

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

**GRANT HEILMAN PHOTOGRAPHY,
INC.,**

Plaintiff,

v.

**McGRAW-HILL GLOBAL
EDUCATION HOLDINGS, LLC,
McGRAW-HILL SCHOOL
EDUCATION HOLDINGS, LLC, and
JOHN DOES PRINTERS 1-10,**

Defendants.

Case No. 5:12-cv-02061-MMB

**DEFENDANTS’ MEMORANDUM REGARDING
LIABILITY AND DAMAGES FOR REMAINING CLAIMS**

Defendants McGraw-Hill Global Education Holdings, LLC and McGraw-Hill School Education Holdings, LLC (collectively, “McGraw-Hill”) hereby submit this memorandum setting forth their positions as to liability and damages for the remaining claims in this case, in accordance with this Court’s August 20, 2015 and September 29, 2015 orders (Dkt. Nos. 269, 273), and in response to the charts Plaintiff Grant Heilman Photography, Inc. (“GHPI”) submitted to the Court by email on September 22, 2015.

BACKGROUND

On August 20, 2015, this Court entered an order directing GHPI to “file a chart . . . showing, for each of the remaining 2,339 claims at issue, and subject to the Court’s rulings, (i) its calculation of actual damages, (ii) information available to plaintiff as to the calculation of lost profits, and (iii) any claims which plaintiff believes are eligible for statutory damages.” Dkt.

No. 269. The Court's order further directed McGraw-Hill to file a response to GHPI's submission setting forth its own positions as to each claim. *Id.*

GHPI submitted three charts to the Court by email on September 22, 2015, asserting copyright infringement for a total of 1,722 claims. *See* Decl. of Elizabeth Seidlin-Bernstein in Supp. of Defs.' Mot. for Partial Summ. J. Regarding Statutory Damages Eligibility ("Seidlin-Bernstein Decl.") Exs. A-D. Thus, GHPI does *not* assert copyright infringement for 617 of the remaining claims in this case.

GHPI's first chart sets forth 1,647 claims for which GHPI seeks only actual damages and profits attributable to infringement. *Id.* Ex. B. The second chart sets forth 55 unique photographs, relating to 75 claims, which GHPI asserts are eligible for statutory damages. *Id.* Ex. B. Recognizing, however, that most of those 55 photos are ineligible for statutory damages "in light of the Court's ruling during the mini-trial granting Defendants' motion for directed verdict on the issue of statutory damages where McGraw infringed the same image in a different textbook prior to registration," GHPI also submitted a third chart setting forth ten unique photos, relating to 11 claims, which it contends are eligible for statutory damages notwithstanding the Court's prior ruling. *Id.* Exs. A; Ex. D.

On September 30, 2015, at McGraw-Hill's request, GHPI sent to McGraw-Hill a revised version of its second chart setting forth the actual damages and net revenues that GHPI asserts for the 75 purported statutory damages claims. Decl. of Christopher Beall in Supp. of Defs.' Mem. Regarding Liability and Damages for Remaining Claims ("Beall Decl.") Ex. 1.

McGRAW-HILL'S RESPONSE TO GHPI'S CHARTS

Of the 1,722 claims at issue, McGraw-Hill concedes liability for a total of 1,092 claims and denies liability for the remaining 630 claims, as summarized in Exhibit 2 to the Beall

Declaration and set forth in greater detail in Exhibit 3 to the Beall Declaration.¹ Even where it concedes liability, however, McGraw-Hill does not necessarily concede that it exceeded the invoice every way GHPI asserts. For example, McGraw-Hill may agree with GHPI that it exceeded the invoiced print quantity for a particular claim but deny GHPI's assertion that it exceeded the invoiced geographic term or used the photograph in an unauthorized electronic or custom format. McGraw-Hill's position as to each theory of infringement asserted by GHPI for each claim is stated in the "Lost License Fee" columns of Exhibit 3 to the Beall Declaration.

