

COPYRIGHT IN A GLOBAL INFORMATION ECONOMY

2013 and 2014 PROFESSOR UPDATES

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2013 PROFESSOR UPDATE

Case and Note Material from the 2013 Supplement

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Part IV

Case and Note Updates

Chapter 1. Copyright in Context

C. The Role of International Treaties and Institutions

Page 41. Renumber Questions 4-5 as 5-6 and insert new Questions 3 and 4:

3. Over a four-year period, a group that evolved to include Australia, Canada, the European Union and its member countries, Japan, Korea, Mexico, Morocco, New Zealand, Singapore, Switzerland, and the United States negotiated the Anti-Counterfeiting Trade Agreement (ACTA), described by the office of the United States Trade Representative as the “highest-standard plurilateral agreement ever achieved concerning enforcement of intellectual property rights.” See <http://www.ustr.gov/acta>. Membership in the group was by invitation only with negotiations often conducted in secret, although leaked versions of drafts made their way to the Internet. ACTA sets forth rules in the areas of Civil Enforcement, Border Measures, Criminal Enforcement, and Enforcement of Intellectual Property Rights in the Digital Environment. For example, it requires that each party to the treaty adopt criminal penalties for willful infringement. It also permits a party to authorize compelled disclosure by online service providers of the identities of subscribers allegedly engaged in infringement. The agreement establishes the ACTA Committee, comprised of representatives from each party, to oversee its implementation and consider which other countries may be admitted to membership. The final text of ACTA can be found at http://www.mofa.go.jp/policy/economy/i_property/pdfs/acta1105_en.pdf.

ACTA requires ratification by six countries before it can come into effect; to date, only Japan has ratified it. Although 22 of 27 EU member states signed the treaty, ACTA sparked massive public anger across Europe. Under EU law, Parliament must endorse a treaty before it can go into effect. Only 39 members of the EU Parliament supported ACTA; 478 members opposed it and 146 abstained. ACTA also faced significant opposition in the U.S. It continues to receive expressions of support from the Executive branch, which has argued that ACTA is a sole executive agreement that does not require congressional consent.

4. The United States is also pursuing other multilateral agreements with significant chapters on intellectual property. The Trans-Pacific Partnership Agreement (TPP) is an international trade agreement being negotiated by Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and the United States. As was the case with ACTA, negotiations are taking place largely in secret. What do you think are the most significant costs of conducting negotiations over intellectual property protection in secret? Are there any long-term benefits to this strategy?

Chapter 2. Authors, Writings, and Progress

A. The Elements of Copyrightable Subject Matter

Page 70. After the Notes and Questions insert the following:

Chapman Kelley v. Chicago Park District
635 F.3d 290 (7th Cir. 2011)

SYKES, J.:

Chapman Kelley is a nationally recognized artist known for his representational paintings of landscapes and flowers—in particular, romantic floral and woodland interpretations set within ellipses. In 1984 he received permission from the Chicago Park District to install an ambitious wildflower display at the north end of Grant Park, a prominent public space in the heart of downtown Chicago. “Wildflower Works” was thereafter planted: two enormous elliptical flower beds, each nearly as big as a football field, featuring a variety of native wildflowers and edged with borders of gravel and steel.

Promoted as “living art,” Wildflower Works received critical and popular acclaim, and for a while Kelley and a group of volunteers tended the vast garden, pruning and replanting as needed. But by 2004 Wildflower Works had deteriorated, and the City’s goals for Grant Park had changed. So the Park District dramatically modified the garden, substantially reducing its size, reconfiguring the oval flower beds into rectangles, and changing some of the planting material.

Kelley sued the Park District for violating his “right of integrity” under the Visual Artists Rights Act of 1990 (“VARA”). . . . [T]he VARA claim, which is novel, . . . tests the boundaries of copyright law. . . . In brief, for certain types of visual art—paintings, drawings, prints, sculptures, and exhibition photographs—VARA confers upon the artist certain rights of attribution and integrity. The latter include the right of the artist to prevent, during his lifetime . . . any distortion or modification of his work that would be “prejudicial to his . . . honor or reputation,” and to recover for any such intentional distortion or modification undertaken

without his consent. *See* 17 U.S.C. §106A(a)(3)(A). . . . [You will learn more about VARA in Chapter 5 of the casebook. — Eds.]

The district court . . . rejected Kelley’s moral-rights claim . . .

[F]or reasons relating to copyright’s requirements of expressive authorship and fixation, a living garden like Wildflower Works is not copyrightable. . . .

II. DISCUSSION . . .

To merit copyright protection, Wildflower Works must be an “original work[] of authorship fixed in a[] tangible medium of expression . . . from which [it] can be perceived, reproduced, or otherwise communicated.” 17 U.S.C. §102(a). The district court held that although Wildflower Works was both a painting and a sculpture, it was ineligible for copyright because it lacked originality. There is a contradiction here. As we have explained, VARA supplements general copyright protection and applies only to artists who create the specific subcategories of art enumerated in the statute. VARA-eligible paintings and sculptures comprise a discrete subset of otherwise copyrightable pictorial and sculptural works; the statute designates these works of fine art as worthy of special protection. If a work is so lacking in originality that it cannot satisfy the basic requirements for copyright, then it can hardly qualify as a painting or sculpture eligible for *extra* protection under VARA. . . .

That point aside, the district court’s conclusion misunderstands the originality requirement. Originality is “the touchstone of copyright protection today,” an implicit constitutional and explicit statutory requirement. . . . Despite its centrality in our copyright regime, the threshold for originality is minimal. . . . The standard requires “only that the work was independently created by the author (as opposed to copied from other works), and that it possesses at least some minimal degree of creativity.” *Feist*, 499 U.S. at 345 (citation omitted). The “requisite level of creativity is extremely low; even a slight amount will suffice. The vast majority of works make the grade quite easily, as they possess some creative spark.” *Id.* (citation omitted).

The district court took the position that Wildflower Works was not original because Kelley was not “the first person to ever conceive of and express an arrangement of growing wildflowers in ellipse-shaped enclosed area[s].” *Kelley*, 2008 WL 4449886, at *6. This mistakenly equates originality with novelty; the law is clear that a work can be original even if it is not novel. . . . No one argues that Wildflower Works was copied; it plainly possesses more than a little creative spark. . . .

The real impediment to copyright here is not that Wildflower Works fails the test for originality (understood as “not copied” and “possessing some creativity”) but that a living garden lacks the kind of authorship and stable fixation normally required to support copyright. Unlike originality, authorship and fixation are *explicit* constitutional requirements; the Copyright Clause empowers Congress to secure for “authors” exclusive rights in their “writings.” U.S. CONST. art 1, §8, cl. 8; *see also* 2 PATRY §3:20 (2010) (“[T]he Constitution uses the terms ‘writings’ and ‘authors;’ ‘originality’ is not used.”); *id.* §3:22 (2010); 1 NIMMER §2.03[A]-[B] (2004). The originality requirement is implicit in these express limitations on the

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congressional copyright power. *See Feist*, 499 U.S. at 346, 111 S. Ct. 1282 (The constitutional reference to “authors” and “writings” “presuppose[s] a degree of originality.”). The Supreme Court has “repeatedly construed all three terms in relation to one another [or] perhaps has collapsed them into a single concept”; therefore, “[w]ritings are what authors create, but for one to be an author, the writing has to be original.” 2 PATRY §3:20.

“Without fixation,” moreover, “there cannot be a ‘writing.’” *Id.* §3:22. . . .

Finally, “authorship is an entirely human endeavor.” *Id.* §3:19 (2010). Authors of copyrightable works must be human; works owing their form to the forces of nature cannot be copyrighted. *Id.* §3:19 n.1; *see also* U.S. COPYRIGHT OFFICE, COMPENDIUM II: COPYRIGHT OFFICE PRACTICES §503.03(a) (“[A] work must be the product of human authorship” and not the forces of nature.) (1984); *id.* §202.02(b).

Recognizing copyright in Wildflower Works presses too hard on these basic principles. We fully accept that the artistic community might classify Kelley’s garden as a work of postmodern conceptual art. We acknowledge as well that copyright’s prerequisites of authorship and fixation are broadly defined. But the law must have some limits; not all conceptual art may be copyrighted. In the ordinary copyright case, authorship and fixation are not contested; most works presented for copyright are unambiguously authored and unambiguously fixed. But this is not an ordinary case. A living garden like Wildflower Works is neither “authored” nor “fixed” in the senses required for copyright. . . .

Simply put, gardens are planted and cultivated, not authored. A garden’s constituent elements are alive and inherently changeable, not fixed. Most of what we see and experience in a garden—the colors, shapes, textures, and scents of the plants—originates in nature, not in the mind of the gardener. At any given moment in time, a garden owes most of its form and appearance to natural forces, though the gardener who plants and tends it obviously assists. All this is true of Wildflower Works, even though it was designed and planted by an artist. . . .

Of course, a human “author”—whether an artist, a professional landscape designer, or an amateur backyard gardener—determines the initial arrangement of the plants in a garden. This is not the kind of authorship required for copyright. To the extent that seeds or seedlings can be considered a “medium of expression,” they originate in nature, and natural forces—not the intellect of the gardener—determine their form, growth, and appearance. Moreover, a garden is simply too changeable to satisfy the primary purpose of fixation; its appearance is too inherently variable to supply a baseline for determining questions of copyright creation and infringement. If a garden can qualify as a “work of authorship” sufficiently “embodied in a copy,” at what point has fixation occurred? When the garden is newly planted? When its first blossoms appear? When it is in full bloom? How—and at what point in time—is a court to determine whether infringing copying has occurred?

In contrast, when a landscape designer conceives of a plan for a garden and puts it in writing—records it in text, diagrams, or drawings on paper or on a digital-storage device—we can say that his intangible intellectual property has been embodied in a fixed and tangible “copy.” This writing is a sufficiently

permanent and stable copy of the designer's intellectual expression and is vulnerable to infringing copying, giving rise to the designer's right to claim copyright. The same cannot be said of a garden, which is not a fixed copy of the gardener's intellectual property. . . . Seeds and plants in a garden are naturally in a state of perpetual change; they germinate, grow, bloom, become dormant, and eventually die. This life cycle moves gradually, over days, weeks, and season to season, but the real barrier to copyright here is not *temporal* but *essential*. The essence of a garden is its vitality, not its fixedness. It may endure from season to season, but its nature is one of dynamic change. . . .

NOTES AND QUESTIONS

1. Do you agree with the court that Wildflower Works is not the proper subject matter of copyright? Does Wildflower Works have essential attributes that are fixed? Is the court's reasoning in *Kelley* consistent with the *Bleistein* non-discrimination principle?

2. Review Question 2, page 60 in the casebook. Are the items listed there more deserving of copyright protection than Wildflower Works? Why, or why not?

Page 88. In the Notes and Questions:

a. In Question 6 replace the first paragraph with the following:

Section 101 of the Patent Act defines patentable subject matter: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." Selden described a process for bookkeeping. Was Selden's system therefore patentable subject matter? The answer in Selden's time was probably no, because methods of doing business were not considered patentable. In *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), the Supreme Court held that despite the historical view that business methods were not the types of processes patent law was intended to protect, "the Patent Act leaves open the possibility that there are at least some processes that can be fairly described as business methods that are within patentable subject matter under §101." *Id.* at 3229.

b. Renumber current Question 6 as Question 7 and insert the following as Question 6:

6. *Morrissey v. Procter & Gamble Co.*, 379 F.2d 675 (1st Cir. 1967) (see Question 5 on pages 87-88 of the casebook), addressed the copyrightability of instructions

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for sweepstakes. What about instructions for a board game or games more generally? In *Tetris Holding, LLC v. Xio Interactive, Inc.*, the court noted, “[G]ame mechanics and [] rules are not entitled to protection, but courts have found expressive elements copyrightable, including game labels, design of game boards, playing cards and graphical works.” 863 F. Supp. 2d 394, 404 (D.N.J. 2012). Why are game mechanics and rules not copyrightable? How would you apply the *Xio* court’s statement to a video game like Tetris that features a number of increasingly difficult levels, each requiring the player to fit pieces together? *See id.* at 412-13 (holding copyrightable “design and movement of the playing pieces . . . the dimensions of the playing field, the display of ‘garbage’ lines, the appearance of ‘ghost’ . . . pieces, the display of the next piece to fall, the change in color of the pieces . . . and the appearance of squares . . . when the game is over”).

B. Who Is an Author?

Page 130. *At the end of Question 2 insert the following:*

Many software companies are start-ups that may not offer benefits or comply strictly with withholding or other requirements. Should that make a difference in determining whether a person is an employee or not? In *JustMed Inc. v. Byce*, 600 F.3d 1118 (9th Cir. 2010), the court addressed a situation in which:

JustMed and Byce had no written employment agreement. Byce never filled out an I-9 employment verification form or, until 2005, a W-4 tax withholding form. At most, [JustMed co-founder Joel] Just documented Byce’s salary and duties in a notebook that he kept, although the notation indicating when Byce started was not recorded until several months after Byce began working on the source code. Although Byce began full-time work on the source code in September 2004 and began accruing JustMed stock in October, he never received share certificates for the stock he received as compensation. Indeed, the company generally did not keep formal records other than a series of notebooks Just maintained to track conversations and events. While Byce worked for JustMed, the company did not issue Byce a W-2 wage statement form, withhold taxes, or pay workers’ compensation or unemployment insurance. Nor did the company provide benefits for Byce or report his employment to the state. Just testified that he did not think much of this was necessary because he thought of Byce as a JustMed “executive,” and because JustMed was modeled on prior startup technology businesses that Just had been involved with. . . .

Id. at 1121.

Would the *Aymes* court consider Byce an employee? The *JustMed* court did—it emphasized the duration of the relationship between the parties, the tasks Byce undertook, his salary, and the informal nature of a start-up business, and noted, “There is a danger . . . in relying on [benefits and tax treatment] too heavily, because they do not bear directly on the substance of the employment

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relationship — the right to control.” *Id.* at 1127-28. Do you agree with the *JustMed* court’s approach? Should providing an incentive for employers to comply with tax and employment laws be a concern of copyright law? Is the *JustMed* court’s approach consistent with the Restatement (Third) of Agency, described in Question 3 on page 130 of the casebook?

Chapter 3. Acquiring and Maintaining Copyright

A. Formalities

Page 152. Replace Question 3 with the following:

3. While the *MLK* court notes that distribution to the news media may qualify as a limited publication, in some circumstances such distribution may be used to bolster proof of a general publication. For example, from the 1920s through the 1970s, motion picture studios often created promotional materials for upcoming films, such as handouts and movie posters for display in theater lobbies and on telephone poles. These materials, not marked with a copyright notice, were sent to movie theaters under a “National Screen Agreement” that contained a provision requiring the return or destruction of all publicity materials. The studios also often sent these promotional materials to newspapers. Courts have held that “distribution of promotional photographs to theaters, even under an effective condition that the photographs be returned, is not sufficient to demonstrate a limited publication where the photographs are also distributed for use by newspapers and magazines.” *Warner Bros. Entm’t. v. X One X Prods.*, 644 F.3d 584, 594 (8th Cir. 2011) (citing *Milton H. Greene Archives, Inc. v. BPI Commc’ns, Inc.*, 378 F. Supp. 2d 1189, 1198-99 (C.D. Cal. 2005)). In *X One X Prods.*, the Eighth Circuit applied a test for limited publication formulated by the Ninth Circuit over half a century ago: “a limited publication [is] a distribution (1) to a definitely selected class of persons, (2) for a limited purpose, (3) without the right of reproduction, distribution, or sale.” *Id.* at 593 (citing *White v. Kimmell*, 193 F.2d 744, 746-47 (9th Cir. 1952)). Is this formulation of what constitutes a limited publication helpful?

Page 156. At the end of Note 6 add the following:

What happens when a work is first published on a publicly available website located in a foreign country? Under §412, publication of a work triggers an

obligation to comply with registration formalities if the copyright owner desires to preserve the ability to recover statutory damages and attorney's fees. Whether that publication takes place in the United States or abroad does not appear to matter. Under section §411, registration is also required in order to bring an infringement lawsuit, but only for "United States works." Because a work posted to a publicly available website would be available in the United States, is that work a "United States work" under §101 of the Copyright Act? Read the definition carefully. Do you need to know what constitutes "simultaneous" publication? Under the Berne Convention, a "work shall be considered as having been published simultaneously in several countries if it has been published in two or more countries within thirty days of its first publication." Berne Art. 3(4). *See also Kernal Records Oy v. Mosley*, 694 F.3d 1294 (11th Cir. 2012) (considering the §411 registration requirement in light of assertions of publication in Australia and on the Internet).

Pages 157-58. Replace the Note on Copyright's Default Rules and the Google Book Search Project and the Notes and Questions with the following:

Note on Copyright's Default Rules and the Google Book Search Project

When Congress adopted the first federal Copyright Act in 1790, it selected a regime that required affirmative steps on the copyright owner's part to obtain a federal copyright—publication with proper notice and registration. This required copyright owners to "opt in" in order to obtain protection. Today, protection is automatic on fixation of an original work of authorship. A copyright owner must take affirmative steps to "opt out" of such protection. This significant change in the copyright system results in many more works being subject to protection. At the same time, automatic protection can lead to difficulties in locating copyright owners in part because works are protected without a requirement of placing notice on them. Works whose owners cannot be located are referred to as "orphan works."

In 2004, Google announced the Google Book Search (GBS) project, the goal of which was to create a searchable database containing every book that it could find. Google would scan books into its system and allow users to search the resulting database for specific books or for books about topics of interest to them. The system would allow searches on the full text of included works, and would have the capability to return full-text search results. Google stated that it would accommodate copyright interests by designing its system to return full-text search results only for public domain works. For books still under copyright, searches would return only small excerpts unless the copyright owner entered an agreement with Google permitting Google to return additional text.

Chapter 3. Acquiring and Maintaining Copyright

A number of copyright owners, including authors and publishers, objected to the GBS project, arguing that inclusion of their works in the database violated their copyrights even when searches returned only small excerpts. In response, Google offered any copyright owner that objected to inclusion of its works the opportunity to have them excluded entirely from search results. Essentially, Google's offer adopted an opt-in approach to copyright protection: Copyright owners must affirmatively invoke copyright to prevent their works from being included.

After some fits and starts, the parties agreed to a complex settlement (the Amended Settlement Agreement ("ASA")) that would govern all those who, as of January 5, 2009, owned a U.S. copyright. The settlement approved Google's opt-in approach—Google could continue to digitize content and build a business model around that activity (by, e.g., offering subscriptions to its database, selling online access to books, and selling advertising). Google would pay 63 percent of its revenues into a fund that would be allocated according to a plan administered by a Registry. Copyright owners could request Google not to digitize their content or to remove it from the database.

The district court rejected the settlement on a number of grounds. The court found the settlement overbroad because it would release claims that were not a part of the suit by permitting Google to display not only snippets of copyrighted works but also full books. *The Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666, 678 (S.D.N.Y. 2011). The court also held that the ASA was inconsistent with rules governing class action settlements because by releasing future claims and setting up the revenue sharing system, the ASA was "an attempt to use the class action mechanism to implement forward-looking business arrangements that go far beyond the dispute before the Court in this litigation." *Id.* at 677 (citing a Statement of Interest filed with the court by the Department of Justice on Feb. 4, 2010). Moreover, the named plaintiffs did not adequately represent the interests of all class members, including academic and foreign authors and those who did not register their interests. *Id.* at 679-80.

The court found the opt-out nature of the ASA at odds with the fundamental purpose of copyright law. It stated:

A copyright owner's right to exclude others from using his property is fundamental and beyond dispute. . . . Under the ASA, however, if copyright owners sit back and do nothing, they lose their rights. . . . Absent class members who fail to opt out will be deemed to have released their rights even as to future infringing conduct.

. . . [I]t is incongruous with the purpose of the copyright laws to place the onus on copyright owners to come forward to protect their rights when Google copied their works without first seeking their permission.

Id. at 681-82.

With respect to orphan works, the court concluded that "the questions of who should be entrusted with guardianship over orphan books, under what terms, and with what safeguards are matters more appropriately decided by Congress than through an agreement among private, self-interested parties." *Id.* at 677. The court noted that its conclusion was buttressed by the contentions of some objectors to the

settlement who argued that the issue of orphan works is global in nature and nations are the “only actor[s] with sufficient legitimacy to make decisions that affect Copyright.” *Id.* at 685 (citing the declaration of France). It was also not clear to the court that the settlement’s treatment of orphan works was consistent with U.S treaty obligations. *See id.* at 685-86.

Finally, the court noted unease about the ASA’s potential effect on competition, a concern raised by parties as diverse as academic authors and Amazon and Microsoft. The objectors feared that because the ASA would allow Google to index orphan works without first seeking permission, there would be a “dangerous probability that only Google would have the ability to market to libraries and other institutions a comprehensive digital-book subscription. The seller of an incomplete database . . . cannot compete effectively.” *Id.* at 682. (citing a Statement of Interest filed by the Department of Justice earlier in the litigation). Academic authors expressed their desire to have orphan works available from a variety of sources. *See id.* at 679. Additionally, because the ASA would allow third parties to display snippets only under agreement with Google and would bar commercial use of information from the database in the absence of permission from the Registry and Google, objectors feared it would give Google control over the search market. *Id.* at 683.

As of this writing, the parties are continuing settlement efforts.

