders in this way leads to the unjust enrichment of infringers.\textsuperscript{221} Burdening infringers, on the other hand, leaves the company-wide profits of large, multifaceted corporations vulnerable to lawsuits for minor, indirect infringements.\textsuperscript{222}

C. Failure to Award Profits Based on Intangibles Will Encourage Copyright Infringement

The Ninth Circuit’s holding in Polar Bear encourages infringement by adhering to a but-for causation requirement for copyright holders in section 504(b) profit awards.\textsuperscript{223} Under the ruling, infringers can almost always retain unjust gains in their brand equity.\textsuperscript{224} This is because current methods of evaluating gains in brand equity generated through advertising cannot provide a non-speculative basis for causation.\textsuperscript{225} Therefore, courts refuse to allow damage awards for the resulting increase in brand value, leaving copyright holders vulnerable to
copyright infringement in advertising.\textsuperscript{226}

The business world’s emphasis on brand value compounds this problem.\textsuperscript{227} Because modern advertising’s primary focus is on building brand equity, it is essential that copyright law protect advertisers from copyright infringement.\textsuperscript{228} The Ninth Circuit’s failure to adopt legal tools that recognize this reality has the opposite effect; it encourages copyright infringement.

An example helps illustrate the practical effects of \textit{Polar Bear}. Suppose an advertiser, such as Gap, Inc., uses a popular song in one of its television commercials.\textsuperscript{229} Gap might choose not to pay the song’s copyright holder for its use.\textsuperscript{230} If the ad focuses on Gap’s overall brand, the song’s copyright holder could only recover direct damages.\textsuperscript{231} These damages would probably consist only of a nominal licensing fee.\textsuperscript{232} Gap’s brand equity, however, would unjustly profit from its association with the song.\textsuperscript{233} Most likely Gap would gain more in brand equity than the cost of the licensing fee. Furthermore, because Gap never negotiated the right to use the song, the copyright owner lacked the opportunity to refuse to sell this right or to negotiate a higher fee.\textsuperscript{234} In short, increasing brand equity by infringing on a copyrighted work may be a more profitable business decision than complying with the law.\textsuperscript{235}

This result is absurd. It is axiomatic that courts must interpret statutes in a manner that will not lead to absurd results.\textsuperscript{236} Furthermore, the

\begin{itemize}
\item \textsuperscript{226} See supra Parts I.B. III, III.B.
\item \textsuperscript{227} See supra Part I.A.2.
\item \textsuperscript{228} \textit{Frontline: The Persuaders}, supra note 41 (discussing modern day advertising manager’s job to create whole meaning system through which people derive their identity and understanding of world); \textit{Frontline: The Persuaders} (PBS television broadcast Nov. 9, 2004), available at http://www.pbs.org/wgbh/pages/frontline/shows/persuaders/interviews/garfield.html (interviewing Bob Garfield who stated: “the greatest campaigns in advertising history are built on nothing more than an idea . . . . Marlboro . . . Nike . . . .”).
\item \textsuperscript{230} See \textit{id}.
\item \textsuperscript{231} See supra Part I.B.2.
\item \textsuperscript{232} See \textit{Polar Bear Prods., Inc. v. Timex}, 384 F.3d 700, 709 (9th Cir. 2004) (limiting amount of recovery for \textit{Polar Bear’s} licensing fee to fair market value).
\item \textsuperscript{233} See supra note 232 and accompanying text.
\item \textsuperscript{234} See \textit{Polar Bear}, 384 F.3d at 709 (limiting amount of recovery of \textit{Polar Bear’s} licensing fee to reasonable fair market value).
\item \textsuperscript{235} See supra note 234 and accompanying text.
\item \textsuperscript{236} United States v. Revis, 22 F. Supp. 2d 1242, 1250-51 (N.D. Okla. 1998) (“[t]he requirement that the Court accept the plain language is tempered only by the admonition that a literal interpretation must be rejected if it would lead to an absurd result”); EDGAR
practical effect of Polar Bear is to create a compulsory licensing scheme. This compulsory license scheme is even more favorable to an infringer than is a true compulsory licensing scheme. The only way to collect the licensing fee in this scheme is to go to court. Because advertisers lack incentives to bring lawsuits that cannot recover substantial profits, they may choose not to bring suit against their infringers. Unless Polar Bear is overturned, infringers can add millions of dollars to their brand values. They can exploit the Polar Bear loophole without any real risk beyond paying fair market value for the use of the copyrighted work.

CONCLUSION

In Polar Bear Productions, Inc. v. Timex, the Ninth Circuit created a loophole that undermines the very purpose of copyright law. By unnecessarily requiring but-for causation, the Ninth Circuit made it impossible, in some situations, for lower courts to comply with congressional intent. This is because but-for causation cannot recognize a contribution to the intangible value of a brand. As a result, Polar Bear exposes copyright holders to unchecked infringement. Copyright infringement based on brand valuation is a crucial issue in protecting copyrights in advertising. The purpose of copyright law is to provide an economic incentive to create and disseminate ideas. To further this purpose, courts must ensure that copyright infringers cannot retain ill-gotten profits.


238 Id.
239 Id.
240 See supra Part III.B.
241 See supra Part I.
242 Polar Bear Prods., Inc. v. Timex, 384 F.3d 700, 709 (9th Cir. 2004) (limiting amount of recovery for Polar Bear’s licensing fee to fair market value).
243 See supra Part III.C.
244 See supra Part III.A.
245 See supra Part III.B.
246 See supra Part III.C.
247 See supra Part III.C.
248 Polar Bear Productions, Inc. v. Timex, 384 F.3d 700, 709 (9th Cir. 2004) (limiting amount of recovery for Polar Bear’s licensing fee to fair market value).
251 Id.
252 Id.
253 See supra Part III.B.
254 See supra Part I.
255 See supra Part III.B.
256 See supra Part III.C.
257 See supra Part III.C.
259 HANOCH DAGAN, UNJUST ENRICHMENT: A STUDY OF PRIVATE LAW AND PUBLIC VALUES 18-19 (1997) (“Any pecuniary remedy which is less stringent than [awarding] profits is inadequate in vindicating control”).
In enacting section 504(b) of the Copyright Act, Congress provided an adequate tool to advance this goal.250 A plain reading of section 504(b) provides the flexibility copyright law needs to protect intangible assets.251 Following congressional intent and adopting this model would allow the Ninth Circuit to recognize value where businesses find value: in brands. 252

250 See id. (stressing necessity of awarding profits to copyright holders).
251 See generally H.R. Rep. No. 94-1476, at 47 (1976) (explaining that, historically, copyright law has adapted to changes in technology and has expanded when necessary to protect new forms of expression).
252 See Preface to DAVID TAYLOR, THE BRAND STRETCH: WHY 1 IN 2 EXTENSIONS FAIL AND HOW TO BEAT THE ODDS, at xi (John Wiley & Sons, Ltd. 2004) (noting that businesses around world have spent billions of dollars creating, building, and defending strong brands).