McGraw-Hill offers the following overarching explanations for its positions:

I. ISBNs Counted

In responding to GHPI's discovery requests, McGraw-Hill produced printing, distribution, and financial data for all of the various books and other educational products associated with each pleaded title, but not all of those books and products necessarily contain any photographs or the particular photographs pleaded by GHPI. Each book or product is identified by its own International Standard Book Number ("ISBN"). Because one element of copyright infringement is unauthorized copying, *see Kay Berry, Inc. v. Taylor Gifts, Inc.*, 421 F.3d 199, 203 (3d Cir. 2005), GHPI has the burden of demonstrating that the photos do, in fact, appear in the particular ISBNs counted in determining liability and damages. Exhibit 3 to the Beall Declaration lists in the "ISBNs Counted" column the ISBNs that McGraw-Hill has included in its computation of usage, profits, and lost license fees for each photograph. These ISBNs were selected because, after reasonable investigation, McGraw-Hill believes they either contain or are likely to contain the pleaded photograph. Where indicated, McGraw-Hill has determined that

¹ McGraw-Hill concedes liability and damages for copyright infringement subject to this Court's prior ruling that the parties' course of dealing provides no defense, Dkt. No. 126 at 11-17, as well as the jury's verdict that the statute of limitations does not limit the claims in this case, Dkt. No. 179, without waiving its right to appeal those decisions.

none of the relevant ISBNs contain the pleaded photograph and has denied liability for those claims. In some instances, McGraw-Hill has been unable to obtain a copy of the book or other product at issue that would enable it to determine whether it contains the pleaded photograph, and has denied liability for those claims as well.

II. Electronic Use

McGraw-Hill denies any infringement based on electronic use after January 1, 2003, when the parties entered a preferred vendor agreement that permitted McGraw-Hill to use GHPI's photographs by "[a]ll delivery methods within unit run," including various electronic formats such as CDs, e-books, and websites. *See* Beall Decl. Ex. 4. The agreement "remained in effect with minor modifications throughout the parties' dealings." *See* Dkt. No. 105 ¶ 26 (declaration of GHPI President Sonia Wasco). Neither the Court on summary judgment nor the jury in the bellwether trial determined whether the use of a photo in an electronic product may constitute infringement despite the parties' preferred vendor agreement, and thus that issue has yet to be adjudicated. *See* Dkt. No. 139 (granting in part GHPI's motion for partial summary judgment, based solely on invoiced print quantity); Beall Decl. Ex. 5 (GHPI's trial exhibit seeking lost license fees based solely on invoiced print quantity and geographic term).

III. International Student Editions

McGraw-Hill also denies any infringement for what GHPI has called "[u]licensed international version[s]," *see, e.g.*, Seidlin-Bernstein Decl. Ex. B at 13, presumably referring to International Student Editions ("ISEs"). An ISE is typically exactly the same, but for a different cover, as the U.S. student edition product, and such a revision is clearly permitted under Section 201(c) of the Copyright Act. Section 201(c) governs the respective rights of the creator of a collective work, such as a textbook, and the creators of the individual contributions to that

collective work, such as photos. 17 U.S.C. § 201(c). The provision creates a presumption that, while copyright in an individual contribution (here, a photo) “vests initially in the author of the contribution,” the holder of a copyright in a collective work (here, a textbook) obtains “the privilege of reproducing and distributing the contribution as part of that particular collective work, *any revision of that collective work*, and any later collective work in the same series.” *Id.* (emphasis added). “‘Revision’ denotes a new ‘version,’ and a version is, in this setting, a ‘distinct form of something regarded by its creator or others as one work.’” *Faulkner v. Nat’l Geographic Enters. Inc.*, 409 F.3d 26, 34 (2d Cir. 2005) (quoting *New York Times Co. v. Tasini*, 533 U.S. 483, 500 (2001)). Thus, an ISE is simply a revision of the main student edition of a textbook, and the use of a photo in an ISE does not constitute copyright infringement under the presumption of Section 201(c).