NOTES AND QUESTIONS

1. If you were a copyright owner, would you have agreed to the ASA? In the absence of a settlement, under what terms, if any, would you enter into an agreement with Google to digitize your work?

2. Do you think that the GBS project represents a good solution to the problem of access in a digital age? Do you agree with the court that it is inappropriate to memorialize future business arrangements in a class action settlement agreement? How else might those arrangements evolve? Would moving to an opt-out system address the court’s objections to the settlement?

3. Many of the books that Google scanned for the GBS project were obtained through agreements with major research libraries. In return for access to the physical copies, Google provided the libraries with digital copies of those books once the scans were completed. Several of those libraries then formed the HathiTrust. Among its goals, HathiTrust seeks to “build a reliable and increasingly comprehensive digital archive of library materials converted from print that is co-owned and managed by a number of academic institutions.” *See* http://www.hathitrust.org/mission_goals (last visited Apr. 8, 2012).

In September 2011, the HathiTrust announced its Orphan Works Project. Under that project, HathiTrust attempted to locate copyright holders by following a protocol it had established. If HathiTrust determined a work to be an “orphan,” it listed the work as such on its website for 90 days. If the copyright owner did not come forward, HathiTrust planned to permit access to the work online for library patrons.

Chapter 3. Acquiring and Maintaining Copyright

The Authors Guild sued HathiTrust for digitizing the copyrighted works of its members without permission as well as for digitizing orphan works. Following the filing of the lawsuit, the HathiTrust suspended its Orphan Works Project “because the procedures used to identify Orphan Works had apparently allowed many works to make their way onto the Orphan Works Lists in error.” *Authors Guild, Inc. v. HathiTrust*, __F. Supp. 2d__, 2012 WL 4808939 at *2 (S.D.N.Y.), *appeal docketed*, No. 12-04547 (2d Cir. Nov. 14, 2012). As a result of the suspension of the program, the district court dismissed that part of the lawsuit, finding it not ripe for adjudication. *Id.* Had the court addressed the merits, do you think the result should be different than in the GBS litigation because the digitization accrues to the benefit of libraries and their patrons rather than a private company?

4. In rejecting the ASA, the court also noted the objections of foreign nations to the settlement’s treatment of orphan works. The European Union has adopted a directive addressing the orphan works issue. *See* Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works. Article 3 requires that a “diligent search” be conducted before classifying a work as orphan; the directive defines permitted and authorized uses, including digitization, of orphan works in Articles 6 and 7. Only certain entities may engage in the specified uses. Those entities are “publicly accessible libraries, educational establishments and museums, as well as . . . archives, film or audio heritage institutions and public-service broadcasting organisations.” *Id.* at Art. 1(1). What are the consequences of permitting only those entities to engage in specified uses of orphan works? Is a legislative approach preferable to that of the ASA? Should the treatment of orphan works become an agenda item for Congress and/or multilateral trade agreements? We will revisit the orphan works issue in Note 9 on pages 175-76 of the casebook.

B. Duration

Pages 175-76. Delete Question 7 and renumber Questions 8-9 as Questions 7-8. After the Notes and Questions, insert the following:

Note on *Golan v. Holder* and the Status of the Public Domain

In 2012, the Supreme Court considered a constitutional challenge to §104A of the Copyright Act, which restores copyright to eligible foreign works. The lead plaintiff, Lawrence Golan, conducted a small college orchestra that, following the enactment of §104A, had to pay royalties to perform works by Shostakovich, Prokofiev, and others. Like the plaintiffs in *Eldred*, the *Golan* plaintiffs argued that the restoration provision unlawfully impinged upon the public domain, and invoked both Art. I, §8, cl. 8 and the First Amendment. By a 6-2 majority, the Court rejected both arguments.

In an opinion by Justice Ginsburg, the Court first observed that *Eldred* defeated Golan’s argument based on the constitutional reference to “limited Times,” Art. I, §8, cl. 8, because the copyright terms made available to restored foreign works had definite endpoints and thus remained limited. It rejected Golan’s argument that this construction of “limited Times” opened the door to abuse by Congress, reasoning that “[i]n aligning the United States with other nations bound by the Berne Convention, and thereby according equitable treatment to once disfavored foreign authors, Congress can hardly be charged with a design to move stealthily toward a regime of perpetual copyrights.” *Golan v. Holder*, 132 S. Ct. 873, 885 (2012). The Court noted that Congress had removed works from the public domain both in 1790, when it created the federal copyright system, and on subsequent occasions to restore protection to works that had lost it during the two world wars. “Installing a federal copyright system and ameliorating the interruptions of global war, it is true, presented Congress with extraordinary situations. Yet the TRIPS accord, leading the United States to comply in full measure with Berne, was also a signal event. . . . Given the authority we hold Congress has, we will not second-guess the political choice Congress made between leaving the public domain untouched and embracing Berne unstintingly.” *Id.* at 887.

The Court next rejected the argument that the term “progress of Science,” as used in Art. I, §8, cl. 8, concerns only the provision of incentives to create works initially. In the Court’s view, the grant of legislative authority also encompasses dissemination incentives, and Congress could reasonably have expected §104A to supply such incentives. “Full compliance with Berne, Congress had reason to believe, would expand the foreign markets available to U.S. authors and invigorate protection against piracy of U.S. works abroad, S. Rep. No. 103-412, pp. 224, 225 (1994); URAA Joint Hearing 291 (statement of Berman, RIAA); *id.*, at 244, 247 (statement of Smith, IIPA), thereby benefitting copyright-intensive industries stateside and inducing greater investment in the creative process.” *Golan*, 132 S. Ct. at 889.

Finally, as it had done in *Eldred*, the Court rejected Golan’s First Amendment challenge:

Given the “speech-protective purposes and safeguards” embraced by copyright law, we concluded in *Eldred* that there was no call for the heightened review petitioners sought in that case. We reach the same conclusion here. Section 514 leaves undisturbed the “idea/expression” distinction and the “fair use” defense. Moreover, Congress adopted measures to ease the transition from a national scheme to an international copyright regime: It deferred the date from which enforcement runs, and it cushioned the impact of restoration on “reliance parties” who exploited foreign works denied protection before §514 took effect. . . .

Petitioners attempt to distinguish their challenge from the one turned away in *Eldred*. First Amendment interests of a higher order are at stake here, petitioners say, because they — unlike their counterparts in *Eldred* — enjoyed “vested rights” in works that had already entered the public domain. The limited rights they retain under copyright law’s “built-in safeguards” are, in their view, no substitute for the unlimited use they enjoyed before §514’s enactment. . . .

However spun, these contentions depend on an argument we considered and rejected . . . namely, that the Constitution renders the public domain largely

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untouchable by Congress. . . . [N]othing in the historical record, congressional practice, or our own jurisprudence warrants exceptional First Amendment solicitude for copyrighted works that were once in the public domain. Neither this challenge nor that raised in *Eldred*, we stress, allege Congress transgressed a generally applicable First Amendment prohibition; we are not faced, for example, with copyright protection that hinges on the author's viewpoint. . . .

To copyright lawyers, the “vested rights” formulation might sound exactly backwards: Rights typically vest at the *outset* of copyright protection, in an author or rightholder. . . . Once the term of protection ends, the works do not re-vest in any rightholder. Instead, the works simply lapse into the public domain. . . . Anyone has free access to the public domain, but no one, after the copyright term has expired, acquires ownership rights in the once-protected works. . . .

Congress recurrently adjusts copyright law to protect categories of works once outside the law's compass. For example, Congress broke new ground when it extended copyright protection to foreign works in 1891; to dramatic works in 1856; to photographs and photographic negatives in 1865; to motion pictures in 1912; to fixed sound recordings in 1972; and to architectural works in 1990. . . . If Congress could grant protection to these works without hazarding heightened First Amendment scrutiny, then what free speech principle disarms it from protecting works prematurely cast into the public domain for reasons antithetical to the Berne Convention?

Section 514, we add, does not impose a blanket prohibition on public access. Petitioners protest that fair use and the idea/expression dichotomy “are plainly inadequate to protect the speech and expression rights that Section 514 took from petitioners, or . . . the public”—that is, “the unrestricted right to perform, copy, teach and distribute the *entire* work, for any reason.” . . .

But Congress has not put petitioners in this bind. The question here, as in *Eldred*, is whether would-be users must pay for their desired use of the author's expression, or else limit their exploitation to “fair use” of that work. Prokofiev's Peter and the Wolf could once be performed free of charge; after §514 the right to perform it must be obtained in the marketplace. This is the same marketplace, of course, that exists for the music of Prokofiev's U.S. contemporaries: works of Copland and Bernstein, for example, that enjoy copyright protection, but nevertheless appear regularly in the programs of U.S. concertgoers. . . .

Id. at 889-93.

In dissent, Justice Breyer characterized the question to be decided as “whether the Copyright Clause permits Congress seriously to exacerbate . . . [the ‘dissemination-restricting harms of copyright’] by taking works out of the public domain without a countervailing benefit.” *Id.* at 906. He concluded that the question was one appropriate for judicial resolution: “[U]nlike *Eldred* where the Court had to decide a complicated line-drawing question—when is a copyright term too long?—here an easily administrable standard is available—a standard that would require works that have already fallen into the public domain to stay there.” *Id.* Because the speech harms entailed in removing material from the public domain were significant, and because the evidence before Congress consisted principally of testimony “from the representatives of existing copyright holders, who hoped that passage of the statute would enable them to benefit from reciprocal treatment of

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American authors abroad,” in Justice Breyer’s view §104A merited some degree of heightened scrutiny. *Id.* at 907. He then argued that the asserted justifications for §104A were insufficient, and that careful attention to the historical record—including the legislative history of the Berne Convention Implementation Act of 1988—revealed “a virtually unbroken string of legislation preventing the withdrawal of works from the public domain.” *Id.* at 909. According to Justice Breyer, the majority’s argument about the importance of dissemination incentives

is the kind of argument that the Stationers’ Company might well have made and which the British Parliament rejected. . . . It is the kind of argument that could justify a legislature’s withdrawing from the public domain the works, say, of Hawthorne or of Swift or for that matter the King James Bible in order to encourage further publication of those works; and, it could even more easily justify similar action in the case of lesser known early works, perhaps those of the Venerable Bede. The Court has not, to my knowledge, previously accepted such a rationale—a rationale well removed from the special economic circumstances that surround the nonrepeatable costs of the initial creation of a “Writing.” And I fear that doing so would read the Copyright Clause as if it were a blank check made out in favor of those who are not themselves creators.

Id. at 910.

Justice Breyer was “willing to speculate, for argument’s sake, that the statute might indirectly encourage production of new works by making the United States’ place in the international copyright regime more secure.” Ultimately, however, he concluded that

I cannot find this argument sufficient to save the statute. For one thing, this is a dilemma of the Government’s own making. The United States obtained the benefits of Berne for many years despite its failure to enact a statute implementing Article 18. But in 1994, the United States and other nations signed the Agreement on Trade-Related Aspects of Intellectual Property Rights, which enabled signatories to use World Trade Organization dispute resolution mechanisms to complain about other members’ Berne Convention violations. But at that time the Government, although it successfully secured reservations protecting other special features of American copyright law, made no effort to secure a reservation permitting the United States to keep some or all restored works in the American public domain. And it made no effort to do so despite the fact that Article 18 explicitly authorizes countries to negotiate exceptions to the Article’s retroactivity principle.

Id. at 911. In Justice Breyer’s view, the constitutional values attached to the public domain required the U.S. government to do more to preserve it.

NOTES AND QUESTIONS

1. Justice Ginsburg’s majority opinion in *Golan* observes: “Neither the Copyright and Patent Clause nor the First Amendment, we hold, makes the public

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domain, in any and all cases, a territory that works may never exit.” 132 S. Ct. at 878. Does this reasoning have any limiting principle? Could Congress restore the copyrights in U.S. works that still would be copyrighted if their authors had satisfied then-applicable formalities? Could Congress restore the copyright in “The Star-Spangled Banner,” whose author, Francis Scott Key, died in 1843?

2. In rejecting petitioners’ requests for heightened First Amendment scrutiny, *Eldred* and *Golan* seem to establish a regime of First Amendment exceptionalism for copyright legislation. Should copyright legislation be exempted from heightened scrutiny so long as Congress leaves the idea/expression distinction and the fair use doctrine in place?

3. Article 18 of the Berne Convention provides:

(1) This Convention shall apply to all works which, at the moment of its coming into force, have not yet fallen into the public domain in the country of origin through the expiry of the term of protection.

(2) If, however, through the expiry of the term of protection which was previously granted, a work has fallen into the public domain of the country where protection is claimed, that work shall not be protected anew.

(3) The application of this principle shall be subject to any provisions contained in special conventions to that effect existing or to be concluded between countries of the Union. In the absence of such provisions, the respective countries shall determine, each in so far as it is concerned, the conditions of application of this principle.

(4) The preceding provisions shall also apply in the case of new accessions to the Union. . . .

The *Golan* majority argued that this language required restoration; the dissent argued that it preserved latitude for Congress to withhold restoration and extend copyright without regard to formalities on a prospective basis only. What do you read the treaty language to require? What do you think the drafting parties saw as the purpose of Art. 18(3)?

4. Why do you think the United States did not negotiate a reservation concerning Article 18 when it joined the Berne Convention? What about when it joined the TRIPS Agreement? How do you think the United States formulated its negotiating position with respect to Article 18?

C. Renewals and Terminations of Transfers

Page 187. Insert new Question 4:

4. The termination provisions in §203, for transfers executed on or after January 1, 1978, and §304, for transfers executed before that date, create an interesting problem in coverage: For transfers executed before January 1, 1978, but under which the subject works are not created until after that date, which set of

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termination rules should apply? The duration of copyright in such works is measured using the unitary term of the 1976 Copyright Act, not the dual term of the 1909 Act, making application of the §304 termination rules problematic. Should these transfers therefore be subject to §203 terminations after 35 years? Did the transferees have notice of that possibility? In 2011, the Copyright Office amended the relevant regulations to permit recordation of a §203 termination notice in these situations. 37 C.F.R. §201.10(f)(5) (2012). At the same time, the Office acknowledged that the availability of recordation was not meant to prejudice the question that ultimately would need to be decided by a court of competent jurisdiction. *See* U.S. Copyright Office, *Gap in Termination Provision*, 74 Fed. Reg. 32316, 32317 (June 6, 2011).

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B. Computer Software

Page 233. Renumber Question 6 as Question 7 and insert the following as Question 6:

6. Computer programming languages continue to evolve. Programming languages similar to the one at issue in *Computer Associates* are still in use, but newer programming languages are structured to be compatible with a wide array of hardware and software configurations. This is done using what are known as virtual machines: sets of programming routines and subroutines that interact directly with the specific hardware and software configuration of a type of device (e.g., computer, smartphone, etc.), thus insulating the application programs themselves from the specific details of the hardware and software environments in which those applications are actually running. Application programming interfaces (APIs) define doorways to the various preexisting functions contained in the virtual machine. The Java platform is structured in this way. A programmer who wants to write a Java program to run on Apple's Safari browser need not work directly with the code for Safari, but instead can write the program to run using the Java Safari API.

The Java API is organized into packages that are broken into classes (programs) and methods (subroutines), with specified names for each. To achieve interoperability using a Java virtual machine, a new Java program must use the names of the classes and methods to implement the functionality of needed programs and subroutines. In other words, to carry out a particular discrete function the programming statements (called method specifications in Java) *must* be identical, because under the Java programming rules those statements will reference, by name, the specific classes and methods (as well as the inputs, outputs, and parameters) that implement that discrete function. And if the provider of a new operating system, such as Google's Android, wants to enable interoperability with existing Java application programs, it must employ Java APIs that

incorporate the identical class and method names, even if the lines of code within the classes and methods are different.

How should these changes in the nature of computer programming languages affect the copyrightability analysis of a program's non-literal elements? One view is that many more elements should be "filtered out." In *Oracle America, Inc. v. Google, Inc.*, 872 F. Supp. 2d 974, 998 (N.D. Cal. 2012), *appeal docketed*, Nos. 2013-1021, 2013-1022 (Fed. Cir. Oct. 3, 2012), the court adopted this perspective. Relying on the merger doctrine as well as the distinction between patent protection and copyright protection, the court concluded that "no matter how creative or imaginative a Java method specification may be, the entire world is entitled to use the same method specification (inputs, outputs, parameters) so long as the line-by-line implementations are different. . . ." *Id.* at 998.

Another view of the Java programming language is that the groupings of method specifications resemble a taxonomy, which cases like *American Dental Association v. Delta Dental*, pages 94-98 in the casebook, have ruled to be copyrightable. In the *Oracle* case the court concluded that:

while the overall scheme of file name organization resembles a taxonomy, it is also a command structure for a system or method of operation of the application programming interface. . . . That a system or method of operation has thousands of commands arranged in a creative taxonomy does not change its character as a method of operation. Yes, it is creative. Yes, it is original. Yes, it resembles a taxonomy. But it is nevertheless a command structure, a system or method of operation—a long hierarchy of over six thousand commands to carry out pre-assigned functions. For that reason, it cannot receive copyright protection—patent protection perhaps—but not copyright protection.

Id. at 999-1000.

Do you agree with the *Oracle* court's reasoning? What approach to the copyrightability of non-literal elements of computer programs do you prefer, and why? Both parties have appealed the lower court's decision. *Oracle America, Inc. v. Google, Inc.*, 872 F. Supp. 2d 974, 998 (N.D. Cal. 2012), *appeal docketed*, Nos. 2013-1021, 2013-1022 (Fed. Cir. Oct. 3, 2012).

Pages 242-43. *In the Note on Patent Protection for Software, replace the third full paragraph with the following:*

In *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), the Supreme Court held a process for hedging risk in the energy industry unpatentable because it was an abstract idea. *Id.* at 3231. The Court further held, however, that a process may be eligible for patent protection even if it is not tied to a machine and it does not transform an article to a different state or thing (the so-called machine-or-transformation approach to identifying what types of processes can be patented). *Id.* at 3226-27. The Court reasoned that the machine-or-transformation test would create uncertainty as to the patentability of software, but also indicated that it was "not

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commenting on the patentability of any particular invention, let alone holding that any of the above-mentioned technologies from the Information Age[, including software,] should or should not receive patent protection.” *Id.* at 3227-28. Thus, the precise contours of patent protection for software remain unclear.

Page 245. *At the end of Question 2 insert the following:*

Should the increased availability and scope of patent protection for non-literal elements of computer programs affect copyright protection for such elements? Specifically, if the structure, sequence and organization of a program are protectable under patent law, should copyright protection also be available for those elements? In *Oracle America, Inc. v. Google, Inc.*, 872 F. Supp. 2d 974 (N.D. Cal. 2012), the court addressed the copyrightability of the structure, sequence, and organization of a collection of 37 application programming interface (API) packages in the Java language. The court concluded that:

[i]nventing a new method to deliver a new output can be creative, even inventive, including the choices of inputs needed and outputs returned. . . . But such inventions—at the concept and functionality level—are protectable only under the Patent Act. The Patent and Trademark Office examines such inventions for validity and if the patent is allowed, it lasts for twenty years. Based on a single implementation, Oracle would bypass this entire patent scheme and claim ownership over any and all ways to carry out methods for 95 years—without any vetting by the Copyright Office of the type required for patents.

Id. at 998.

D. Characters

Pages 258-64. *Replace the cases and Notes and Questions with the following:*

**Warner Brothers Entertainment v. X One X
Productions
644 F.3d 584 (8th Cir. 2011)**

GRUENDER, J.: . . .

Warner Bros. asserts ownership of registered copyrights to the 1939 Metro Goldwyn-Mayer (“MGM”) films *The Wizard of Oz* and *Gone with the Wind*. Before the films were completed and copyrighted, publicity materials featuring images of the actors in costume posed on the film sets were distributed to theaters and published in newspapers and magazines. The images in these publicity materials

were not drawn from the film footage that was used in the films; rather, they were created independently by still photographers and artists before or during production of the films. The publicity materials, such as movie posters, lobby cards, still photographs, and press books . . . did not comply with the copyright notice requirements of the 1909 Copyright Act. Warner Bros. also asserts ownership of registered copyrights to various animated Tom & Jerry short films that debuted between 1940 and 1957. Movie posters and lobby cards for these short films also were distributed without the requisite copyright notice. As a result, Warner Bros. concedes that it has no registered federal copyrights in the publicity materials themselves.

[Defendant] AVELA has acquired restored versions of the movie posters and lobby cards for *The Wizard of Oz*, *Gone with the Wind*, and several Tom & Jerry short films. From these publicity materials, AVELA has extracted the images of famous characters from the films, including Dorothy, Tin Man, Cowardly Lion, and Scarecrow from *The Wizard of Oz*; Scarlett O'Hara and Rhett Butler from *Gone with the Wind*; and the eponymous Tom and Jerry. AVELA licenses the extracted images for use on items such as shirts, lunch boxes, music box lids, and playing cards, and as models for three-dimensional figurines such as statuettes, busts, figurines inside water globes, and action figures. In many cases, AVELA has modified the images, such as by adding a character's signature phrase from the movie to an image modeled on that character's publicity photograph. In other cases, AVELA has combined images extracted from different items of publicity material into a single product. In one example, a publicity photograph of Dorothy posed with Scarecrow serves as the model for a statuette and another publicity photograph of the "yellow brick road" serves as the model for the base of that same statuette. . . .

[The district court issued a permanent injunction finding that the extracted images infringed the copyrights in the films. AVELA appealed.]

II. DISCUSSION . . .

C. *Copyright Infringement and the Right to Make Use of Public Domain Materials . . .*

Warner Bros. does not challenge the products that are exact reproductions of an entire item of publicity material. Instead, Warner Bros. contends that AVELA has extracted images from the public domain materials and used them in new ways that infringe the copyrights in the associated films. AVELA admits that it has used the images in new ways (and indeed has applied for its own copyrights for such derivative works), but it counters that there is no limitation on the public's right to modify or make new works from public domain materials.

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AVELA is correct that, as a general proposition, the public is not limited solely to making exact replicas of public domain materials, but rather is free to use public domain materials in new ways (*i.e.*, to make derivative works by adding to and recombining elements of the public domain materials). Nevertheless, this freedom to make new works based on public domain materials ends where the resulting derivative work comes into conflict with a valid copyright. . . . [I]f material related to certain characters is in the public domain, but later works covered by copyright add new aspects to those characters, a work developed from the public domain material infringes the copyrights in the later works to the extent that it incorporates aspects of the characters developed solely in those later works. Therefore, we must determine (1) the apparent scope of the copyrights in the later works (here, the films), (2) the scope of the material dedicated to the public in the publicity materials, which correspondingly limits the scope of the film copyrights, and (3) the scope into which each of AVELA's images falls. If an AVELA work falls solely within the scope of the material dedicated to the public, there can be no infringement liability under the film copyrights. On the other hand, if some portion of an AVELA work falls outside the scope of the material dedicated to the public, but within the scope of the film copyrights, AVELA is liable for infringement.

1. *The Scope of the Film Copyrights*

It is clear that when cartoons or movies are copyrighted, a component of that copyright protection extends to the characters themselves, to the extent that such characters are sufficiently distinctive. *See, e.g., Gaiman v. McFarlane*, 360 F.3d 644, 661 (7th Cir. 2004) (“[A] stock character, once he was drawn and named and given speech [in a comic book series] . . . became sufficiently distinctive to be copyrightable.”); *Metro-Goldwyn-Mayer, Inc. v. Am. Honda Motor Co.*, 900 F. Supp. 1287, 1296 (C.D. Cal. 1995) (holding that plaintiffs’ copyrighted James Bond films established a copyright in the character of James Bond). The district court thoroughly and accurately applied this principle to the instant case, and the parties do not contest the district court’s analysis. We agree with the district court’s conclusion that Dorothy, Tin Man, Cowardly Lion, and Scarecrow from *The Wizard of Oz*, Scarlett O’Hara and Rhett Butler from *Gone with the Wind*, and Tom and Jerry each exhibit “consistent, widely identifiable traits” in the films that are sufficiently distinctive to merit character protection under the respective film copyrights.

AVELA correctly points out that the scope of copyright protection for the characters in the films *The Wizard of Oz* and *Gone with the Wind* is limited to the increments of character expression in the films that go beyond the character expression in the books on which they were based. While true, this has little practical effect in the instant case, as a book’s description of a character generally anticipates very little of the expression of the character in film:

The reason is the difference between literary and graphic expression. The description of a character in prose leaves much to the imagination, even when the

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description is detailed—as in Dashiell Hammett’s description of Sam Spade’s physical appearance in the first paragraph of *The Maltese Falcon*. “Samuel Spade’s jaw was long and bony, his chin a jutting v under the more flexible v of his mouth. His nostrils curved back to make another, smaller, v. His yellow-grey eyes were horizontal. The v motif was picked up again by thickish brows rising outward from twin creases above a hooked nose, and his pale brown hair grew down—from high flat temples—in a point on his forehead. He looked rather pleasantly like a blond satan.” Even after all this, one hardly knows what Sam Spade looked like. But everyone knows what Humphrey Bogart looked like.

Gaiman, 360 F.3d at 660-61.

The film actors’ portrayals of the characters at issue here appear to rely upon elements of expression far beyond the dialogue and descriptions in the books. AVELA has identified no instance in which the distinctive mannerisms, facial expressions, voice, or speech patterns of a film character are anticipated in the corresponding book by a literary description that evokes, to any significant extent, what the actor portrayed. Put more simply, there is no evidence that one would be able to visualize the distinctive details of, for example, Clark Gable’s performance *before* watching the movie *Gone with the Wind*, even if one had read the book beforehand. At the very least, the scope of the film copyrights covers all visual depictions of the film characters at issue, except for any aspects of the characters that were injected into the public domain by the publicity materials.

2. *The Scope of the Material Dedicated to the Public*

AVELA contends that the injection of the publicity materials into the public domain simultaneously injected the film characters themselves into the public domain. To the extent that copyright-eligible aspects of a character are injected into the public domain, the character protection under the corresponding film copyrights must be limited accordingly.

As an initial matter, we reject AVELA’s contention that the publicity materials placed the entirety of the film characters at issue into the public domain. The isolated still *images* included in the publicity materials cannot anticipate the full range of distinctive speech, movement, demeanor, and other personality traits that combine to establish a copyrightable character. *See, e.g., Gaiman*, 360 F.3d at 660 (holding that the character’s “age, obviously phony title (‘Count’), what he knows and says, [and] his name” combine with his visual appearance “to create a distinctive character”); *Metro-Goldwyn-Mayer*, 900 F. Supp. at 1296 (citing “various character traits that are specific to Bond—i.e. his cold-bloodedness; his overt sexuality; his love of martinis ‘shaken, not stirred’; his marksmanship; his ‘license to kill’ and use of guns; his physical strength; [and] his sophistication,” rather than his visual appearance alone, as establishing the copyrightability of the character). Nevertheless, the publicity materials could have placed some aspects of each character’s visual appearance into the public domain. . . .

In the instant case, . . . the publicity materials here reveal nothing of each film character’s signature traits or mannerisms. At most, the publicity materials could

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have injected some of the purely visual characteristics of each film character into the public domain. . . .

Because we must rely solely on visual characteristics, the individuals shown in the publicity materials establish “characters” for copyright purposes only if they display “consistent, widely identifiable” visual characteristics. [*Walker v. Viacom Int'l, Inc.*, 2008 WL 2050964, at *5-6 (N.D. Cal. May 13, 2008)] is instructive in this regard. There, the plaintiff asserted his copyright in a comic strip entitled “Mr. Bob Spongee, The Unemployed Sponge” against the producers of the animated television series “SpongeBob SquarePants.” [*Id.*] at *1. The plaintiff had created sponge dolls based on his comic strip and placed advertisements in a newspaper. *Id.* Because these materials revealed “little to no information about Mr. Bob Spongee’s personality or character traits,” *id.* at *5, the court could look only to his visual appearance for distinctiveness. The court held that in such a situation, a consistent visual appearance throughout the materials was a prerequisite for character protection. *See id.* at *5-6. Because of variations in the sponge’s clothing, color, eye and nose shape, and hair among the comic strip, dolls, and advertisements, the plaintiff’s copyright did not create *any* character protection. *Id.* at *6.⁸

Therefore, we must determine if any individual is depicted with consistent, distinctive visual characteristics throughout the various publicity materials. If so, those consistent visual characteristics define the “copyrightable elements” of that film character, which were injected into the public domain by the publicity materials. If not, then there are no visual aspects of the film character in the public domain, apart from the publicity material images themselves.

With respect to the cartoon characters Tom and Jerry, we note that on the spectrum of character copyrightability, the category of cartoon characters often is cited as the paradigm of distinctiveness. . . . [T]he visual characteristics of Tom and Jerry in the first poster, for *Puss Gets the Boot* (released in 1940), are quite different from the characters popularly recognized as Tom and Jerry today. In addition, the first poster by itself reveals no distinctive character or visual traits, but only visual characteristics typical to cats and mice. As a result, the first poster is essentially a generic cat-and-mouse cartoon drawing that cannot establish independently copyrightable characters.

Meanwhile, the copyrighted short film that immediately followed the first poster revealed Tom and Jerry’s character traits and signature antagonistic relationship. With the benefit of these strong character traits, the first short film *was* sufficient to establish the copyrightable elements of the Tom and Jerry characters as depicted therein. In such a situation, each subsequent movie poster could inject into the public domain only the increments of expression, if any, that the movie

8. Of course, the presence of distinctive qualities apart from visual appearance can diminish or even negate the need for consistent visual appearance. *See, e.g., Metro-Goldwyn-Mayer*, 900 F. Supp. at 1296 (holding that variations in the visual appearance of James Bond did not negate character protection in light of his many distinctive and consistently displayed character traits; the fact that “many actors can play Bond is a testament to the fact that Bond is a unique character whose specific qualities remain constant despite the change in actors”).

poster itself added to the already-copyrighted characters from previously released Tom & Jerry films. See *Russell v. Price*, 612 F.2d 1123, 1128 (9th Cir. 1979) (“[A]lthough the derivative work may enter the public domain, the matter contained therein which derives from a work still covered by statutory copyright is not dedicated to the public.”). Because they “derive[] from a work still covered by statutory copyright,” the underlying characters of Tom and Jerry are not in the public domain until the copyrights in the Tom & Jerry short films begin to expire.

In contrast to Tom & Jerry, the record is clear that a veritable blitz of publicity materials for *Gone with the Wind* and *The Wizard of Oz* was distributed prior to the publication of each film. However, with respect to *Gone with the Wind*, the publicity material images are far from the cartoon-character end of the spectrum of character copyrightability. There is nothing consistent and distinctive about the publicity material images of Vivian Leigh as Scarlett O’Hara and Clark Gable as Rhett Butler. They certainly lack any cartoonishly unique physical attributes, and neither one is shown in a consistent, unique outfit and hairstyle. As a result, the district court correctly held that the publicity material images for *Gone with the Wind* are no more than “pictures of the actors in costume.” Indeed, if the publicity material images from *Gone with the Wind* were sufficient to inject all visual depictions of the characters Scarlett O’Hara and Rhett Butler into the public domain, then almost *any* image of Vivian Leigh or Clark Gable would be sufficient to do so as well. Therefore, the only images in the public domain are the precise images in the publicity materials for *Gone with the Wind*.

The characters in *The Wizard of Oz* lie closer to the cartoon-character end of the spectrum. There are many stylized aspects to the visual appearances of Scarecrow, Tin Man, and Cowardly Lion, and they perhaps might be considered as live-action representations of cartoon characters. Dorothy, while not so thoroughly stylized, wears a somewhat distinctive costume and hairstyle. However, a close examination of the record reveals that these potentially distinctive visual features do not appear in a consistent fashion throughout the publicity materials. For example, in the publicity materials, Judy Garland as Dorothy sometimes wears a red dress and bow and black slippers, rather than the distinctive blue dress and bow and ruby slippers of the film, and her hairstyle also varies. From image to image, Scarecrow’s costume color ranges from yellow to blue to black, Cowardly Lion’s from light yellow to very dark brown, and Tin Man’s from shiny silver to a dull blue-gray.⁹ Moreover, there are publicity material images in which other stylized elements of the characters’ costumes and faces are significantly different from the look used in the film. For example, in some images Tin Man’s face appears metallic, and in others it appears flesh-colored. If the publicity material images for *The Wizard of Oz* were held to establish the visual elements of copyrightable characters, their scope would encompass almost any character who wears

9. The record shows that these extreme color variations resulted from the practice of using artists to hand-color still photographs originally taken in black-and-white (because color photography was relatively new and expensive). The coloration artists often were left to their own discretion in choosing colors for each photograph.

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a scarecrow or lion costume, and a wide range of little girl and silver robotic costumes as well, creating an unacceptable result:

If a drunken old bum were a copyrightable character, so would be a drunken suburban housewife, a gesticulating Frenchman, a fire-breathing dragon, a talking cat, a Prussian officer who wears a monocle and clicks his heels, a masked magician, and, in Learned Hand's memorable paraphrase of *Twelfth Night*, "a riotous knight who kept wassail to the discomfort of the household, or a vain and foppish steward who became amorous of his mistress." *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930). It would be difficult to write successful works of fiction without negotiating for dozens or hundreds of copyright licenses, even though such stereotyped characters are the products not of the creative imagination but of simple observation of the human comedy.

Gaiman, 360 F.3d at 660. While the overly broad characters would be in the public domain rather than copyrighted in the instant case, the analysis of the copyrightability of a character must be the same in either case.

We conclude that the characters' visual appearances in the publicity materials for *The Wizard of Oz* do not present the requisite consistency to establish any "copyrightable elements" of the film characters' visual appearances. Therefore, once again, the only images in the public domain are the precise images in the publicity materials for *The Wizard of Oz*.

3. AVELA's Use of the Public Domain Images

We held above that no visual aspects of the film characters in *Gone with the Wind* and *The Wizard of Oz* are in the public domain, apart from the images in the publicity materials themselves. Therefore, any visual representation that is recognizable as a copyrightable character from one of these films, other than a faithful copy of a public domain image, has copied "original elements" from the corresponding film. We must examine the AVELA products based on *The Wizard of Oz* and *Gone with the Wind* to determine which ones display "increments of expression" of the film characters beyond the "pictures of the actors in costume" in the publicity materials. The AVELA products in the record can be analyzed in three categories.

The first category comprises AVELA products that each reproduce one image from an item of publicity material as an identical two-dimensional image. While Warner Bros. does not challenge the reproduction of movie "posters as posters (or lobby cards as lobby cards)," it does challenge the reproduction of a single image drawn from a movie poster or lobby card on T-shirts, lunch boxes, music box lids, or playing cards, for example. We read the district court's permanent injunction to follow Warner Bros.'s distinction, forbidding all uses except the reproduction of items of publicity material "in their entirety." However, no reasonable jury could find that merely printing a public domain image on a new type of surface (such as a T-shirt or playing card), instead of the original surface (movie poster paper or lobby card paper), adds an increment of expression of the film character to the

image.¹⁰ Similarly, Warner Bros. presents no reasoned argument as to why the reproduction of one smaller contiguous portion of an image from an item of publicity material, rather than the entirety of the image from that item, would add an increment of expression of the film character. As a result, products that reproduce in two dimensions any one portion of an image from any one item of publicity material, without more, do not infringe Warner Bros.'s copyright. For products in this category, we reverse the grant of summary judgment to Warner Bros. with respect to *The Wizard of Oz* and *Gone with the Wind* and direct the entry of summary judgment for AVELA. We also vacate the permanent injunction to the extent it applies to products in this category.

The second category comprises AVELA products that each juxtapose an image extracted from an item of publicity material with another image extracted from elsewhere in the publicity materials, or with a printed phrase from the book underlying the subject film, to create a new composite work. Even if we assume that each composite work is composed entirely of faithful extracts from public domain materials, the new arrangement of the extracts in the composite work is a new increment of expression that evokes the film character in a way the individual items of public domain material did not. For example, the printed phrase "There is no place like home" from the book *The Wizard of Oz* and a publicity material image of Judy Garland as Dorothy, viewed side by side in uncombined form, are still two separate works, one literary and one a picture of an actor in costume. In contrast, a T-shirt printed with the phrase "There's no place like home" along with the same image of Judy Garland as Dorothy is a new single work that evokes the film character of Dorothy much more strongly than the two separate works. Because "the increments of expression added [to the public domain materials] by the films are protectable," one making a new work from public domain materials infringes "if he copies these protectable increments." *Silverman [v. CBS Inc.]*, 870 F.2d [40,] 50 [(2d Cir. 1989)]. Like the juxtaposition of an image and a phrase, a composite work combining two or more separate public-domain images (such as Judy Garland as Dorothy combined with an image of the Emerald City) also adds a new increment of expression of the film character that was not present in the separate images. Accordingly, products combining extracts from the public domain materials in a new arrangement infringe the copyright in the corresponding film. We affirm the district court's grant of summary judgment to Warner Bros. with respect to *The Wizard of Oz* and *Gone with the Wind* and the permanent injunction for this category of products.

The third category comprises AVELA products that each extend an image extracted from an item of publicity material into three dimensions (such as statuettes inside water globes, figurines, action figures, and busts). Many of these products also include a juxtaposition of multiple extracts from the public domain materials, and such composite works infringe for the reasons explained in the preceding paragraph. Even where the product extends a single two-dimensional

10. This principle would not apply if the new surface itself is independently evocative of the film character. For example, reproducing a publicity image of Judy Garland as Dorothy on a ruby slipper might well infringe the film copyright for *The Wizard of Oz*.

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public domain image into three dimensions, a three-dimensional rendering must add new visual details regarding depth to the underlying two-dimensional image. (As a simple illustration, it is impossible to determine the length of someone's nose from a picture if they are looking directly at the camera.) Of course, even more visual details must be added if the two-dimensional image is transformed into a fully realized figure, as most three-dimensional AVELA products are. (Otherwise, for example, the back of each figurine character would be blank.) Much of this visual information is available in the feature-length films, where the characters are observable from a multitude of viewing angles.

In depositions, the AVELA licensees who developed the action figures, figurines, water globes, and busts made no pretense that they were not guided by their knowledge of the films. Instead, they indicated that, while each three-dimensional design began with an image from the public domain photo stills and movie posters, the goal was to create a product recognizable as the film character. The only reasonable inference is that the details added to establish perspective and full realization were chosen to be consistent with the film characters. As a result, the addition of visual details to each two-dimensional public domain image to create the three-dimensional product makes impermissible use of the "further delineation of the characters contained in" the feature-length films. See *Silverman*, 870 F.2d at 50. Accordingly, we also affirm the district court's grant of summary judgment to Warner Bros. with respect to *The Wizard of Oz* and *Gone with the Wind* and the permanent injunction for this category of products. . . .

NOTES AND QUESTIONS

1. Under what §102 category of work did the *X One X Prods.* court and the cases it cited find the plaintiffs' characters copyrightable? Were they literary works? Pictorial or graphic works? Audiovisual works? Does it matter?

2. Determining which characters are independently copyrightable is difficult. When does a character transform from a mere idea into expression? As is often the case, the two extremes are relatively easy to identify. Minor characters or stock characters — those necessary to tell a story of a certain time period or genre — are not protectable. On the other hand, copyright law protects highly delineated characters that are central to a story. The middle ground is where most of the disputes over copyrightability occur. Does the opinion in *X One X Prods.* provide sufficient guidance to assist in evaluating whether a character is separately protected?

In the *Sam Spade* case, mentioned in *X One X Prods.*, the Second Circuit held that to be separately protectable a character had to constitute the "story being told." The case involved a claim by Warner Brothers against Dashiell Hammett, the author of the mystery detective story entitled "The Maltese Falcon." *Warner Bros. Pictures, Inc. v. Columbia Broadcasting Sys., Inc.*, 216 F.2d 945, 949-50 (9th Cir. 1954), *cert. denied*, 348 U.S. 971 (1955). Hammett had previously assigned the copyright in the work to Warner Brothers, which made the famous movie of the same name starring Humphrey Bogart and Mary Astor. When Hammett used the

characters from “The Maltese Falcon” in subsequent works and authorized others to do so, Warner Brothers sued for infringement. The court noted that “[i]f Congress had intended that the sale of the right to publish a copyrighted story would foreclose the author’s use of its characters in subsequent works for the life of the copyright, it would seem Congress would have made specific provision therefor.” *Id.* at 950. It was in this context that the court employed the requirement that the characters constitute the “story being told” in order to be a part of the copyright that was conveyed. Should the factual context influence which standard a court employs? Do you think the factual context of the *X One X Prods.* case influenced the standard the court adopted? The “story being told” test for copyright protection of characters significantly limits which characters will qualify for protection. Few courts have employed this stringent standard.

3. Most of the publicity material in *X One X Prods.* was published prior to the release of the films. The Tom & Jerry publicity materials were different. Other than the first poster, the materials all were created and published after Tom and Jerry had appeared in films still subject to copyright protection. The court noted the case of *Russell v. Price*, 612 F.2d 1123, 1128 (9th Cir. 1979), in which the Ninth Circuit held that although the film “Pygmalion” had entered the public domain, because the play on which it was based had not, the copyright owners of the play could enjoin further distribution of the film. Should Warner Brothers be able to prevent the reproduction of the public domain posters on the theory that the posters were derivative works of the movies? Noting that Warner Brothers had not challenged the reproduction of the later Tom & Jerry movie “posters as posters,” the court concluded that AVELA was “authorized to make faithful reproductions, but not to reproduce those movie poster images on other products or to make derivative works based on Tom and Jerry.” *X One X Prods.*, 644 F.3d at 604. Does the court’s resolution make sense given the various copyright interests at stake? Had Warner Brothers challenged the reproduction of the movie posters as posters, how should the court have resolved that claim?

4. A character in a movie takes on the physical attributes of the actor portraying the character. Are those attributes then part of the character? Often the issue of copyright ownership is handled through a contract providing that the character was a work for hire (permissible under the second prong of the definition of works made for hire in §101 as a contribution to a motion picture or audiovisual work). In the absence of a contract, who is the “author” of such a character? In addition to copyright, in these situations there may be issues concerning the actor’s rights of publicity. We consider the intersection of copyright and the rights of publicity on pages 265-66 of the casebook and the related preemption issues in Chapter 10.