Additionally, for invoices issued in 2003 or later, ISEs are permitted as “minor revisions” under the parties’ preferred vendor agreement because they do not change more than “10% of the photo content.” *See* Beall Decl. Ex. 4.

IV. Profits Attributable to Infringement

McGraw-Hill’s computation of the profits attributable to infringement, if any, for each photo is summarized in Exhibit 2 to the Beall Declaration and set forth in greater detail in Exhibit 3 to the Beall Declaration. Under this computation, the total amount of profits attributable to infringement for all remaining claims is \$342,292.

As this Court has recognized, “there is no precise way to determine how the jury” in the bellwether trial reached its award of profits attributable to infringement, Dkt. No. 255 at 27, but “GHPI’s photographs were very minor parts of very large textbooks consisting of hundreds of pages of text and many photographs,” *id.* at 25. The Court also observed that “it is clear . . . the

jury did not buy [GHPI's] arguments on lost profits," Dkt. No. 270 at 6:15-16, under which GHPI sought *all* of McGraw-Hill's revenues from the infringing textbooks at issue, without any deductions for expenses or elements of profit attributable to factors other than GHPI's photos. *See generally* Dkt. Nos. 198, 220. Nonetheless, in its computation of profits attributable to infringement for the remaining claims, GHPI once again offers only what it believes to be McGraw-Hill's revenues from the textbooks at issue, without proposing any formula for deducting expenses or elements of profit attributable to factors other than GHPI's photos. *See* Seidlin-Bernstein Decl. Ex. B.

In response, McGraw-Hill has applied the same common-sense formula its counsel suggested to the jury during the bellwether trial. *See* Dkt. No. 234 at 134:16-138:7. That formula starts with McGraw-Hill's net profits for each textbook (P), rather than its revenues, to account for the expenses McGraw-Hill incurred. The net profits are then multiplied by the percentage of infringing textbooks – that is, the number of units (E) in excess of the invoice parameters divided by the total number of units printed (T). The entire number is then divided by four, based on the assumption that one-fourth of a book's profits may be attributed to its photo content. That number, which is the total amount of profit attributable to infringement of all photos in the textbook, is then divided by the number of photos in the textbook (N) to arrive at the profits attributable to infringement of a single photo in the textbook. Thus, the formula is as follows:

$$((P \times (E \div T)) \div 4) \div N = \text{profits attributable to infringement of photo}$$

McGraw-Hill determined the number of photographs in each textbook or product by manually counting them. In the few instances where McGraw-Hill was unable to count the particular book

or product at issue, it has indicated the alternate ISBN counted in Exhibit 3 to the Beall Declaration.

Under this formula, the amount of profits attributable to infringement of the photographs remaining at issue ranges from zero to \$10,079.05, depending on the profitability of the book, the extent of the infringement, and the number of photos in the book.

V. Lost License Fees

McGraw-Hill's computation of GHPI's lost license fees, if any, for each photo is summarized in Exhibit 2 to the Beall Declaration and set forth in greater detail in Exhibit 3 to the Beall Declaration. Because the jury evidently accepted GHPI's method for calculating lost license fees, McGraw-Hill does not dispute GHPI's calculation of lost license fees for the remaining infringing claims, except insofar as McGraw-Hill denies liability for the particular form of infringement asserted. McGraw-Hill's computation of lost license fees includes the lost license fees asserted by GHPI with respect to the purported statutory damages claims in Exhibit 1 to the Beall Declaration. Under McGraw-Hill's computation, the total amount of lost license fees for all remaining claims is \$280,145.

McGraw-Hill also rejects GHPI's application of an impermissible 2.2-times multiplier to its lost license fees, for the reasons discussed in response to the Court's Question 2, *infra* at 9-10.