5. How important is context to a character? Consider the court’s statement in footnote 10 that if a public domain image of Dorothy were reproduced on a ruby slipper that might, in itself, constitute an infringement of the character as embodied in the film. Should it? If a James Bond-like character were hosting a cooking show, with no bad guys jumping out of helicopters to steal the filet mignon, would that constitute infringement of the James Bond character? How would you know it is “James Bond” hosting the show? Can we say that setting and

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other accompanying characters, even ones so undelineated as to be just “bad guys,” are some of the attributes that contribute to the copyrightability of literary characters and thus must be present in defendant’s work in order to find infringement?

How about graphically depicted characters? If Mickey Mouse is speeding around in a spaceship with three unsightly one-eyed slimy alien creatures, will we still recognize Mickey and find Disney’s copyright infringed? Does that mean graphically depicted characters do not need the same level of, or for that matter any, contextual support for the copyrights to be infringed?

6. In the late 1990s and early 2000s, online real-time interactive role-playing games such as Everquest and World of Warcraft became increasingly popular. In these games, individuals begin their life in a fantasy world by selecting a character type, for example, a sorcerer or a warrior, and as they play, their character takes on new attributes based on experiences and other actions in the fantasy world. Entrepreneurial gamers used online auction sites such as eBay to sell their characters, some of which they may have spent hundreds of hours developing. Sony Online Entertainment, the copyright owner of the Everquest game, asked eBay to halt those sales, asserting that the sale of the characters violated its copyrights, among other rights. eBay complied with the request. *See* Monty Phan, *Defining Their Own Reality*, *Newsday*, Feb. 13, 2001, at C08. Do you think Sony’s copyright claim was a strong one? Why would eBay agree to halt those sales?

Oracle America, Inc. v. Google Inc.

750 F.3d 1339 (Fed. Cir. 2014)

O'MALLEY, J:

BACKGROUND

A. The Technology

Sun[, the predecessor of Oracle,] . . . developed the Java “platform” for computer programming and released it in 1996. The aim was to relieve programmers from the burden of writing different versions of their computer programs for different operating systems or devices. “The Java platform, through the use of a virtual machine, enable[d] software developers to write programs that [we]re able to run on different types of computer hardware without having to rewrite them for each different type.” [*Oracle Am., Inc. v. Google Inc.*, 872 F.Supp.2d 974, 977 (N.D.Cal.2012) (“*Copyrightability Decision* ”)] With Java, a software programmer could “write once, run anywhere.”

The Java virtual machine (“JVM”) plays a central role in the overall Java platform. The Java programming language itself—which includes words, symbols, and other units, together with syntax rules for using them to create instructions—is the language in which a Java programmer writes source code. . . . In the Java system, “source code is first converted into ‘bytecode,’ an intermediate form, before it is then converted into binary machine code by the Java virtual machine” that has been designed for that device. *Id.* The Java platform includes the “Java development kit (JDK), javac compiler, tools and utilities, runtime programs, class libraries (API packages), and the Java virtual machine.” *Id.* at 977 n. 2.

Sun wrote a number of ready-to-use Java programs to perform common computer functions and organized those programs into groups it called “packages.” These packages, which are the application programming interfaces at issue in this appeal, allow programmers to use the pre-written code to build certain functions into their own programs, rather than write their own code to perform those functions from scratch. They are shortcuts. Sun called the code for a specific operation (function) a “method.” It defined “classes” so that each class consists of specified methods plus variables and other elements on which the methods operate. To organize the classes for users, then, it grouped classes (along with certain related “interfaces”) into “packages.” *See id.* at 982. . . . Oracle’s collection of API packages is like a library, each package is like a bookshelf in the library, each class is like a book on the shelf, and each method is like a how-to chapter in a book. *Id.* at 977.

The original Java Standard Edition Platform (“Java SE”) included “eight packages of pre-written programs.” *Id.* at 982. The district court found, and Oracle concedes to some extent, that three of those packages—`java.lang`, `java.io`, and `java.util`—were “core” packages, meaning that programmers using the Java language had to use them “in order to make any worthwhile use of the language.” *Id.* By 2008, the Java platform had more than 6,000 methods making up more than 600 classes grouped into 166 API packages. There are 37 Java API packages at issue in this appeal, three of which are the core packages identified by the district court. These packages contain thousands of individual elements, including classes, subclasses, methods, and interfaces.

Every package consists of two types of source code—what the parties call (1) declaring code; and (2) implementing code. Declaring code is the expression that identifies the prewritten function and is sometimes referred to as the “declaration” or “header.” As the district court explained, the “main point is that this header line of code introduces the method body and specifies very precisely the inputs, name and other functionality.” *Id.* at 979-80. The expressions used by the programmer from the declaring code command the computer to execute the associated implementing code, which gives the computer the step-by-step instructions for carrying out the declared function.

To use the district court’s example, one of the Java API packages at issue is “`java.lang`.” Within that package is a class called “`math`,” and within “`math`” there are several methods, including one that is designed to find the larger of two numbers: “`max`.” The declaration for the “`max`” method, as defined for integers, is: “`public static int max(int x, int y)`,” where the word “`public`” means that the method is generally accessible, “`static`” means that no specific instance of the class is needed to call the method, the

first “int” indicates that the method returns an integer, and “int x” and “int y” are the two numbers (inputs) being compared. [*Id.*] at 980-82. A programmer calls the “max” method by typing the name of the method stated in the declaring code and providing unique inputs for the variables “x” and “y.” The expressions used command the computer to execute the implementing code that carries out the operation of returning the larger number. . . .

B. Google’s Accused Product: Android

The accused product is Android, a software platform that was designed for mobile devices and competes with Java in that market. Google acquired Android, Inc. in 2005 Later that same year, Google and Sun began discussing the possibility of Google “taking a license to use and to adapt the entire Java platform for mobile devices.” [*Id.*] at 978. . . . The parties negotiated for months but were unable to reach an agreement. . . .

When the parties’ negotiations reached an impasse, Google decided to use the Java programming language to design its own virtual machine—the Dalvik virtual machine (“Dalvik VM”)—and “to write its own implementations for the functions in the Java API that were key to mobile devices.” *Id.* Google developed the Android platform, which grew to include 168 API packages—37 of which correspond to the Java API packages at issue in this appeal.

With respect to the 37 packages at issue, “Google believed Java application programmers would want to find the same 37 sets of functionalities in the new Android system callable by the same names as used in Java.” *Id.* To achieve this result, Google copied the declaring source code from the 37 Java API packages verbatim, inserting that code into parts of its Android software. In doing so, Google copied the elaborately organized taxonomy of all the names of methods, classes, interfaces, and packages—the “overall system of organized names—covering 37 packages, with over six hundred classes, with over six thousand methods.” [*Id.*] at 999. The parties and district court referred to this taxonomy of expressions as the “structure, sequence, and organization” or “SSO” of the 37 packages. It is undisputed, however, that Google wrote its own implementing code except with respect to [certain functions and eight decompiled files.] . . .

Google released the Android platform in 2007, and the first Android phones went on sale the following year. Although it is undisputed that certain Android software contains copies of the 37 API packages’ declaring code at issue, neither the district court nor the parties specify in which programs those copies appear. Oracle indicated at oral argument, however, that all Android phones contain copies of the accused portions of the Android software. . . .

DISCUSSION

I. ORACLE’S APPEAL . . .

It is undisputed that the Java programming language is open and free for anyone to use. Except to the limited extent noted below regarding three of the API packages, it is also undisputed that Google could have written its own API packages using the Java language. Google chose not to do that. Instead, it is undisputed that Google copied 7,000 lines of declaring code and generally replicated the overall structure, sequence, and organization of Oracle’s 37 Java API packages. The central question before us is whether these elements of the Java platform are entitled to copyright protection. The district court concluded that they are not, and Oracle challenges that determination on appeal. . . .

. . . On this record, . . . we find that the district court failed to distinguish between the threshold question of what is copyrightable—which presents a low bar—and the scope of conduct that constitutes infringing activity. The court also

Keep in Mind

The Federal Circuit does not have exclusive authority over copyright matters as it does over patent. In copyright cases, the Federal Circuit applies its interpretation of the law of the relevant regional circuit to which the case would have been appealed if it had not also involved a patent infringement claim. In *Oracle*, the relevant regional circuit is the Ninth – thus, the court applies Ninth Circuit law. Federal Circuit interpretations of circuit law are nonbinding on courts in that circuit.

erred by importing fair use principles, including interoperability concerns, into its copyrightability analysis.

For the reasons that follow, we conclude that the declaring code and the structure, sequence, and organization of the 37 Java API packages are entitled to copyright protection. . . .

A. Copyrightability . . .

. . . Circuit courts have struggled with, and disagree over, the tests to be employed when attempting to draw the line between what is protectable expression and what is not. When assessing whether the non-literal elements of a computer program constitute protectable expression, the Ninth Circuit has endorsed an “abstraction-filtration-comparison” test formulated by the Second Circuit and expressly adopted by several other circuits. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1525 (9th Cir.1992). This test rejects the notion that anything that performs a function is necessarily uncopyrightable. And it also rejects as flawed [an] assumption that, once any separable idea can be identified in a computer program everything else must be protectable expression, on grounds that more than one idea may be embodied in any particular program. *Altai*, 982 F.2d at 705–06.

. . . As the Second Circuit explains, this test has three steps. In the abstraction step, the court “first break[s] down the allegedly infringed program into its constituent structural parts.” *Id.* at 706. In the filtration step, the court “sift[s] out all non-protectable material,” including ideas and “expression that is necessarily incidental to those ideas.” *Id.* In the final step, the court compares the remaining creative expression with the allegedly infringing program.⁴

In the second step, the court is first to assess whether the expression is original to the programmer or author. The court must then determine whether the particular inclusion of any level of abstraction is dictated by considerations of efficiency, required by factors already external to the program itself, or taken from the public domain—all of which would render the expression unprotectable. These conclusions are to be informed by traditional copyright principles of originality, merger, and scenes a faire.

In all circuits, it is clear that the first step is part of the copyrightability analysis and that the third is an infringement question. It is at the second step of this analysis where the circuits are in less accord. Some treat all aspects of this second step as part of the copyrightability analysis, while others divide questions of originality from the other inquiries, treating the former as a question of copyrightability and the latter as part of the infringement inquiry. We need not assess the wisdom of these respective views because there is no doubt on which side of this circuit split the Ninth Circuit falls.

In the Ninth Circuit, while questions regarding originality are considered questions of copyrightability, concepts of merger and scenes a faire are affirmative defenses to claims of infringement. *Ets–Hokin*, 225 F.3d at 1082; *Satava v. Lowry*, 323 F.3d 805, 810 n. 3 (9th Cir.2003) (“The Ninth Circuit treats scenes a faire as a defense to infringement rather than as a barrier to copyrightability.”). . . .

With these principles in mind, we turn to the trial court’s analysis and judgment and to Oracle’s objections thereto. While the trial court mentioned the abstraction-filtration-comparison test when describing the development of relevant law, it did not purport to actually apply that test. Instead, it moved directly to application of familiar principles of copyright law when assessing the copyrightability of the declaring code and interpreted Section 102(b) to preclude copyrightability for any functional element “essential for interoperability” “regardless of its form.” *Copyrightability Decision*, 872 F.Supp.2d at 997.

Oracle asserts that all of the trial court’s conclusions regarding copyrightability are erroneous. . . . For the reasons explained below, we agree with Oracle . . .

1. Declaring Source Code

First, Oracle argues that the district court erred in concluding that each line of declaring source

⁴ Importantly, this full analysis only applies where a copyright owner alleges infringement of the non-literal aspects of its work. Where “admitted literal copying of a discrete, easily-conceptualized portion of a work” is at issue—as with Oracle’s declaring code—a court “need not perform a complete abstraction-filtration-comparison analysis” and may focus the protectability analysis on the filtration stage, with attendant reference to standard copyright principles.

code is completely unprotected under the merger and short phrases doctrines. . . . Google argues that, because there is only one way to write the names and declarations, the merger doctrine bars copyright protection. . . .

a. Merger . . .

Under the merger doctrine, a court will not protect a copyrighted work from infringement if the idea contained therein can be expressed in only one way. For computer programs, “this means that when specific [parts of the code], even though previously copyrighted, are the only and essential means of accomplishing a given task, their later use by another will not amount to infringement.” *Altai*, 982 F.2d at 708 (citation omitted). We have recognized, however, applying Ninth Circuit law, that the “unique arrangement of computer program expression . . . does not merge with the process so long as alternate expressions are available.” *Atari*, 975 F.2d at 840. . . .

. . . The evidence showed that Oracle had “unlimited options as to the selection and arrangement of the 7000 lines Google copied.” Appellant Br. 50. Using the district court’s “java.lang.Math.max” example, Oracle explains that the developers could have called it any number of things, including “Math.maximum” or “Arith.larger.” This was not a situation where Oracle was selecting among preordained names and phrases to create its packages. As the district court recognized, moreover, “the Android method and class names could have been different from the names of their counterparts in Java and still have worked.” *Copyrightability Decision*, 872 F.Supp.2d at 976. Because “alternative expressions [we]re available,” there is no merger. *See Atari*, 975 F.2d at 840.

We further find that the district court erred in focusing its merger analysis on the options available to Google at the time of copying. It is well-established that copyrightability and the scope of protectable activity are to be evaluated at the time of creation, not at the time of infringement. The focus is, therefore, on the options that were available to Sun/Oracle at the time it created the API packages. Of course, once Sun/Oracle created “java.lang.Math. max,” programmers who want to use that particular package have to call it by that name. But, as the court acknowledged, nothing prevented Google from writing its own declaring code, along with its own implementing code, to achieve the same result. In such circumstances, the chosen expression simply does not merge with the idea being expressed.⁷ . . .

b. Short Phrases

The district court also found that Oracle’s declaring code consists of uncopyrightable short phrases. Specifically, the court concluded that, “while the Android method and class names could have been different from the names of their counterparts in Java and still have worked, copyright protection never extends to names or short phrases as a matter of law.” *Copyrightability Decision*, 872 F.Supp.2d at 976.

. . . The [district] court failed to recognize, however, that the relevant question for copyrightability purposes is not whether the work at issue contains short phrases—as literary works often do—but, rather, whether those phrases are creative. And, by dissecting the individual lines of declaring code at issue into short phrases, the district court further failed to recognize that an original combination of elements can be copyrightable.

By analogy, the opening of Charles Dickens’ *A Tale of Two Cities* is nothing but a string of short phrases. Yet no one could contend that this portion of Dickens’ work is unworthy of copyright protection because it can be broken into those shorter constituent components. The question is not whether a short phrase or series of short phrases can be extracted from the work, but whether the manner in which they are used or strung together exhibits creativity.

Although the district court apparently focused on individual lines of code, Oracle is not seeking copyright protection for a specific short phrase or word. Instead, the portion of declaring code at issue is 7,000 lines, and Google’s own “Java guru” conceded that there can be “creativity and artistry even in a single method declaration.” Joint Appendix (“J.A.”) 20,970 Because Oracle “exercised creativity in the selection and arrangement” of the method declarations when it created the API packages and wrote the relevant declaring code, they contain protectable expression that is entitled to copyright protection.

Accordingly, we conclude that the district court erred in applying the short phrases doctrine to find the declaring code not copyrightable.

c. Scenes a Faire

. . . In the computer context, “the scene a faire doctrine denies protection to program elements that are dictated by external factors such as ‘the mechanical specifications of the computer on which a particular program is intended to run’ or ‘widely accepted programming practices within the computer industry.’” *Softel*, 118 F.3d at 963 (citation omitted).

The trial court rejected Google’s reliance on the scenes a faire doctrine. It did so in a footnote, finding that Google had failed to present evidence to support the claim that either the grouping of methods within the classes or the code chosen for them “would be so expected and customary as to be permissible under the scenes a faire doctrine.” *Copyrightability Decision*, 872 F.Supp.2d at 999 n. 9. . .

On appeal, Google refers to scenes a faire concepts briefly, as do some amici, apparently contending that, because programmers have become accustomed to and comfortable using the groupings in the Java API packages, those groupings are so commonplace as to be indispensable to the expression of an acceptable programming platform. As such, the argument goes, they are so associated with the “idea” of what the packages are accomplishing that they should be treated as ideas rather than expression. *See Br. of Amici Curiae Rackspace US, Inc., et al.* at 19–22.

Google cannot rely on the scenes a faire doctrine as an alternative ground upon which we might affirm the copyrightability judgment of the district court. . . . [A]s noted, like merger, in the Ninth Circuit, the scenes a faire doctrine is a component of the infringement analysis [not the copyrightability analysis]. Second, Google has not objected to the trial court’s conclusion that Google failed to make a sufficient factual record to support its contention that the groupings and code chosen for the 37 Java API packages were driven by external factors or premised on features that were either commonplace or essential to the idea being expressed. . . .

. . . Google’s reliance on the doctrine below and the amici reference to it here are premised on a fundamental misunderstanding of the doctrine. Like merger, the focus of the scenes a faire doctrine is on the circumstances presented to the creator, not the copier. The court’s analytical focus must be upon the external factors that dictated Sun’s selection of classes, methods, and code—not upon what Google encountered at the time it chose to copy those groupings and that code. . . .

2. The Structure, Sequence, and Organization of the API Packages

The district court found that the SSO of the Java API packages is creative and original, but nevertheless held that it is a “system or method of operation . . . and, therefore, cannot be copyrighted” under 17 U.S.C. § 102(b). *Copyrightability Decision*, 872 F.Supp.2d at 976–77. In reaching this conclusion, the district court seems to have relied upon language contained in a First Circuit decision: *Lotus Development Corp. v. Borland International, Inc.*, 49 F.3d 807 (1st Cir.1995), *aff’d without opinion by equally divided court*, 516 U.S. 233, 116 S.Ct. 804, 133 L.Ed.2d 610 (1996).

On appeal, Oracle argues that the district court’s reliance on *Lotus* is misplaced because it is distinguishable on its facts and is inconsistent with Ninth Circuit law. We agree. First, while the defendant in *Lotus* did not copy any of the underlying code, Google concedes that it copied portions of Oracle’s declaring source code verbatim. Second, the *Lotus* court found that the commands at issue there (copy, print, etc.) were not creative, but it is undisputed here that the declaring code and the structure and organization of the API packages are both creative and original. Finally, while the court in *Lotus* found the commands at issue were “essential to operating” the system, it is undisputed that—other than perhaps as to the three core packages—Google did not need to copy the structure, sequence, and organization of the Java API packages to write programs in the Java language.

More importantly, however, the Ninth Circuit has not adopted the court’s “method of operation” reasoning in *Lotus*, and we conclude that it is inconsistent with binding precedent. Specifically, we find that *Lotus* is inconsistent with Ninth Circuit case law recognizing that the structure, sequence, and organization of a computer program is eligible for copyright protection where it qualifies as an expression

of an idea, rather than the idea itself. *See Johnson Controls*, 886 F.2d at 1175–76. And, while the court in *Lotus* held “that expression that is part of a ‘method of operation’ cannot be copyrighted,” 49 F.3d at 818, this court—applying Ninth Circuit law—reached the exact opposite conclusion, finding that copyright protects “the expression of [a] process or method,” *Atari*, 975 F.2d at 839.

We find, moreover, that the hard and fast rule set down in *Lotus* and employed by the district court here—i.e., that elements which perform a function can never be copyrightable—is at odds with the Ninth Circuit’s endorsement of the abstraction-filtration-comparison analysis discussed earlier. As the Tenth Circuit concluded in expressly rejecting the *Lotus* “method of operation” analysis, in favor of the Second Circuit’s abstraction-filtration-comparison test, “although an element of a work may be characterized as a method of operation, that element may nevertheless contain expression that is eligible for copyright protection.” *Mitel*, [124 F.3d 1366, 1372 (10th Cir.1997)]. Specifically, the court found that Section 102(b) “does not extinguish the protection accorded a particular expression of an idea merely because that expression is embodied in a method of operation at a higher level of abstraction.” *Id.* . . .

Courts have likewise found that classifying a work as a “system” does not preclude copyright for the particular expression of that system. . . .

Here, the district court recognized that the SSO “resembles a taxonomy,” but found that “it is nevertheless a command structure, a system or method of operation—a long hierarchy of over six thousand commands to carry out pre-assigned functions.” *Copyrightability Decision*, 872 F.Supp.2d at 999–1000.¹² In other words, the court concluded that, although the SSO is expressive, it is not copyrightable because it is also functional. The problem with the district court’s approach is that computer programs are by definition functional—they are all designed to accomplish some task. . . . If we were to accept the district court’s suggestion that a computer program is uncopyrightable simply because it “carr[ies] out pre-assigned functions,” no computer program is protectable. . . .

While it does not appear that the Ninth Circuit has addressed the precise issue, we conclude that a set of commands to instruct a computer to carry out desired operations may contain expression that is eligible for copyright protection. *See Mitel*, 124 F.3d at 1372. We agree with Oracle that, under Ninth Circuit law, an original work—even one that serves a function—is entitled to copyright protection as long as the author had multiple ways to express the underlying idea. . . .

As the district court acknowledged, Google could have structured Android differently and could have chosen different ways to express and implement the functionality that it copied. Specifically, the court found that “the very same functionality could have been offered in Android without duplicating the exact command structure used in Java.” *Copyrightability Decision*, 872 F.Supp.2d at 976. The court further explained that Google could have offered the same functions in Android by “rearranging the various methods under different groupings among the various classes and packages.” *Id.* The evidence showed, moreover, that Google designed many of its own API packages from scratch, and, thus, could have designed its own corresponding 37 API packages if it wanted to do so.

Given the court’s findings that the SSO is original and creative, and that the declaring code could have been written and organized in any number of ways and still have achieved the same functions, we conclude that Section 102(b) does not bar the packages from copyright protection just because they also perform functions.

3. Google’s Interoperability Arguments are Irrelevant to Copyrightability . . .

Because copyrightability is focused on the choices available to the plaintiff at the time the computer program was created, the relevant compatibility inquiry asks whether the plaintiff’s choices were dictated by a need to ensure that its program worked with existing third-party programs. Whether a defendant later seeks to make its program interoperable with the plaintiff’s program has no bearing on whether the software the plaintiff created had any design limitations dictated by external factors. Stated differently, the focus is on the compatibility needs and programming choices of the party claiming copyright protection—not the choices the defendant made to achieve compatibility with the plaintiff’s program. . . .

Given this precedent, we conclude that the district court erred in focusing its interoperability

analysis on Google’s desires for its Android software. *See Copyrightability Decision*, 872 F.Supp.2d at 1000 (“Google replicated what was necessary to achieve a degree of interoperability” with Java.). Whether Google’s software is “interoperable” in some sense with any aspect of the Java platform (although as Google concedes, certainly not with the JVM) has no bearing on the threshold question of whether Oracle’s software is copyrightable. It is the interoperability and other needs of Oracle—not those of Google—that apply in the copyrightability context, and there is no evidence that when Oracle created the Java API packages at issue it did so to meet compatibility requirements of other pre-existing programs. . . .

. . . Google wanted to capitalize on the fact that software developers were already trained and experienced in using the Java API packages at issue. . . . Google's interest was in accelerating its development process by “leverag[ing] Java for its existing base of developers.” J.A.2033, *1372 2092. Although this competitive objective might be relevant to the fair use inquiry, we conclude that it is irrelevant to the copyrightability of Oracle's declaring code and organization of the API packages.

Finally, to the extent Google suggests that it was entitled to copy the Java API packages because they had become the effective industry standard, we are unpersuaded. Google cites no authority for its suggestion that copyrighted works lose protection when they become popular, and we have found none. In fact, the Ninth Circuit has rejected the argument that a work that later becomes the industry standard is uncopyrightable. *See Practice Mgmt. Info. Corp. v. Am. Med. Ass’n*, 121 F.3d 516, 520 n. 8 (9th Cir.1997). Google was free to develop its own API packages and to “lobby” programmers to adopt them. Instead, it chose to copy Oracle’s declaring code and the SSO to capitalize on the preexisting community of programmers who were accustomed to using the Java API packages. That desire has nothing to do with copyrightability. For these reasons, we find that Google’s industry standard argument has no bearing on the copyrightability of Oracle’s work. . . .

III. GOOGLE’S POLICY–BASED ARGUMENTS

Many of Google’s arguments, and those of some amici, appear premised on the belief that copyright is not the correct legal ground upon which to protect intellectual property rights to software programs; they opine that patent protection for such programs, with its insistence on non-obviousness, and shorter terms of protection, might be more applicable, and sufficient. . . .

Importantly for our purposes, the Supreme Court has made clear that “[n]either the Copyright Statute nor any other says that because a thing is patentable it may not be copyrighted.” *Mazer v. Stein*, 347 U.S. 201 (1954). . . . Until either the Supreme Court or Congress tells us otherwise, we are bound to respect the Ninth Circuit’s decision to afford software programs protection under the copyright laws. We thus decline any invitation to declare that protection of software programs should be the domain of patent law, and only patent law. . . .

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B. The Reproduction Right

Page 320. At the end of Question 6 add the following:

Is it proper to decide the issue of substantial similarity on a motion to dismiss a complaint for failure to state a cause of action under Federal Rule of Civil Procedure 12(b)(6)? The Second Circuit recently affirmed a district court’s dismissal of a complaint involving an architectural work. In *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57 (2d Cir. 2010) the court noted that several circuits have endorsed consideration of questions of substantial similarity on motions to dismiss. It held that because the substantial similarity determination requires only a visual comparison of the works, copies of which had been attached to the complaint, it was permissible for the district court to “conclude that the plaintiff’s complaint, together with the works incorporated therein, [did] not ‘plausibly give rise to an entitlement to relief.’” *Id.* at 64-65 (citing *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1950 (2009)).

C. The Distribution Right

Page 357. Replace Question 7 with the following:

7. Review the Note on Copyright’s Default Rules and the Google Book Search Project and the Notes and Questions following it, *supra* pp. 358-359. As a for-profit entity that planned to realize advertising and subscription revenue from the GBS project, Google cannot invoke the exemptions of §108. Would those exemptions cover HathiTrust’s digitization of the plaintiffs’ copyrighted works? Of orphan works? The district court held that it did not need to decide if the digitization program of the libraries “fits within the parameters of 17 U.S.C. §108

because it unquestionably fits within the definition of fair use.” *Authors Guild, Inc. v. HathiTrust*, — F. Supp. 2d —, 2012 WL 4808939 *14 n.32 (S.D.N.Y.), *appeal docketed*, No. 12-04547 (2d Cir. Nov. 14, 2012). The court cited §108(f)(4), which states that “[n]othing in this section in any way affects the right of fair use as provided by section 107. . . .”

Do you think that the Authors Guild can adequately represent academic authors in its suit against HathiTrust? As discussed in the Note, academic authors generally favor broad availability of orphan works. Additionally, they often favor broad dissemination of their own works, in part because they are often motivated more by professional status than by monetary rewards. Will academic authors still find an audience if the publishers they have historically worked with do not receive compensation for digitization of previously published works? How should the preferences of different types of authors be considered in the orphan work context?

Pages 358-65. Replace Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc. and the Notes and Questions with the following:

Kirtsaeng v. John Wiley & Sons, Inc.
133 S. Ct. 1351 (2013)

BREYER, J. . . .

Section 106 of the Copyright Act grants “the owner of copyright under this title” certain “exclusive rights,” including the right “to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership.” 17 U. S. C. §106(3). These rights are qualified, however, by the application of various limitations set forth in the next several sections of the Act, §§107 through 122. Those sections, typically entitled “Limitations on exclusive rights,” include . . . the doctrine at issue here, the “first sale” doctrine (§109).

Section 109(a) sets forth the “first sale” doctrine as follows:

“Notwithstanding the provisions of section 106(3) [the section that grants the owner exclusive distribution rights], the owner of a particular copy or phonorecord *lawfully made under this title* . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.” (Emphasis added.)

Thus, even though §106(3) forbids distribution of a copy of, say, the copyrighted novel Herzog without the copyright owner’s permission, §109(a) adds that, once a copy of Herzog has been lawfully sold (or its ownership otherwise lawfully transferred), the buyer of *that copy* and subsequent owners are free to dispose of it as they wish. In copyright jargon, the “first sale” has “exhausted” the copyright owner’s §106(3) exclusive distribution right.

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What, however, if the copy of Herzog was printed abroad and then initially sold with the copyright owner's permission? Does the "first sale" doctrine still apply? Is the buyer, like the buyer of a domestically manufactured copy, free to bring the copy into the United States and dispose of it as he or she wishes?

To put the matter technically, an "importation" provision, §602(a)(1), says that

"[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . *under section 106. . .*" 17 U.S.C. §602(a)(1) (2006 ed., Supp. V) (emphasis added).

Thus §602(a)(1) makes clear that importing a copy without permission violates the owner's exclusive distribution right. But in doing so, §602(a)(1) refers explicitly to the §106(3) exclusive distribution right. As we have just said, §106 is by its terms "[s]ubject to" the various doctrines and principles contained in §§107 through 122, including §109(a)'s "first sale" limitation. Do those same modifications apply—in particular, does the "first sale" modification apply—when considering whether §602(a)(1) prohibits importing a copy?

In *Quality King Distributors, Inc. v. Lanza Research Int'l, Inc.*, 523 U.S. 135, 145 (1998), we held that §602(a)(1)'s reference to §106(3)'s exclusive distribution right incorporates the later subsections' limitations, including, in particular, the "first sale" doctrine of §109. Thus, it might seem that, §602(a)(1) notwithstanding, one who buys a copy abroad can freely import that copy into the United States and dispose of it, just as he could had he bought the copy in the United States.

But *Quality King* considered an instance in which the copy, though purchased abroad, was initially manufactured in the United States (and then sent abroad and sold). This case is like *Quality King* but for one important fact. The copies at issue here were manufactured abroad. That fact is important because §109(a) says that the "first sale" doctrine applies to "a particular copy or phonorecord *lawfully made under this title.*" And we must decide here whether the five words, "lawfully made under this title," make a critical legal difference. . . .

We hold that the "first sale" doctrine applies to copies of a copyrighted work lawfully made abroad.

I

A

Respondent, John Wiley & Sons, Inc., publishes academic textbooks [and we will] refer to Wiley as the relevant American copyright owner. Wiley often assigns to its wholly owned foreign subsidiary, John Wiley & Sons (Asia) Pte Ltd., rights to publish, print, and sell Wiley's English language textbooks abroad. . . .

[A] copy of Wiley's American edition says, "Copyright © 2008 John Wiley & Sons, Inc. All rights reserved. . . . Printed in the United States of America." J.

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Walker, *Fundamentals of Physics*, p. vi (8th ed. 2008). A copy of Wiley Asia's Asian edition of that book says:

"Copyright © 2008 John Wiley & Sons (Asia) PteLtd[.] All rights reserved. This book is authorized for sale in Europe, Asia, Africa, and the Middle East only and may be not exported out of these territories. Exportation from or importation of this book to another region without the Publisher's authorization is illegal and is a violation of the Publisher's rights. The Publisher may take legal action to enforce its rights. . . . Printed in Asia." J. Walker, *Fundamentals of Physics*, p. vi (8th ed. 2008 Wiley Int'l Student ed.).

Both the foreign and the American copies say:

"No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means . . . except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act." . . .

The upshot is that there are two essentially equivalent versions of a Wiley textbook . . .

Petitioner, Supap Kirtsaeng, a citizen of Thailand, moved to the United States in 1997 . . . completed [] undergraduate courses . . . successfully completed a Ph.D. program . . . and then . . . returned to Thailand. . . . While he was studying in the United States, Kirtsaeng asked his friends and family in Thailand to buy copies of foreign edition English language textbooks at Thai book shops, where they sold at low prices, and mail them to him in the United States. Kirtsaeng would then sell them, reimburse his family and friends, and keep the profit.

B

In 2008 Wiley brought this federal lawsuit against Kirtsaeng for copyright infringement. Wiley claimed that Kirtsaeng's unauthorized importation of its books and his later resale of those books amounted to an infringement of Wiley's §106(3) exclusive right to distribute as well as §602's related import prohibition. Kirtsaeng replied that the books he had acquired were "lawfully made" and that he had acquired them legitimately. Thus, in his view, §109(a)'s "first sale" doctrine permitted him to resell or otherwise dispose of the books without the copyright owner's further permission.

The District Court held that Kirtsaeng could not assert the "first sale" defense because, in its view, that doctrine does not apply to "foreign-manufactured goods" (even if made abroad with the copyright owner's permission). The jury then found that Kirtsaeng had willfully infringed Wiley's American copyrights by selling and importing without authorization copies of eight of Wiley's copyrighted titles. And it assessed statutory damages of \$600,000 (\$75,000 per work).

On appeal, a split panel of the Second Circuit agreed with the District Court. It pointed out that §109(a)'s "first sale" doctrine applies only to "the owner of a particular copy . . . *lawfully made under this title.*" And, in the majority's view, this

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language means that the “first sale” doctrine does not apply to copies of American copyrighted works manufactured abroad. . . .

We granted Kirtsaeng’s petition for certiorari to consider this question in light of different views among the Circuits. . . .

II

We must decide whether the words “lawfully made under this title” restrict the scope of §109(a)’s “first sale” doctrine geographically. . . .

Under any of the [geographical interpretations advanced by the Second and Ninth Circuits, Wiley, and the Solicitor General], §109(a)’s “first sale” doctrine would not apply to the Wiley Asia books at issue here. And, despite an American copyright owner’s permission to *make* copies abroad, one who *buys* a copy of any such book or other copyrighted work — whether at a retail store, over the Internet, or at a library sale — could not resell (or otherwise dispose of) that particular copy without further permission.

Kirtsaeng, however, reads the words “lawfully made under this title” as imposing a *non*-geographical limitation. He says that they mean made “in accordance with” or “in compliance with” the Copyright Act. In that case, §109(a)’s “first sale” doctrine would apply to copyrighted works as long as their manufacture met the requirements of American copyright law. In particular, the doctrine would apply where, as here, copies are manufactured abroad with the permission of the copyright owner. See §106 (referring to the owner’s right to authorize).

In our view, §109(a)’s language, its context, and the common-law history of the “first sale” doctrine, taken together, favor a *non*-geographical interpretation. We also doubt that Congress would have intended to create the practical copyright-related harms with which a geographical interpretation would threaten ordinary scholarly, artistic, commercial, and consumer activities. We consequently conclude that Kirtsaeng’s nongeographical reading is the better reading of the Act.

A

The language of §109(a) read literally favors Kirtsaeng’s nongeographical interpretation The language of §109(a) says nothing about geography. . . . And a nongeographical interpretation provides each word of the five-word phrase with a distinct purpose. The first two words of the phrase, “lawfully made,” suggest an effort to distinguish those copies that were made lawfully from those that were not, and the last three words, “under this title,” set forth the standard of “lawful[ness].” Thus, the nongeographical reading is simple, it promotes a traditional copyright objective (combatting piracy), and it makes word-by-word linguistic sense. . . .

To read the clause geographically, Wiley . . . must first emphasize the word “under.” Indeed, Wiley reads “under this title” to mean “in conformance with the

Copyright Act *where the Copyright Act is applicable.*” Wiley must then take a second step, arguing that the Act “is applicable” only in the United States. . . .

One difficulty is that neither “under” nor any other word in the phrase means “where.” . . . It might mean “subject to,” but . . . the word [“under”] evades a uniform, consistent meaning. . . .

A far more serious difficulty arises out of the uncertainty and complexity surrounding the second step’s effort to read the necessary geographical limitation into the word “applicable” (or the equivalent). Where, precisely, is the Copyright Act “applicable”? The Act does not instantly *protect* an American copyright holder from unauthorized piracy taking place abroad. But that fact does not mean the Act is *inapplicable* to copies made abroad. As a matter of ordinary English, one can say that a statute imposing, say, a tariff upon “any rhododendron grown in Nepal” applies to *all* Nepalese rhododendrons. And, similarly, one can say that the American Copyright Act is *applicable* to *all* pirated copies, including those printed overseas. Indeed, the Act itself makes clear that (in the Solicitor General’s language) foreign-printed pirated copies are “subject to” the Act. §602(a)(2) (2006 ed., Supp. V) (referring to importation of copies “the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable”)

The appropriateness of this linguistic usage is underscored by the fact that §104 of the Act itself says that works “*subject to protection under this title*” include unpublished works “without regard to the nationality or domicile of the author,” and works “first published” in any one of the nearly 180 nations that have signed a copyright treaty with the United States. . . . Thus, ordinary English permits us to say that the Act “applies” to an Irish manuscript lying in its author’s Dublin desk drawer as well as to an original recording of a ballet performance first made in Japan and now on display in a Kyoto art gallery. Cf. 4 M. Nimmer & D. Nimmer, Copyright §17.02, pp. 17-18, 17-19 (2012) (hereinafter Nimmer on Copyright) (noting that the principle that “copyright laws do not have any extraterritorial operation” “requires some qualification”).

The Ninth Circuit’s geographical interpretation produces still greater linguistic difficulty. [T]hat Circuit interprets the “first sale” doctrine to cover both (1) copies manufactured in the United States and (2) copies manufactured abroad but first sold in the United States with the American copyright owner’s permission

We can understand why the Ninth Circuit may have thought it necessary to add the second part of its definition. As we shall later describe, see Part II-D, *infra*, without some such qualification a copyright holder could prevent a buyer from domestically reselling or even giving away copies of a video game made in Japan, a film made in Germany, or a dress (with a design copyright) made in China, *even* if the copyright holder has granted permission for the foreign manufacture, importation, and an initial domestic sale of the copy. A publisher such as Wiley would be free to print its books abroad, allow their importation and sale within the United States, but prohibit students from later selling their used texts at a campus bookstore. We see no way, however, to reconcile this half geographical/half-non-geographical interpretation with the language of the phrase, “lawfully made under

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this title.” As a matter of English, it would seem that those five words either do cover copies lawfully made abroad or they do not.

In sum, we believe that geographical interpretations create more linguistic problems than they resolve. And considerations of simplicity and coherence tip the purely linguistic balance in Kirtsaeng’s, nongeographical, favor. . . .

B

Both historical and contemporary statutory context indicate that Congress, when writing the present version of §109(a), did not have geography in mind. In respect to history, we compare §109(a)’s present language with the language of its immediate predecessor. That predecessor said: “[N]othing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work *the possession of which has been lawfully obtained.*” Copyright Act of 1909, §41, 35 Stat. 1084 (emphasis added).

See also Copyright Act of 1947, §27, 61 Stat. 660. The predecessor says nothing about geography (and Wiley does not argue that it does). So we ask whether Congress, in changing its language implicitly *introduced* a geographical limitation that previously was lacking. . . .

A comparison of language indicates that it did not. . . .

Other provisions of the present statute also support a nongeographical interpretation. For one thing, the statute phases out the “manufacturing clause,” a clause that appeared in earlier statutes and had limited importation of many copies (of copyrighted works) printed outside the United States. §601, 90 Stat. 2588 (“Prior to July 1, 1982 . . . the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material . . . is prohibited unless the portions consisting of such material have been manufactured in the United States or Canada”). The phasing out of this clause sought to equalize treatment of copies manufactured in America and copies manufactured abroad. See H.R. Rep. No. 94-1476, at 165-166.

The “equal treatment” principle, however, is difficult to square with a geographical interpretation of the “first sale” clause that would grant the holder of an American copyright (perhaps a foreign national . . .) permanent control over the American distribution chain (sales, resales, gifts, and other distribution) in respect to copies printed abroad but not in respect to copies printed in America. And it is particularly difficult to believe that Congress would have sought this unequal treatment while saying nothing about it and while, in a related clause (the manufacturing phase-out), seeking the opposite kind of policy goal. . . .

C

A relevant canon of statutory interpretation favors a nongeographical reading. “[W]hen a statute covers an issue previously governed by the common law,” we must presume that “Congress intended to retain the substance of the common law.” *Samantar v. Yousuf*, 560 U.S. ___, ___, n. 13 (2010) (slip op., at 14, n.13). . . .

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The “first sale” doctrine is a common-law doctrine with an impeccable historic pedigree. In the early 17th century Lord Coke explained the common law’s refusal to permit restraints on the alienation of chattels. . . .

. . . Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods. American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer. . . .

The “first sale” doctrine also frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods. And it avoids the selective enforcement inherent in any such effort. Thus, it is not surprising that for at least a century the “first sale” doctrine has played an important role in American copyright law. See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908); Copyright Act of 1909, §41, 35 Stat. 1084. . . .

The common-law doctrine makes no geographical distinctions; nor can we find any in *Bobbs-Merrill* (where this Court first applied the “first sale” doctrine) or in §109(a)’s predecessor provision, which Congress enacted a year later. . . . And we can find no language, context, purpose, or history that would rebut . . . application[] of that doctrine here. . . .

D

Associations of libraries, used-book dealers, technology companies, consumer-goods retailers, and museums point to various ways in which a geographical interpretation would fail to further basic constitutional copyright objectives, in particular “promot[ing] the Progress of Science and useful Arts.” U. S. Const., Art. I, §8, cl. 8.

The American Library Association tells us that library collections contain at least 200 million books published abroad (presumably, many were first published in one of the nearly 180 copyright-treaty nations and enjoy American copyright protection under 17 U.S.C. §104); that many others were first published in the United States but printed abroad because of lower costs; and that a geographical interpretation will likely require the libraries to obtain permission (or at least create significant uncertainty) before circulating or otherwise distributing these books. . . .

Used-book dealers tell us that, from the time when Benjamin Franklin and Thomas Jefferson built commercial and personal libraries of foreign books, American readers have bought used books published and printed abroad. . . . But under a geographical interpretation a contemporary tourist who buys, say, at Shakespeare and Co. (in Paris), a dozen copies of a foreign book for American friends might find that she had violated the copyright law. The used book dealers cannot easily predict what the foreign copyright holder may think about a reader’s effort to sell a used copy of a novel. And they believe that a geographical interpretation will injure a large portion of the used-book business.

Technology companies tell us that “automobiles, microwaves, calculators, mobile phones, tablets, and personal computers” contain copyrightable software

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programs or packaging. Many of these items are made abroad with the American copyright holder's permission and then sold and imported (with that permission) to the United States. A geographical interpretation would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software. . . .

Retailers tell us that over \$2.3 trillion worth of foreign goods were imported in 2011. American retailers buy many of these goods after a first sale abroad. And, many of these items bear, carry, or contain copyrighted packaging, logos, labels, and product inserts and instructions. . . . The retailers add that American sales of more traditional copyrighted works, "such as books, recorded music, motion pictures, and magazines" likely amount to over \$220 billion. (electronic game industry is \$16 billion). A geographical interpretation would subject many, if not all, of them to the disruptive impact of the threat of infringement suits.