VI. Statutory Damages

McGraw-Hill does not believe that any of the photographs remaining at issue are eligible for statutory damages and has filed a separate Motion for Partial Summary Judgment Regarding Statutory Damages Eligibility herewith.

VII. Summary

In sum, McGraw-Hill concedes liability for a total of 1,092 claims, none of which are eligible for statutory damages. Under McGraw-Hill's computations, GHPI is entitled to \$342,292 in profits attributable to infringement and \$280,145 in lost license fees, which would result in an average damages award of \$570 per claim.

McGRAW-HILL'S RESPONSES TO THE COURT'S QUESTIONS

McGraw-Hill offers the following responses to the questions posed by the Court in its correspondence to the parties dated September 18, 2015. *See* Beall Decl. Ex. 6.

Question 1

As previously stated in Defendants' Report Regarding Procedures for Reaching Final Judgment, Dkt. No. 263 at 2, McGraw-Hill agrees with the Court that "using the bellwether verdicts," as modified by the Court's post-trial ruling on actual damages, "to extrapolate damages for the remaining claims" would be the most efficient and reasonable way to resolve the remainder of this case. Dkt. No. 255 at 5. Indeed, the average profits and lost license fees awarded for the 53 bellwether claims, \$1220, *see* Dkt. No. 269, is more than twice McGraw-Hill's computation of average profits and lost license fees that should be awarded for the remaining claims, \$570. Thus, an extrapolation of damages for the remaining claims from the bellwether verdict could well result in a more favorable outcome for GHPI than a second trial. Nonetheless, GHPI continues to assert its opposition to any non-jury resolution of the remaining

claims, invoking the Seventh Amendment right to a jury trial. *See* Dkt. No. 272 at 1-7. As a result, it appears that a second jury trial will be necessary.

However, the scope of the second trial should be limited by the law of the case doctrine and the parties' prior judicial admissions. Under the law of the case doctrine, absent "extraordinary circumstances," courts should "avoid reconsideration of matters once decided during the course of a single continuing lawsuit." *In re Pharmacy Benefit Managers Antitrust Litig.*, 582 F.3d 432, 439 (3d Cir. 2009) (internal quotation marks omitted). For example, the Court's prior ruling that photographs McGraw-Hill infringed in a different textbook prior to copyright registration are ineligible for statutory damages is the law of the case and should not be revisited. *See* Dkt. No. 173; Dkt. No. 233 at 3:11-6:25.

"Judicial admissions are binding for the purpose of the case in which the admissions are made," and "an admission of counsel during the course of trial is binding on his client," to the extent the admissions are "unequivocal" and involve "matters of fact which otherwise would require evidentiary proof." *Glick v. White Motor Co.*, 458 F.2d 1287, 1291 (3d Cir. 1972). For instance, GHPI's statement in a previous filing in this case that the parties' preferred vendor agreement, which was first entered in 2003, "remained in effect with minor modifications throughout the parties' dealings," constitutes a binding judicial admission. *See* Dkt. No. 105 ¶ 26 (declaration of GHPI President Sonia Wasco).

Question 2

McGraw-Hill agrees with the Court that GHPI's actual damages should be limited to the license fees GHPI would have charged McGraw-Hill for its use prior to the infringement, based on GHPI's pricing guides (for invoices issued prior to 2003) or the parties' preferred vendor agreement (for invoices issued in or after 2003, when the agreement went into effect). *See* Beall

Decl. Exs. 4, 7. Accordingly, McGraw-Hill declines GHPI's offer to stipulate to a multiplier of "2.2 times the ordinary license fee" for the remaining claims. Dkt. No. 272 at 12.