Art museum directors ask us to consider their efforts to display foreign-produced works by, say, Cy Twombly, René Magritte, Henri Matisse, Pablo Picasso, and others. A geographical interpretation, they say, would require the museums to obtain permission from the copyright owners before they could display the work—even if the copyright owner has already sold or donated the work to a foreign museum. . . .

These examples, and others previously mentioned, help explain *why* Lord Coke considered the "first sale" doctrine necessary to protect "Trade and Traffi[c], and bargaining and contracting," and they help explain *why* American copyright law has long applied that doctrine.

Neither Wiley nor any of its many *amici* deny that a geographical interpretation could bring about these "horribles"—at least in principle. Rather, Wiley essentially says that the list is artificially invented. It points out that a federal court first adopted a geographical interpretation more than 30 years ago. *CBS, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), summarily aff'd, 738 F. 2d 424 (CA3 1984) (table). Yet, it adds, these problems have not occurred. Why not? Because, says Wiley, the problems and threats are purely theoretical; they are unlikely to reflect reality.

We are less sanguine. For one thing, the law has not been settled for long in Wiley's favor. The Second Circuit, in its decision below, is the first Court of Appeals to adopt a purely geographical interpretation. . . . [O]ther courts have hesitated to adopt, and have cast doubt upon, the validity of the geographical interpretation. . . .

For another thing, reliance upon the "first sale" doctrine is deeply embedded in the practices of those, such as booksellers, libraries, museums, and retailers, who have long relied upon its protection. Museums, for example, are not in the habit of asking their foreign counterparts to check with the heirs of copyright owners before sending, *e.g.*, a Picasso on tour. . . . That inertia means a dramatic change is likely necessary before these institutions, instructed by their counsel, would begin to engage in the complex permission-verifying process that a geographical interpretation would demand. And this Court's adoption of the geographical interpretation could provide that dramatic change. . . .

Finally, the fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights. They may decide differently if the law is clarified in their favor. Regardless, a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself.

Thus, we believe that the practical problems that petitioner and his *amici* have described are too serious, too extensive, and too likely to come about for us to dismiss them as insignificant—particularly in light of the ever growing importance of foreign trade to America. . . . The upshot is that copyright-related consequences along with language, context, and interpretive canons argue strongly against a geographical interpretation of §109(a).

III

Wiley and the dissent make several additional important arguments in favor of the geographical interpretation. *First*, they say that our *Quality King* decision strongly supports its geographical interpretation. In that case we asked whether the Act’s “importation provision,” now §602(a)(1) (then §602(a)), barred importation (without permission) of a copyrighted item (labels affixed to hair care products) where an American copyright owner authorized the first sale and export of hair care products with copyrighted labels made in the United States, and where a buyer sought to import them back into the United States without the copyright owner’s permission. 523 U. S., at 138-139.

We held that the importation provision did *not* prohibit sending the products back into the United States (without the copyright owner’s permission). That section says:

“Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States *is an infringement* of the exclusive right to distribute copies or phonorecords *under section 106.*” 17 U.S.C. §602(a)(1) (2006 ed., Supp. V) (emphasis added). See also §602(a) (1994 ed.).

We pointed out that this section makes importation an infringement of the “exclusive right to distribute . . . *under 106.*” We noted that §109(a)’s “first sale” doctrine limits the scope of the §106 exclusive distribution right. We took as given the fact that the products at issue had at least once been sold. And we held that consequently, importation of the copyrighted labels does not violate §602(a)(1). 523 U.S., at 145.

In reaching this conclusion we endorsed *Bobbs-Merrill* and its statement that the copyright laws were not “intended to create a right which would permit the holder of the copyright to fasten, by notice in a book . . . a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had

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parted with the title to one who had acquired full dominion over it.” 210 U.S., at 349-350.

We also explained why we rejected the claim that our interpretation would make §602(a)(1) pointless. Those advancing that claim had pointed out that the 1976 Copyright Act amendments retained a prior anti-piracy provision, prohibiting the importation of *pirated* copies. *Quality King*, *supra*, at 146. Thus, they said, §602(a)(1) must prohibit the importation of lawfully made copies, for to allow the importation of those lawfully made copies *after a first sale*, as *Quality King*’s holding would do, would leave §602(a)(1) without much to prohibit. It would become superfluous, without any real work to do.

We do not believe that this argument is a strong one. Under *Quality King*’s interpretation, §602(a)(1) would still forbid importing (without permission, and subject to the exceptions in §602(a)(3)) copies lawfully made abroad, for example, where (1) a foreign publisher operating as the licensee of an American publisher prints copies of a book overseas but, prior to any authorized sale, seeks to send them to the United States; (2) a foreign printer or other manufacturer (if not the “owner” for purposes of §109(a), *e.g.*, before an authorized sale) sought to send copyrighted goods to the United States; (3) “a book publisher transports copies to a wholesaler” and the wholesaler (not yet the owner) sends them to the United States, see Copyright Law Revision, pt. 4, at 211 (giving this example); or (4) a foreign film distributor, having leased films for distribution, or any other licensee, consignee, or bailee sought to send them to the United States. . . . These examples show that §602(a)(1) retains significance. . . .

In *Quality King* we rejected the “superfluous” argument for similar reasons. But, when rejecting it, we said that, where an author gives exclusive American distribution rights to an American publisher and exclusive British distribution rights to a British publisher, “presumably *only those [copies] made by the publisher of the United States edition would be ‘lawfully made under this title’* within the meaning of §109(a).” 523 U.S., at 148 (emphasis added). Wiley now argues that this phrase in the *Quality King* opinion means that books published abroad (under license) must fall outside the words “lawfully made under this title” and that we have consequently already given those words the geographical interpretation that it favors.

We cannot, however, give the *Quality King* statement the legal weight for which Wiley argues. The language “lawfully made under this title” was not at issue in *Quality King*; the point before us now was not then fully argued; we did not canvas the considerations we have here set forth; we there said nothing to suggest that the example assumes a “first sale”; and we there hedged our statement with the word “presumably.” Most importantly, the statement is pure dictum. It is dictum contained in a rebuttal to a counterargument. And it is *unnecessary* dictum even in that respect. Is the Court having once written dicta calling a tomato a vegetable bound to deny that it is a fruit forever after? . . .

. . . Wiley and the dissent argue (to those who consider legislative history) that the Act’s legislative history supports their interpretation. But the historical events to which it points took place more than a decade before the enactment of the Act and, at best, are inconclusive.

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[T]o ascertain the best reading of §109(a) . . . we would give greater weight to the congressional report accompanying §109(a), written a decade later when Congress passed the new law. That report says:

“Section 109(a) restates and confirms the principle that, where the *copyright* owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and . . . the present law, the copyright owner’s exclusive right of public distribution would have no effect upon anyone who owns ‘a particular copy or phonorecord lawfully made under this title’ and who wishes to transfer it to someone else or to destroy it. . . .

“To come within the scope of section 109(a), a copy or phonorecord must have been ‘lawfully made under this title,’ though not necessarily with the copyright owner’s authorization. For example, any resale of an illegally ‘pirated’ phonorecord would be an infringement but the disposition of a phonorecord legally made under the compulsory licensing provisions of section 115 would not.” H.R. Rep. No. 94-1476, at 79 (emphasis added).

This history reiterates the importance of the “first sale” doctrine. . . . It explains, as we have explained, the nongeographical purposes of the words “lawfully made under this title.” And it says nothing about geography. Nor, importantly, did §109(a)’s predecessor provision. . . . We consequently believe that the legislative history, on balance, supports the non- geographical interpretation.

. . . Wiley and the dissent claim that a nongeographical interpretation will make it difficult, perhaps impossible, for publishers (and other copyright holders) to divide foreign and domestic markets. We concede that is so. A publisher may find it more difficult to charge different prices for the same book in different geographic markets. But we do not see how these facts help Wiley, for we can find no basic principle of copyright law that suggests that publishers are especially entitled to such rights. . . .

To the contrary, Congress enacted a copyright law that (through the “first sale” doctrine) limits copyright holders’ ability to divide domestic markets. And that limitation is consistent with antitrust laws that ordinarily forbid market divisions. . . . Whether copyright owners should, or should not, have more than ordinary commercial power to divide international markets is a matter for Congress to decide. We do no more here than try to determine what decision Congress has taken.

[T]he dissent and Wiley contend that our decision launches United States copyright law into an unprecedented regime of “international exhaustion.” But they point to nothing indicative of congressional intent in 1976. The dissent also claims that it is clear that the United States now opposes adopting such a regime, but the Solicitor General as *amicus* has taken no such position in this case. . . .

Moreover, the exhaustion regime the dissent apparently favors would provide that “the sale in one country of a good” does not “exhaus[t] the intellectual-property owner’s right to control the distribution of that good elsewhere.” But our holding in *Quality King* that §109(a) is a defense in U.S. courts even when “the first

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sale occurred abroad,” 523 U.S., at 145, n.14, has already significantly eroded such a principle.

NOTES AND QUESTIONS

1. Do you agree with the Court’s reading of the relationship among §§602(a)(1), 106(3) and 109? In particular, could you read §602(a)(1) as not subject to §109(a)?

In a concurring opinion, Justice Kagan noted that the Court’s prior decision in *Quality King* (discussed at some length by Justice Breyer in the excerpt above)

. . . is the decision holding that §109(a) limits §602(a)(1). Had we come out the opposite way in that case . . . [a] copyright owner [could] divide international markets in the way John Wiley claims Congress intended when enacting §602(a)(1). But it would do so without imposing downstream liability on those who purchase and resell in the United States copies that happen to have been manufactured abroad. In other words, that outcome would target unauthorized importers alone, and not the “libraries, used-book dealers, technology companies, consumer-goods retailers, and museums” with whom today the Court is rightly concerned. Assuming Congress adopted §602(a)(1) to permit market segmentation, I suspect that is how Congress thought the provision would work — not by removing first-sale protection from every copy manufactured abroad (as John Wiley urges us to do here), but by enabling the copyright holder to control imports even when the first-sale doctrine applies (as *Quality King* now prevents).

Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351, 1372-73 (2013).

Should Congress reverse *Quality King*’s holding regarding the relationship between §109(a) and §602(a)(1)? How would you draft such legislation?

2. Read §602(b). Note that it authorizes the U.S. Customs and Border Protection service to prevent the importation of copies or phonorecords whose making “would have constituted an infringement of copyright *if this title had been applicable*.” (emphasis added). Does this language help to shed light on how to interpret §602(a) (the question at issue in *Quality King*)? If the *Kirtsaeng* Court had reached a different conclusion about the proper interpretation of §109(a), could John Wiley & Sons have successfully asked U.S. Customs and Border Protection to seize the copies *Kirtsaeng* was importing? Why, or why not?

3. How else might the Court have interpreted the phrase “lawfully made under this title”? Are there interpretations besides the Court’s that you find more convincing? If so, what are they?

4. How likely is the “parade of horrors” Justice Breyer describes in Section II.D of the case? What other provisions of the Copyright Act might address one or more of Justice Breyer’s examples? (Hint: Read §602 in its entirety.) According to Justice Ginsburg’s dissent, doctrines like fair use and implied license offer some protection to the entities discussed by Justice Breyer.

5. As a policy matter, do you think that copyright owners should be able to divide markets, charging different prices in different areas and prohibiting importation of lower priced, “gray market” goods into a higher-priced market as John

Wiley & Sons attempted to do in *Kirtsaeng*? What types of questions would you ask and what empirical evidence would you like to have before deciding? How should copyright law respond to distribution of copies across national borders via the Internet?

6. In trademark cases, the statute that proscribes unauthorized importation is the Tariff Act of 1930 (as amended), which provides in relevant part: “[I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association organized within, the United States.” 19 U.S.C. §1526(a). As a result of agency regulation and Supreme Court interpretation in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), gray market imports are permitted under the Tariff Act if the goods are manufactured by an entity that shares a common ownership or control with the U.S. trademark owner. However, if the U.S. trademark holder merely has licensed the use of the mark abroad by an independent foreign entity, or vice versa, then importation will violate the Tariff Act.

U.S. trademark owners were bitterly unhappy with the common ownership or control aspects of the *K Mart* decision, but were unable to secure relief in Congress. Subsequently, however, the federal courts of appeals have interpreted the domestic trademark law, the Lanham Act, to prohibit the importation of goods that bear an identical trademark to the valid U.S. trademark, if the goods are physically different from the U.S. trademark holder’s goods, regardless of the trademark’s genuine character abroad and regardless of any affiliation or common ownership between the U.S. and foreign trademark holders. The rationale for this rule is that “[t]rademarks applied to physically different foreign goods are not genuine from the viewpoint of the American consumer.” *Lever Bros. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993) (holding that Sunlight brand detergent originally manufactured for use in the United Kingdom was not genuine, and therefore could not be imported, because it produced fewer suds than the version of Sunlight marketed in the U.S.).

Is trademark law more generous to mark owners than copyright law is to copyright owners after *Kirtsaeng*? If so, is that appropriate? Why, or why not?

7. Internationally, rules regarding the effect of exhaustion principles on gray market imports vary. (Recall that the TRIPS Agreement Article 6 does not address exhaustion at all. Consequently, countries may adopt different rules.) The dissent in *Kirtsaeng* identified three approaches to exhaustion:

One option is a national-exhaustion regime, under which a copyright owner’s right to control distribution of a particular copy is exhausted only within the country in which the copy is sold. Another option is a rule of international exhaustion, under which the authorized distribution of a particular copy anywhere in the world exhausts the copyright owner’s distribution right everywhere with respect to that copy. The European Union has adopted the intermediate approach of regional exhaustion, under which the sale of a copy anywhere within the European Economic Area exhausts the copyright owner’s distribution right throughout the region.

Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351, 1383-84 (2013) (Ginsburg, J., dissenting).

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The dissent noted that the omission of an exhaustion standard in TRIPS is no accident, but rather reflects deep differences in opinion. In international trade negotiations, the U.S. has consistently argued against international exhaustion. *See id.* at 1383-85. Indeed, both the U.S. and European Union have worked to introduce provisions in Free Trade Agreements (FTAs) that would allow a copyright owner to control importation in the way John Wiley & Sons sought. These efforts, if successful, would discourage the development of international exhaustion as a principle of customary international law, at least as between the member states of the FTAs. Should the stance taken by the U.S. in trade negotiations have influenced the Court? Why do you think the dissent is concerned that *Kirtsaeng* will “undermine[] the United States’ credibility on the world stage”? *Id.* at 1385.

8. What other options might John Wiley & Sons, Inc. employ to guard against arbitrage of its chosen price discrimination strategy? In the digital era, some of the copyright industries have taken matters into their own hands and use technological protection measures (TPMs). For example, the movie industry sells region-coded DVDs under a series of cooperative licensing agreements with manufacturers of home DVD players. DVDs manufactured in Europe will not work on DVD players sold in North America, and vice versa—and so on for other regions. Other types of digital content are sold via Internet downloads and accompanied by click-through user agreements.

What do you think of these arrangements? If copyright law does not prohibit the imports, is it good policy to allow the affected industries to adopt technological protections or contract provisions that have that effect?

9. In the PRO-IP Act of 2008, Congress added language to §602(a) specifying that unauthorized *exportation* of copies or phonorecords is an infringement of copyright actionable under §501. Why do you think Congress made this change? Is it good policy?

F. The Public Performance and Public Display Rights

Page 411. In Question 2 replace the case citation with:

Bob Creeden & Assocs., Ltd., v. Infosoft, Inc., 326 F. Supp. 2d 876 (N.D. Ill. 2004).

Page 420-21. In the Notes and Questions

a. At the end of Question 1 insert the following:

e. Internet retransmission of over-the-air broadcast television received via multiple individual antennae installed on company’s rooftop and assigned to individual customers. Users control the channels to which their assigned antennae

are tuned and can either watch the broadcasts live or record copies for later viewing over the Internet. Each user's copy is saved separately in a designated server space.

b. At the end of Question 2 insert the following:

Lawyers commonly argue by analogy. Is the system described in hypothetical 1(e) above more like an extended cable television service, so that its transmissions should be considered public performances? Or are the transmissions more like the paradigmatic example of a private transmission: from a personal roof-top antenna to a television set in a living room? In *WNET, Thirteen v. Aereo, Inc.*, ___ F.3d ___, 2013 WL 1285591 (2d Cir.) the court affirmed a refusal to preliminarily enjoin a similar Internet television service. The court identified four guideposts in the *Cablevision* decision:

First and most important, the Transmit Clause directs courts to consider the potential audience of the individual transmission. If that transmission is “capable of being received by the public” the transmission is a public performance; if the potential audience of the transmission is only one subscriber, the transmission is not a public performance. . . . Second and following from the first, private transmissions—that is those not capable of being received by the public—should not be aggregated. It is therefore irrelevant to the Transmit Clause analysis whether the public is capable of receiving the same underlying work or original performance of the work by means of many transmissions. Third, there is an exception to this no-aggregation rule when private transmissions are generated from the same copy of the work. In such cases, these private transmissions should be aggregated, and if these aggregated transmissions from a single copy enable the public to view that copy, the transmissions are public performances. Fourth and finally, “any factor that limits the potential audience of a transmission is relevant” to the Transmit Clause analysis.

Id. at *8. According to the court, “Plaintiffs provide no reason why Aereo’s multiple, audience-of-one transmissions of unique copies of the same underlying program should be aggregated but not Cablevision’s multiple, audience-of-one transmissions of unique copies of the same underlying program.” *Id.* at *10. *But see Fox Television Stations, Inc. v. BarryDriller Content Systems*, ___ F. Supp. 2d ___, 2012 WL 6784498 (C.D. Cal.) (rejecting Cablevision approach and granting preliminary injunction against similar television-over-the-Internet service), *appeal docketed*, No. 13-55226 (9th Cir. Feb. 7, 2013).

c. Replace Question 3 with the following:

3. In both *Cablevision* and *Aereo* the technical design of the services mattered significantly to the infringement analysis. Many cloud computing services, such as Internet music lockers, also have relied on technical design to minimize the

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likelihood of infringement liability. Should determination of infringement turn on technical design details? Should Congress amend the statute so that infringement liability turns less on the technical details of a particular system and more on its economic impact? How might such a change affect the availability of innovative new services?

Page 433. *In the Note on Cable and Satellite Retransmission Rights, before the last full paragraph, insert the following:*

The Satellite Television Extension and Localism Act of 2010 (STELA), Pub. L. No. 111-175, reauthorized the retransmission rules through December 31, 2014, and updated the law to reflect the transition to digital television. STELA also made several changes that effectively expanded the number of households that are eligible to receive distant network signals via satellite. A household now can be considered “unserved” if it is unable to receive a signal using an antenna. The previous statutory language required that the household be unable to receive the signal using “a conventional, stationary, outdoor rooftop receiving antenna.” 17 U.S.C. §119(d)(10)(A). STELA also directs the Register of Copyrights, after consultation with the FCC, to submit a report within 18 months on phasing out the compulsory license for retransmission of distant broadcast signals.

G. Copyright and the Music Industry

Page 434. *Replace Question 2 with the following:*

2. The Second Circuit has held that television broadcast retransmission over the Internet is not eligible to rely on the §111 compulsory license used by cable providers. *WPIX v. ivi, Inc.*, 691 F.3d 275 (2d Cir. 2012). Should Congress adopt a compulsory license system for entities that desire to retransmit television broadcasts over the Internet? Recall the discussion following *Cablevision* of services that transmit television signals over the Internet from separate antennae designated for each user, *supra* page 396 of this Supplement. Would a compulsory license for such activity be a better approach?

Pages 453-54. *In the Notes and Questions, at the end of Question 3 insert the following:*

In Case C-467/08, *Padawan S.L. v. Sociedad General de Autores y Editores (SGAE)* (Oct. 21, 2010), the European Court of Justice ruled that the “fair compensation” requirement in article 5(2)(b) also imposes limits on royalty pooling schemes.

Padawan, a marketer of storage media, challenged Spain's flat-rate levy, asserting that it improperly imposed a royalty on media purchased by corporate and professional entities and intended to be used for purposes other than private copying of copyrighted works. The court observed that the language of the requirement presumes "a linkage between the making of a private copy and the payment which is owed." *Id.* ¶189. The actual extent of private copying need not be proved; instead, the member states have discretion to implement a system of lump-sum remuneration based on potential or presumed use. Application of that system to corporate and professional entities, however, "extend[s] the compensation obligation . . . beyond natural persons and . . . extend[s] it to cases which do not involve a reproduction for private use." *Id.* ¶101. The court concluded that the "indiscriminate application" of the Spanish levy violated article 5(2)(b). *Id.* ¶112(4)-(5).

Pages 456-57. In Question 2, replace the second paragraph with the following:

When someone downloads a digital copy of a song over the Internet, should it be considered a public performance as well as a reproduction? Recall that the definition of public performance includes "to transmit or otherwise communicate a performance . . . to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times." 17 U.S.C. §101. In *United States v. ASCAP (Applications of RealNetworks, Inc. and Yahoo! Inc.)*, 627 F.3d 64 (2d Cir. 2010), the court expressly rejected ASCAP's argument that downloading constitutes a public performance. Focusing on the definition of "performance" in the statute, the court concluded that "[m]usic is neither recited, rendered, nor played when a recording (electronic or otherwise) is simply delivered to a potential listener." *Id.* at 73. Does it matter if the receiving computer is set up to automatically play the downloaded song? *See id.* at 74 n.10 (leaving open the possibility that under certain circumstances a transmission could implicate both the public performance and reproduction rights). Should the result change if the DPD is a ringtone delivered to a mobile phone, and the individual then programs the phone to play the ringtone whenever a call is received? *See In re Application of Celco Partnership*, 663 F. Supp. 2d 363 (S.D.N.Y. 2009) (rejecting ASCAP's claims that the download of a ringtone to a cell phone is a public performance and holding that, in the alternative, if playing a ringtone on a cell phone when a call is received constitutes a public performance, it is exempted by the §110(4) limitation for nonprofit performances).