As this Court previously noted, actual damages under the Copyright Act "are limited to the fair market value of a license defendant would have obtained pre-infringement for use of the copyrighted work" and "do not include multipliers for unauthorized use, which courts have deemed impermissible penalties akin to punitive damages, which are not recoverable under § 504(b)." Dkt. No. 255 at 10-11; *see also Faulkner v. Nat'l Geographic Soc'y*, 576 F. Supp. 2d 609, 617-18 (S.D.N.Y. 2008) (actual damages awards cannot "rest[] on punitive considerations," and arguments for license-fee multipliers for works used without permission "have been rejected in every case to consider the question."); *Stehrenberger v. R.J. Reynolds Tobacco Holdings, Inc.*, 335 F. Supp. 2d 466, 468 (S.D.N.Y. 2004) ("The copyright law punishes and deters in other ways: by statutory (enhanced) damages for willful infringements, disgorgement of profits, and imposition of costs and attorneys fees – but it has no provision for 'multipliers' in the calculation of actual damages."). GHPI did not present any evidence during the bellwether trial that McGraw-Hill willingly paid a multiple of the ordinary license fee *prior* to infringement, nor will it be able to do so in a second trial on the remaining claims. *See generally* Dkt. Nos. 197, 218, 260. McGraw-Hill's occasional willingness to pay a multiplier *after* infringement occurred, in an effort to resolve a claim of infringement, is irrelevant to a proper calculation of actual damages. *See Faulkner*, 576 F. Supp. 2d at 617 ("Whatever the industry may do or believe as a matter of voluntary and consensual practice does not trump Congress' limitation of damages for infringement in this case to actual damages.").

Question 3

McGraw-Hill agrees that the Court charged the jury accurately regarding the parties' respective burdens in establishing profits attributable to infringement. Specifically, the Court properly instructed that GHPI had "the burden of proving Defendants' gross revenue," as well as "a causal nexus between the infringement and Defendants' gross revenue." Dkt. No. 234 at 176:9-11, 176:23-24; *see also William A. Graham Co. v. Haughey*, 646 F.3d 138, 141 (3d Cir. 2011) ("a plaintiff is first required to prove the defendants' gross revenues over the course of the relevant time period, and then to establish a causal nexus between the infringement and the profits sought"). McGraw-Hill then had "the burden of proving Defendants' expenses" and "the portion of the profit, if any, attributable to factors other than infringing the copyrighted work." Trial Tr. Day 6 at 177:3-4, 178:3-5; *see also William A. Graham Co. v. Haughey*, 568 F.3d 425, 442 (3d Cir. 2009) ("[T]he infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." (quoting 17 U.S.C. § 504(b))).

McGraw-Hill also agrees that the jury's award of profits implicitly rejected GHPI's positions that McGraw-Hill should not be entitled to any deductions for its expenses and that McGraw-Hill had not met its burden of proving the elements of profit attributable to factors other than the photos at issue. *See* Dkt. No. 234 at 102:12-107:11 (closing argument of GHPI's counsel); Beall Decl. Ex. 8.

Question 4

McGraw-Hill believes, based on the evidence presented in the bellwether trial and the jury verdict, that it is clearly "entitled to some apportionment as a matter of law." *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1174, 1177 (1st Cir. 1994). The jury's

profits award of \$28,477 was approximately 0.1% of the amount GHPI requested. *See* Dkt. No. 269; Beall Decl. Ex. 8. However, because the second trial will involve different books that earned different amounts of profit and contained different numbers of photographs than those at issue in the bellwether trial, and because there is no precise way to determine how the bellwether jury came up with its profits award to GHPI, this factual question must be left to the jury in a second trial.

Finally, McGraw-Hill does not believe that the jury in the second trial should be advised of the jury's verdict in the bellwether trial due to the potential for confusion and prejudice.

Dated: November 20, 2015

Respectfully submitted,

By: /s/ Christopher P. Beall
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CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of November, 2015, I caused the foregoing **DEFENDANTS' MEMORANDUM REGARDING LIABILITY AND DAMAGES FOR REMAINING CLAIMS**, and all supporting papers, to be served via ECF to the following counsel of record:

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