Capitol Records, LLC v. ReDigi Inc.
934 F.Supp.2d 640 (S.D.N.Y. March 30, 2013)

SULLIVAN, J.: . . .

I. BACKGROUND

A. Facts

ReDigi markets itself as “the world’s first and only online marketplace for digital used music.” Launched on October 13, 2011, ReDigi’s website invites users to “sell their legally acquired digital music files, and buy used digital music from others at a fraction of the price currently available on iTunes.” Thus, much like used record stores, ReDigi permits its users to recoup value on their unwanted music. Unlike used record stores, however, ReDigi’s sales take place entirely in the digital domain.

To sell music on ReDigi’s website, a user must first download ReDigi’s “Media Manager” to his computer. Once installed, Media Manager analyzes the user’s computer to build a list of digital music files eligible for sale. A file is eligible only if it was purchased on iTunes or from another ReDigi user; music downloaded from a CD or other file-sharing website is ineligible for sale. After this validation process, Media Manager continually runs on the user’s computer and attached devices to ensure that the user has not retained music that has been sold or uploaded for sale. However, Media Manager cannot detect copies stored in other locations. If a copy is detected, Media Manager prompts the user to delete the file. The file is not deleted automatically or involuntarily, though ReDigi’s policy is to suspend the accounts of users who refuse to comply.

After the list is built, a user may upload any of his eligible files to ReDigi’s “Cloud Locker,” an ethereal moniker for what is, in fact, merely a remote server in Arizona. ReDigi’s upload process is a source of contention between the parties. ReDigi asserts that the process involves “migrating” a user’s file, packet by packet—“analogous to a train”—from the user’s computer to the Cloud Locker so that data does not exist in two places at any one time. Capitol asserts that, semantics aside, ReDigi’s upload process “necessarily involves copying” a file from the user’s computer to the Cloud Locker. Regardless, at the end of the process, the digital music file is located in the Cloud Locker and not on the user’s computer. Moreover, Media Manager deletes any additional copies of the file on the user’s computer and connected devices.

Once uploaded, a digital music file undergoes a second analysis to verify eligibility. If ReDigi determines that the file has not been tampered with or offered for sale by another user, the file is stored in the Cloud Locker, and the user is given the option of simply storing and streaming the file for personal use or offering it for sale in ReDigi’s marketplace. If a user chooses to sell his digital music file, his access to the file is terminated and transferred to the new owner at the time of purchase. Thereafter, the new owner can store the file in the Cloud Locker, stream it, sell it, or download it to her computer and other devices. No money changes hands in these transactions. Instead, users buy music with credits they either purchased from ReDigi or acquired from other sales. ReDigi credits, once acquired, cannot be exchanged for money. Instead, they can only be used to purchase additional music. . . .

Finally, ReDigi earns a fee for every transaction. ReDigi’s website prices digital music files at fifty-nine to seventy-nine cents each. When users purchase a file, with credits, 20% of the sale price is allocated to the seller, 20% goes to an “escrow” fund for the artist, and 60% is retained by ReDigi.³

B. Procedural History

Capitol, which owns a number of the recordings sold on ReDigi’s website . . . alleges multiple violations of the Copyright Act

³ On June 11, 2012, ReDigi launched ReDigi 2.0, new software that, when installed on a user’s computer, purportedly directs the user’s new iTunes purchases to upload from iTunes directly -to the Cloud Locker. Accordingly, while access may transfer from user to user upon resale, the file is never moved from its initial location in the Cloud Locker. However, because ReDigi 2.0 launched after Capitol filed the Complaint and mere days before the close of discovery, the Court will not consider it in this action.

On July 20, 2012, Capitol filed its motion for partial summary judgment on the claims that ReDigi directly and secondarily infringed Capitol’s reproduction and distribution rights. . . .

III. DISCUSSION

. . . The novel question presented in this action is whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine. The Court determines that it cannot. . . .

1. Reproduction Rights . . .

. . . [T]he plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new *material object*.

The legislative history of the Copyright Act bolsters this reading. . . .

Courts that have dealt with infringement on peer-to-peer (“P2P”) file-sharing systems provide valuable guidance on the application of this right in the digital domain. For instance, in *London–Sire Records, Inc. v. John Doe 1*, the court addressed whether users of P2P software violated copyright owners’ distribution rights. 542 F. Supp. 2d 153, 166 & n.16 (D. Mass.2008). Citing the “material object” requirement, the court expressly differentiated between the copyrighted work—or digital music file—and the phonorecord—or “appropriate segment of the hard disk” that the file would be embodied in following its transfer. *Id.* at 171. . . .

This understanding is, of course, confirmed by the laws of physics. It is simply impossible that the same “material object” can be transferred over the Internet. . . .

Given this finding, the Court concludes that ReDigi’s service infringes Capitol’s reproduction rights under any description of the technology. . . .

2. Distribution Rights

. . . Like the court in *London–Sire*, the Court agrees that “[a]n electronic file transfer is plainly within the sort of transaction that §106(3) was intended to reach [and] . . . fit[s] within the definition of ‘distribution’ of a phonorecord.” *London–Sire*, 542 F. Supp. 2d at 173–74. For that reason, “courts have not hesitated to find copyright infringement by distribution in cases of file-sharing or electronic transmission of copyrighted works.” *Arista Records LLC v. Greubel*, 453 F. Supp. 2d 961, 968 (N.D. Tex. 2006) (collecting cases). . . .

There is no dispute that sales occurred on ReDigi’s website. Capitol has established that it was able to buy more than one-hundred of its own recordings on ReDigi’s website, and ReDigi itself compiled a list of its completed sales of Capitol’s recordings. . . .

Accordingly, the Court concludes that, absent the existence of an affirmative defense, the sale of digital music files on ReDigi’s website infringes Capitol’s exclusive right of distribution. . . .

B. Affirmative Defenses . . .

ReDigi asserts that its service, which involves the resale of digital music files lawfully purchased on iTunes, is protected by the first sale defense. The Court disagrees.

As an initial matter, it should be noted that the [first sale] defense is, by its own terms, limited to assertions of the *distribution right*. 17 U.S.C. §109 (referencing Section 106(3)). Because the Court has concluded that ReDigi’s service violates Capitol’s reproduction right, the first sale defense does not apply to ReDigi’s infringement of those rights.

In addition, the first sale doctrine does not protect ReDigi’s distribution of Capitol’s copyrighted works. This is because, as an unlawful reproduction, a digital music file sold on ReDigi is not “lawfully made under this title.” 17 U.S.C. §109(a). Moreover, the statute protects only distribution by “the owner of a *particular* copy or phonorecord . . . of *that* copy or phonorecord.” *Id.* Here, a ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new phonorecord on the ReDigi server. Because it is therefore impossible for the user to sell her “particular” phonorecord on ReDigi, the first sale statute cannot provide a defense. Put another way, the first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing *reproductions* of the copyrighted code embedded in new material objects,

namely, the ReDigi server in Arizona and its users' hard drives. The first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era.

. . . ReDigi asserts that refusal to apply the first sale doctrine to its service would grant Capitol “a Court sanctioned extension of rights under the [C]opyright [A]ct . . . which is against policy, and should not be endorsed by this Court.”

The Court disagrees. ReDigi effectively requests that the Court amend the statute to achieve ReDigi's broader policy goals—goals that happen to advance ReDigi's economic interests. However, ReDigi's argument fails for two reasons. First, while technological change may have rendered Section 109(a) unsatisfactory to many contemporary observers and consumers, it has not rendered it ambiguous. The statute plainly applies to the lawful owner's “particular” phonorecord, a phonorecord that by definition cannot be uploaded and sold on ReDigi's website. Second, amendment of the Copyright Act in line with ReDigi's proposal is a legislative prerogative that courts are unauthorized and ill suited to attempt.

Nor are the policy arguments as straightforward or uncontested as ReDigi suggests. Indeed, . . . the United States Copyright Office (the “USCO”) rejected extension of the first sale doctrine to the distribution of digital works, noting that the justifications for the first sale doctrine in the physical world could not be imported into the digital domain. *See* USCO, Library of Cong., DMCA Section 104 Report (2001) (“DMCA Report”). For instance, the USCO stated that “the impact of the [first sale] doctrine on copyright owners [is] limited in the off-line world by a number of factors, including geography and the gradual degradation of books and analog works.” DMCA Report at xi. Specifically,

[p]hysical copies of works degrade with time and use, making used copies less desirable than new ones. Digital information does not degrade, and can be reproduced perfectly on a recipient's computer. The “used” copy is just as desirable as (in fact, is indistinguishable from) a new copy of the same work. Time, space, effort and cost no longer act as barriers to the movement of copies, since digital copies can be transmitted nearly instantaneously anywhere in the world with minimal effort and negligible cost. The need to transport physical copies of works, which acts as a natural brake on the effect of resales on the copyright owner's market, no longer exists in the realm of digital transmissions. The ability of such “used” copies to compete for market share with new copies is thus far greater in the digital world.

Id. at 82–83 (footnotes omitted). Thus, while ReDigi mounts attractive policy arguments, they are not as one-sided as it contends.

Finally, ReDigi feebly argues that the Court's reading of Section 109(a) would in effect exclude digital works from the meaning of the statute. That is not the case. Section 109(a) still protects a lawful owner's sale of her “particular” phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded. While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than, those involved in the resale of CDs and cassettes, the limitation is hardly absurd—the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons, some discussed herein, for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded. . . .

Supplement for

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IN A

GLOBAL INFORMATION ECONOMY

Third Edition

Release date: August 1, 2014

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Public Performance After *Aereo*

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C. COMMUNICATION TO THE PUBLIC BY PERFORMANCE OR DISPLAY

The Copyright Act grants the exclusive right of public performance to copyright owners of “literary, musical, dramatic and choreographic works, pantomimes, and motion pictures and other audiovisual works,” 17 U.S.C. §106(4), and the exclusive right of public display to copyright owners of “literary, musical, dramatic and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work,” *id.* §106(5). (Copyright owners of sound recordings enjoy a separate, narrower public performance right, which we discuss in Chapter 5.G (Third Edition))

Under the Copyright Act of 1909, public performance rights extended only to those performances engaged in for profit. However, determining what counted as for profit became more difficult as new business practices and new technologies for enjoying copyrighted works developed. Beginning in 1913, the newly formed American Society of Composers, Authors, and Publishers (ASCAP) attempted to convince businesses like restaurants and retail stores that they needed to pay royalties for the right to have musicians play copyrighted music as background entertainment in their establishments, but the businesses resisted and courts were divided on the question. In 1917, the Supreme Court decided a case brought by ASCAP and issued a unanimous opinion rejecting the argument that a performance is for profit only when tickets are sold at the door:

If the rights under the copyright are infringed only by a performance where money is taken at the door they are very imperfectly protected. . . . The defendants’ performances are not eleemosynary. They are part of a total for which the public pays, and the fact that the price of the whole is attributed to a particular item which those present are expected to order, is not important. It is true that the music is not the sole object, but neither is the food, which probably could be got cheaper elsewhere. The object is a repast in surroundings that to people having limited powers of conversation or disliking the rival noise give a luxurious pleasure not to be had from eating a silent meal. If music did not pay it would be given up. If it pays it pays out of the public’s pocket. Whether it pays or not the purpose of employing it is profit, and that is enough.

Herbert v. Shanley, 242 U.S. 591, 594-95 (1917) (Holmes, J.).

Determining what counted as a performance also became less straightforward as technologies for enjoying copyrighted works developed. Courts struggled to decide whether playing music over the radio in a business open to the public constituted a public performance. Clearly, the radio station was engaged in a public performance for profit, but the conduct of the business was hard to characterize. The reasoning of *Herbert v. Shanley* seemed to apply, but if both the radio station and the business were engaged in a public performance for which the copyright owner was entitled to compensation, then arguably the copyright owner would be able to claim double compensation for a single performance. In 1975, the Supreme Court decided *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151 (1975), a case involving the owner of a small fast-food shop who played the radio over four speakers in the ceiling. The Court held that when Mr. Aiken turned on the radio, he was the audience, not the performer, for the performance engaged in by the radio station.

In another line of cases, courts considered whether so-called community antenna television (CATV) systems that had been formed to retransmit network television programming to remote and underserved areas were engaged in public performances for profit. Finally, in *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968), the Supreme Court ruled that a CATV provider that “neither edited the programs received nor originated any programs of its own,” but instead amplified existing broadcast signals for the benefit of its subscribers, also was more like a viewer than a performer. The Court reaffirmed that conclusion in *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974), ruling that a CATV provider that retransmitted broadcast programming over distances spanning hundreds of

miles did not become a performer simply because it made an initial choice about which broadcast stations to retransmit.

The 1976 Act resolved these long-running disputes by removing the for-profit limitation and by defining “performance” broadly in a way that unambiguously covered not only a business like Mr. Aiken’s that turns on a radio but also performances accomplished with use of new technologies:

To “perform” a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

17 U.S.C. §101. The 1976 Act defined “display” with equal breadth:

To “display” a work means to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images nonsequentially.

Looking Forward

Under these definitions, turning on a radio or television or streaming an audio or video file constitutes a performance or display of any copyrighted works being broadcast or webcast, and doing so in a business like Mr. Aiken’s constitutes a public performance. Congress also created exceptions allowing certain categories of nonprofit performances and displays. We will consider those exceptions, contained in §110 of the Act, in Section F.5 of Chapter 5 (Third Edition).

Id.

While the definitions of “performance” and “display” cover a wide range of actions, only *public* performances and displays are subject to the control of the copyright owner. According to §101:

To perform or display a work “publicly” means —

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

Many applications of these definitions are straightforward. A radio or television station that broadcasts a copyrighted work is engaged in a public performance, but the person who turns on the radio or television in the privacy of her home is not. Other situations are more complicated, as the materials below illustrate.

1. Scope of the Exclusive Rights

The definitions of “performance,” “display,” and “publicly” in the 1976 Act were intended to cure perceived problems of underbreadth resulting from the application of the 1909 Act to new broadcast technologies. The new definitions, however, also have been tested by technological developments.

a. Once Publicly, Always Publicly?

Cartoon Network LP v. CSC Holdings, Inc.

536 F.3d 121 (2d Cir. 2008), cert. denied, 557 U.S. 946 (2009)

WALKER, J.: . . . In March 2006, Cablevision, an operator of cable television systems, announced the advent of its new “Remote Storage DVR System.” As designed, the RS–DVR allows Cablevision customers who do not have a stand-alone DVR to record cable programming on

central hard drives housed and maintained by Cablevision at a “remote” location. RS–DVR customers may then receive playback of those programs through their home television sets, using only a remote control and a standard cable box equipped with the RS–DVR software. Cablevision notified its content providers, including plaintiffs, of its plans to offer RS–DVR, but it did not seek any license from them to operate or sell the RS–DVR.

Plaintiffs, which hold the copyrights to numerous movies and television programs, sued Cablevision for declaratory and injunctive relief. They alleged that Cablevision’s proposed operation of the RS–DVR would directly infringe their exclusive rights to both reproduce and publicly perform their copyrighted works. Critically for our analysis here, plaintiffs alleged theories only of direct infringement, not contributory infringement, and defendants waived any defense based on fair use. . . .

I. Operation of the RS–DVR System . . .

[Review the facts of this case, Third Edition Chapter 2, pages 54-55.]

As the district court observed, “the RS–DVR is not a single piece of equipment,” but rather “a complex system requiring numerous computers, processes, networks of cables, and facilities staffed by personnel twenty-four hours a day and seven days a week.” To the customer, however, the processes of recording and playback on the RS–DVR are similar to that of a standard set-top DVR. Using a remote control, the customer can record programming by selecting a program in advance from an on-screen guide, or by pressing the record button while viewing a given program. A customer cannot, however, record the earlier portion of a program once it has begun. To begin playback, the customer selects the show from an on-screen list of previously recorded programs. The principal difference in operation is that, instead of sending signals from the remote to an on-set box, the viewer sends signals from the remote, through the cable, to the Arroyo Server at Cablevision’s central facility. In this respect, RS–DVR more closely resembles a VOD service, whereby a cable subscriber uses his remote and cable box to request transmission of content, such as a movie, stored on computers at the cable company’s facility. But unlike a VOD service, RS–DVR users can only play content that they previously requested to be recorded.

Cablevision has some control over the content available for recording: a customer can only record programs on the channels offered by Cablevision (assuming he subscribes to them). Cablevision can also modify the system to limit the number of channels available and considered doing so during development of the RS–DVR.

II. The District Court’s Decision . . .

In the district court, plaintiffs successfully argued that Cablevision’s proposed system would directly infringe their copyrights . . . by transmitting the data from the Arroyo Server hard disks to its RS–DVR customers in response to a “playback” request, Cablevision would directly infringe plaintiffs’ exclusive right of public performance. . . . [T]he district court awarded summary declaratory judgment to plaintiffs and enjoined Cablevision from operating the RS–DVR system without obtaining licenses from the plaintiff copyright holders. . . .

DISCUSSION

We review a district court’s grant of summary judgment de novo. . . .

III. Transmission of RS–DVR Playback

Plaintiffs’ final theory is that Cablevision will violate the Copyright Act by engaging in unauthorized public performances of their works through the playback of the RS–DVR copies. The Act grants a copyright owner the exclusive right, “in the case of . . . motion pictures and other audiovisual works, to perform the copyrighted work publicly.” 17 U.S.C. § 106(4). . . .

The parties agree that this case does not implicate clause (1) [of § 101’s definition of what “to perform or display a work ‘publicly’ means”]. . . . Accordingly, we ask whether these facts satisfy the second, “transmit clause” of the public performance definition: Does Cablevision “transmit . . . a performance . . . of the work . . . to the public”? No one disputes that the RS–DVR playback results in the transmission of a performance of a work—the transmission from the

Arroyo Server to the customer's television set. Cablevision contends that . . . the transmission is not "to the public" under the transmit clause. . . .

The statute itself does not expressly define the term "performance" or the phrase "to the public." It does explain that a transmission may be "to the public . . . whether the members of the public capable of receiving the performance . . . receive it in the same place or in separate places and at the same time or at different times." *Id.* This plain language instructs us that, in determining whether a transmission is "to the public," it is of no moment that the potential recipients of the transmission are in different places, or that they may receive the transmission at different times. The implication from this same language, however, is that it is relevant, in determining whether a transmission is made to the public, to discern who is "capable of receiving" the performance being transmitted. The fact that the statute says "capable of receiving the performance," instead of "capable of receiving the transmission," underscores the fact that a transmission of a performance is itself a performance.

The legislative history of the transmit clause supports this interpretation. The House Report on the 1976 Copyright Act states that

[u]nder the bill, as under the present law, a performance made available *by transmission to the public at large* is "public" even though the recipients are not gathered in a single place, and even if there is no proof that any of the *potential recipients* was operating his receiving apparatus at the time of the transmission. The same principles apply whenever the *potential recipients of the transmission* represent a limited segment of the public, such as the occupants of hotel rooms or the subscribers of a cable television service.

H.R.Rep. No. 94-1476, at 64-65 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5678 (emphases added).

Plaintiffs also reference a 1967 House Report, issued nearly a decade before the Act we are interpreting, stating that the same principles apply where the transmission is "*capable of reaching* different recipients at different times, as in the case of sounds or images stored in an information system and *capable of being performed or displayed* at the initiative of individual members of the public." H.R.Rep. No. 90-83, at 29 (1967) (emphases added). We question how much deference this report deserves. But we need not belabor the point here, as the 1967 report is consistent with both legislative history contemporaneous with the Act's passage and our own interpretation of the statute's plain meaning.

From the foregoing, it is evident that the transmit clause directs us to examine who precisely is "capable of receiving" a particular transmission of a performance. Cablevision argues that, because each RS-DVR transmission is made using a single unique copy of a work, made by an individual subscriber, one that can be decoded exclusively by that subscriber's cable box, only one subscriber is capable of receiving any given RS-DVR transmission. This argument accords with the language of the transmit clause, which, as described above, directs us to consider the potential audience of a given transmission. . . .

The district court, in deciding whether the RS-DVR playback of a program to a particular customer is "to the public," apparently considered all of Cablevision's customers who subscribe to the channel airing that program and all of Cablevision's RS-DVR subscribers who request a copy of that program. Thus, it concluded that the RS-DVR playbacks constituted public performances because "Cablevision would transmit the *same program* to members of the public, who may receive the performance at different times, depending on whether they view the program in real time or at a later time as an RS-DVR playback." In essence, the district court suggested that, in considering whether a transmission is "to the public," we consider not the potential audience of a particular transmission, but the potential audience of the underlying work (i.e., "the program") whose content is being transmitted.

We cannot reconcile the district court's approach with the language of the transmit clause. That clause speaks of people capable of receiving a particular "transmission" or "performance," and not of the potential audience of a particular "work." Indeed, such an approach

would render the “to the public” language surplusage. Doubtless the *potential* audience for every copyrighted audiovisual work is the general public. As a result, any transmission of the content of a copyrighted work would constitute a public performance under the district court’s interpretation. But the transmit clause obviously contemplates the existence of non-public transmissions; if it did not, Congress would have stopped drafting that clause after “performance.”

On appeal, plaintiffs offer a slight variation of this interpretation. They argue that both in its real-time cablecast and via the RS–DVR playback, Cablevision is in fact transmitting the “same performance” of a given work: the performance of the work that occurs when the programming service supplying Cablevision’s content transmits that content to Cablevision and the service’s other licensees.

Thus, according to plaintiffs, when Congress says that to perform a work publicly means to transmit . . . a performance . . . to the public, they really meant “transmit . . . the ‘original performance’ . . . to the public.” The implication of this theory is that to determine whether a given transmission of a performance is “to the public,” we would consider not only the potential audience of that transmission, but also the potential audience of any transmission of the same underlying “original” performance.

Like the district court’s interpretation, this view obviates any possibility of a purely private transmission. Furthermore, it makes Cablevision’s liability depend, in part, on the actions of legal strangers. Assume that HBO transmits a copyrighted work to both Cablevision and Comcast. Cablevision merely retransmits the work from one Cablevision facility to another, while Comcast retransmits the program to its subscribers. Under plaintiffs’ interpretation, Cablevision would still be transmitting the performance to the public, solely because Comcast has transmitted the same underlying performance to the public. Similarly, a hapless customer who records a program in his den and later transmits the recording to a television in his bedroom would be liable for publicly performing the work simply because some other party had once transmitted the same underlying performance to the public.

We do not believe Congress intended such odd results. Although the transmit clause is not a model of clarity, we believe that when Congress speaks of transmitting a performance to the public, it refers to the performance created by the act of transmission. Thus, HBO transmits its own performance of a work when it transmits to Cablevision, and Cablevision transmits its own performance of the same work when it retransmits the feed from HBO.

Furthermore, we believe it would be inconsistent with our own transmit clause jurisprudence to consider the potential audience of an upstream transmission by a third party when determining whether a defendant’s own subsequent transmission of a performance is “to the public.” In *National Football League v. PrimeTime 24 Joint Venture* (NFL), 211 F.3d 10 (2000), we examined the transmit clause in the context of satellite television provider PrimeTime, which captured protected content in the United States from the NFL, transmitted it from the United States to a satellite (“the uplink”), and then transmitted it from the satellite to subscribers in both the United States and Canada (“the downlink”). PrimeTime . . . argued that the uplink transmission was not a public performance because it was a transmission to a single satellite.

The *NFL* court . . . flatly rejected th[is argument] . . . on a specific and germane ground:

We believe the most logical interpretation of the Copyright Act is to hold that a public performance or display includes each step in the process by which a protected work wends its way to its audience. Under that analysis, it is clear that PrimeTime’s uplink transmission of signals captured in the United States is a step in the process by which NFL’s protected work wends its way to a public audience.

Id. at 13 (emphasis added) (internal quotation and citation omitted). . . . Notably, the *NFL* court did not base its decision on the fact that an upstream transmission by another party (the NFL) might have been to the public. Nor did the court base its decision on the fact that Primetime simultaneously transmitted a [licensed] performance of the work to the public in the United

States. Because *NFL* directs us to look downstream, rather than upstream or laterally, to determine whether any link in a chain of transmissions made by a party constitutes a public performance, we reject plaintiffs' contention that we examine the potential recipients of the content provider's initial transmission to determine who is capable of receiving the RS-DVR playback transmission.

In sum, none of the arguments advanced by plaintiffs or the district court alters our conclusion that, under the transmit clause, we must examine the potential audience of a given transmission by an alleged infringer to determine whether that transmission is "to the public." And because the RS-DVR system, as designed, only makes transmissions to one subscriber using a copy made by that subscriber, we believe that the universe of people capable of receiving an RS-DVR transmission is the single subscriber whose self-made copy is used to create that transmission.

Plaintiffs contend that it is "wholly irrelevant, in determining the existence of a public performance, whether 'unique' copies of the same work are used to make the transmissions." Fox Br. at 27. But plaintiffs cite no authority for this contention. And our analysis of the transmit clause suggests that, in general, any factor that limits the *potential* audience of a transmission is relevant.

Furthermore, no transmission of an audiovisual work can be made, we assume, without using a copy of that work: to transmit a performance of a movie, for example, the transmitter generally must obtain a copy of that movie. As a result, in the context of movies, television programs, and other audiovisual works, the right of reproduction can reinforce and protect the right of public performance. If the owner of a copyright believes he is injured by a particular transmission of a performance of his work, he may be able to seek redress not only for the infringing transmission, but also for the underlying copying that facilitated the transmission. Given this interplay between the various rights in this context, it seems quite consistent with the Act to treat a transmission made using Copy A as distinct from one made using Copy B, just as we would treat a transmission made by Cablevision as distinct from an otherwise identical transmission made by Comcast. Both factors—the identity of the transmitter and the source material of the transmission—limit the potential audience of a transmission in this case and are therefore germane in determining whether that transmission is made "to the public."

In sum, we find that the transmit clause directs us to identify the potential audience of a given transmission, i.e., the persons "capable of receiving" it, to determine whether that transmission is made "to the public." Because each RS-DVR playback transmission is made to a single subscriber using a single unique copy produced by that subscriber, we conclude that such transmissions are not performances "to the public," and therefore do not infringe any exclusive right of public performance. We base this decision on the application of undisputed facts; thus, Cablevision is entitled to summary judgment on this point.

This holding, we must emphasize, does not generally permit content delivery networks to avoid all copyright liability by making copies of each item of content and associating one unique copy with each subscriber to the network, or by giving their subscribers the capacity to make their own individual copies. We do not address whether such a network operator would be able to escape any other form of copyright liability, such as liability for unauthorized reproductions or liability for contributory infringement. . . .

American Broadcasting Companies, Inc. v. Aereo, Inc.

134 S. Ct. 2498 (2014)

BREYER, J.: . . . For a monthly fee, Aereo offers subscribers broadcast television programming over the Internet, virtually as the programming is being broadcast. Much of this programming is made up of copyrighted works. Aereo neither owns the copyright in those works nor holds a license from the copyright owners to perform those works publicly.

Aereo's system is made up of servers, transcoders, and thousands of dime-sized antennas housed in a central warehouse. It works roughly as follows: First, when a subscriber wants to watch a show that is currently being broadcast, he visits Aereo's website and selects, from a list of the local programming, the show he wishes to see.

Second, one of Aereo's servers selects an antenna, which it dedicates to the use of that subscriber (and that subscriber alone) for the duration of the selected show. A server then tunes the antenna to the over-the-air broadcast carrying the show. The antenna begins to receive the broadcast, and an Aereo transcoder translates the signals received into data that can be transmitted over the Internet.

Third, rather than directly send the data to the subscriber, a server saves the data in a subscriber-specific folder on Aereo's hard drive. In other words, Aereo's system creates a subscriber-specific copy—that is, a “personal” copy—of the subscriber's program of choice.

Fourth, once several seconds of programming have been saved, Aereo's server begins to stream the saved copy of the show to the subscriber over the Internet. (The subscriber may instead direct Aereo to stream the program at a later time, but that aspect of Aereo's service is not before us.) The subscriber can watch the streamed program on the screen of his personal computer, tablet, smart phone, Internet-connected television, or other Internet-connected device. The streaming continues, a mere few seconds behind the over-the-air broadcast, until the subscriber has received the entire show.

Aereo emphasizes that the data that its system streams to each subscriber are the data from his own personal copy, made from the broadcast signals received by the particular antenna allotted to him. Its system does not transmit data saved in one subscriber's folder to any other subscriber. When two subscribers wish to watch the same program, Aereo's system activates two separate antennas and saves two separate copies of the program in two separate folders. It then streams the show to the subscribers through two separate transmissions—each from the subscriber's personal copy.

B

Petitioners are television producers, marketers, distributors, and broadcasters who own the copyrights in many of the programs that Aereo's system streams to its subscribers. They brought suit against Aereo for copyright infringement in Federal District Court. They sought a preliminary injunction, arguing that Aereo was infringing their right to “perform” their works “publicly,” as the Transmit Clause defines those terms.

The District Court denied the preliminary injunction. Relying on prior Circuit precedent, a divided panel of the Second Circuit affirmed. . . .

II

This case requires us to answer two questions: First, in operating in the manner described above, does Aereo “perform” at all? And second, if so, does Aereo do so “publicly”? We address these distinct questions in turn.

. . . In Aereo's view, it does not perform. It does no more than supply equipment that “emulate[s] the operation of a home antenna and [digital video recorder (DVR)].” Brief for Respondent 41. Like a home antenna and DVR, Aereo's equipment simply responds to its subscribers' directives. So it is only the subscribers who “perform” when they use Aereo's equipment to stream television programs to themselves.

Considered alone, the language of the Act does not clearly indicate when an entity “perform[s]” (or “transmit[s]”) and when it merely supplies equipment that allows others to do so. But when read in light of its purpose, the Act is unmistakable: An entity that engages in activities like Aereo's performs.

A

History makes plain that one of Congress' primary purposes in amending the Copyright Act in 1976 was to overturn this Court's determination that community antenna television (CATV) systems (the precursors of modern cable systems) fell outside the Act's scope. . . . In

Fortnightly Corp. v. United Artists Television, Inc., 392 U.S. 390 (1968), the Court considered a CATV system that carried local television broadcasting, much of which was copyrighted, to its subscribers in two cities. The CATV provider placed antennas on hills above the cities and used coaxial cables to carry the signals received by the antennas to the home television sets of its subscribers. . . .

Asked to decide whether the CATV provider infringed copyright holders' exclusive right to perform their works publicly, the Court held that the provider did not "perform" at all. . . . The Court drew a line: "Broadcasters perform. Viewers do not perform." [*Fortnightly*,] 392 U. S., at 398 (footnote omitted). And a CATV provider "falls on the viewer's side of the line." *Id.*, at 399.

. . .

In *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974), the Court considered the copyright liability of a CATV provider that carried broadcast television programming into subscribers' homes from hundreds of miles away. Although the Court recognized that a viewer might not be able to afford amplifying equipment that would provide access to those distant signals, it nonetheless found that the CATV provider was more like a viewer than a broadcaster. *Id.*, at 408–409, 94 S.Ct. 1129. It explained: "The reception and rechanneling of [broadcast television signals] for simultaneous viewing is essentially a viewer function, irrespective of the distance between the broadcasting station and the ultimate viewer." *Id.*, at 408. . . .

B

In 1976, Congress amended the Copyright Act in large part to reject the Court's holdings in *Fortnightly* and *Teleprompter*. See H. R. Rep. No. 94–1476, pp. 86–87 (1976) (hereinafter H. R. Rep.) . . . Congress enacted new language that erased the Court's line between broadcaster and viewer, in respect to "perform[ing]" a work. The amended statute clarifies that to "perform" an audiovisual work means "to show its images in any sequence or to make the sounds accompanying it audible." §101. Under this new language, *both* the broadcaster *and* the viewer of a television program "perform," because they both show the program's images and make audible the program's sounds.

Congress also enacted the Transmit Clause, which specifies that an entity performs publicly when it "transmit[s] . . . a performance . . . to the public." §101; see *ibid.* (defining "[t]o 'transmit' a performance" as "to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent"). Cable system activities, like those of the CATV systems in *Fortnightly* and *Teleprompter*, lie at the heart of the activities that Congress intended this language to cover. See H.R. Rep., at 63 (["A] cable television system is performing when it retransmits [a network] broadcast to its subscribers"). The Clause thus makes clear that an entity that acts like a CATV system itself performs, even if when doing so, it simply enhances viewers' ability to receive broadcast television signals. . . .

Congress further created a new section of the Act to regulate cable companies' public performances of copyrighted works. See §111. Section 111 creates a complex, highly detailed compulsory licensing scheme that sets out the conditions, including the payment of compulsory fees, under which cable systems may retransmit broadcasts. . . .

Congress made these three changes to achieve a similar end: to bring the activities of cable systems within the scope of the Copyright Act.

C

This history makes clear that Aereo is not simply an equipment provider. Rather, Aereo, and not just its subscribers, "perform[s]" (or "transmit[s]"). Aereo's activities are substantially similar to those of the CATV companies that Congress amended the Act to reach. . . . By means of its technology (antennas, transcoders, and servers), Aereo's system "receive[s] programs that have been released to the public and carr[ies] them by private channels to additional viewers." *Fortnightly*, 392 U. S., at 400. It "carr[ies] . . . whatever programs [it] receive[s]," and it offers "all the programming" of each over-the-air station it carries. *Id.*, at 392, 400.

Aereo's equipment may serve a "viewer function"; it may enhance the viewer's ability to receive a broadcaster's programs. It may even emulate equipment a viewer could use at home. But the same was true of the equipment that was before the Court, and ultimately before Congress, in *Fortnightly* and *Teleprompter*.

We recognize . . . one particular difference between Aereo's system and the cable systems at issue in *Fortnightly* and *Teleprompter*. The systems in those cases transmitted constantly; they sent continuous programming to each subscriber's television set. In contrast, Aereo's system remains inert until a subscriber indicates that she wants to watch a program. Only at that moment, in automatic response to the subscriber's request, does Aereo's system activate an antenna and begin to transmit the requested program. . . .

Given Aereo's overwhelming likeness to the cable companies targeted by the 1976 amendments, this sole technological difference between Aereo and traditional cable companies does not make a critical difference here. . . . Of course, in *Fortnightly* the television signals, in a sense, lurked behind the screen, ready to emerge when the subscriber turned the knob. Here the signals pursue their ordinary course of travel through the universe until today's "turn of the knob"—a click on a website—activates machinery that intercepts and reroutes them to Aereo's subscribers over the Internet. But this difference means nothing to the subscriber. It means nothing to the broadcaster. . . .

In other cases involving different kinds of service or technology providers, a user's involvement in the operation of the provider's equipment and selection of the content transmitted may well bear on whether the provider performs within the meaning of the Act. But the many similarities between Aereo and cable companies, considered in light of Congress' basic purposes in amending the Copyright Act, convince us that this difference is not critical here. We conclude that Aereo is not just an equipment supplier and that Aereo "perform[s]."

III

Next, we must consider whether Aereo performs petitioners' works "publicly," within the meaning of the Transmit Clause. Under the Clause, an entity performs a work publicly when it "transmit[s] . . . a performance . . . of the work . . . to the public." §101. . . .

Petitioners say Aereo transmits a *prior* performance of their works. Thus when Aereo retransmits a network's prior broadcast, the underlying broadcast (itself a performance) is the performance that Aereo transmits. Aereo . . . says the performance it transmits is the *new* performance created by its act of transmitting. That performance comes into existence when Aereo streams the sounds and images of a broadcast program to a subscriber's screen.

We assume *arguendo* that Aereo's first argument is correct. Thus, for present purposes, to transmit a performance of (at least) an audiovisual work means to communicate contemporaneously visible images and contemporaneously audible sounds of the work. . . . When an Aereo subscriber selects a program to watch, Aereo streams the program over the Internet to that subscriber. Aereo thereby "communicate[s]" to the subscriber, by means of a "device or process," the work's images and sounds. §101. And those images and sounds are contemporaneously visible and audible on the subscriber's computer (or other Internet-connected device). So under our assumed definition, Aereo transmits a performance whenever its subscribers watch a program.

But what about the Clause's further requirement that Aereo transmit a performance "to the public"? As we have said, an Aereo subscriber receives broadcast television signals with an antenna dedicated to him alone. Aereo's system makes from those signals a personal copy of the selected program. It streams the content of the copy to the same subscriber and to no one else. One and only one subscriber has the ability to see and hear each Aereo transmission. The fact that each transmission is to only one subscriber, in Aereo's view, means that it does not transmit a performance "to the public."

In terms of the Act's purposes, these differences do not distinguish Aereo's system from cable systems, which do perform "publicly." Viewed in terms of Congress' regulatory objectives,

why should any of these technological differences matter? They concern the behind-the-scenes way in which Aereo delivers television programming to its viewers' screens. They do not render Aereo's commercial objective any different from that of cable companies. Nor do they significantly alter the viewing experience of Aereo's subscribers. . . . [W]hy, if Aereo is right, could not modern CATV systems simply continue the same commercial and consumer-oriented activities, free of copyright restrictions, provided they substitute such new technologies for old? . . .

The text of the Clause effectuates Congress' intent. . . . [T]he Clause suggests that an entity may transmit a performance through multiple, discrete transmissions. That is because one can "transmit" or "communicate" something through a *set* of actions. Thus one can transmit a message to one's friends, irrespective of whether one sends separate identical e-mails to each friend or a single e-mail to all at once. So can an elected official communicate an idea, slogan, or speech to her constituents, regardless of whether she communicates that idea, slogan, or speech during individual phone calls to each constituent or in a public square.

The fact that a singular noun ("a performance") follows the words "to transmit" does not suggest the contrary. One can sing a song to his family, whether he sings the same song one-on-one or in front of all together. . . . By the same principle, an entity may transmit a performance through one or several transmissions, where the performance is of the same work.

The Transmit Clause must permit this interpretation, for it provides that one may transmit a performance to the public "whether the members of the public capable of receiving the performance . . . receive it . . . at the same time or at different times." §101. Were the words "to transmit . . . a performance" limited to a single act of communication, members of the public could not receive the performance communicated "at different times." Therefore, in light of the purpose and text of the Clause, we conclude that when an entity communicates the same contemporaneously perceptible images and sounds to multiple people, it transmits a performance to them regardless of the number of discrete communications it makes.

We do not see how the fact that Aereo transmits via personal copies of programs could make a difference. The Act applies to transmissions "by means of any device or process." *Ibid.* And retransmitting a television program using user-specific copies is a "process" of transmitting a performance. . . .

Moreover, the subscribers to whom Aereo transmits television programs constitute "the public." . . .

Neither the record nor Aereo suggests that Aereo's subscribers receive performances in their capacities as owners or possessors of the underlying works. This is relevant because when an entity performs to a set of people, whether they constitute "the public" often depends upon their relationship to the underlying work. When, for example, a valet parking attendant returns cars to their drivers, we would not say that the parking service provides cars "to the public." We would say that it provides the cars to their owners. We would say that a car dealership, on the other hand, does provide cars to the public, for it sells cars to individuals who lack a pre-existing relationship to the cars. Similarly, an entity that transmits a performance to individuals in their capacities as owners or possessors does not perform to "the public," whereas an entity like Aereo that transmits to large numbers of paying subscribers who lack any prior relationship to the works does so perform. . . .

IV

Aereo and many of its supporting *amici* argue that to apply the Transmit Clause to Aereo's conduct will impose copyright liability on other technologies, including new technologies, that Congress could not possibly have wanted to reach. We agree that Congress, while intending the Transmit Clause to apply broadly to cable companies and their equivalents, did not intend to discourage or to control the emergence or use of different kinds of technologies. But we do not believe that our limited holding today will have that effect.

For one thing, the history of cable broadcast transmissions that led to the enactment of the Transmit Clause informs our conclusion that Aereo “perform[s],” but it does not determine whether different kinds of providers in different contexts also “perform.” . . .

Further, we have interpreted the term “the public” to apply to a group of individuals acting as ordinary members of the public who pay primarily to watch broadcast television programs, many of which are copyrighted. We have said that it does not extend to those who act as owners or possessors of the relevant product. And we have not considered whether the public performance right is infringed when the user of a service pays primarily for something other than the transmission of copyrighted works, such as the remote storage of content. . . .

We also note that courts often apply a statute’s highly general language in light of the statute’s basic purposes. Finally, the doctrine of “fair use” can help to prevent inappropriate or inequitable applications of the Clause.

We cannot now answer more precisely how the Transmit Clause or other provisions of the Copyright Act will apply to technologies not before us. . . . And we note that, to the extent commercial actors or other interested entities may be concerned with the relationship between the development and use of such technologies and the Copyright Act, they are of course free to seek action from Congress. . . .

SCALIA, J., dissenting:

I. Legal Standard

There are two types of liability for copyright infringement: direct and secondary. As its name suggests, the former applies when an actor personally engages in infringing conduct. Secondary liability, by contrast, is a means of holding defendants responsible for infringement by third parties

The Networks’ claim is governed by a simple but profoundly important rule: A defendant may be held directly liable only if it has engaged in volitional conduct that violates the Act. This requirement is firmly grounded in the Act’s text, which defines “perform” in active, affirmative terms. . . . [T]he volitional-act requirement demands

conduct directed to the plaintiff’s copyrighted material. Every Court of Appeals to have considered an automated-service provider’s direct liability for copyright infringement has adopted

Comparative Perspective: Communication to the Public

Copyright regimes in many other countries define the scope of exclusive rights covering performance and display differently than the U.S. does. Articles 11 of the Berne Convention directs that authors of dramatic, dramatico-musical, and musical works shall enjoy the exclusive rights of “public performance of their works . . . by any means or process” and “communication to the public of their works.” Authors of literary and visual works shall enjoy exclusive rights to authorize the communication of their works to the public by broadcasting or rebroadcasting, by wire or wireless means, and by “loudspeaker or any other analogous instrument.” Id. art. 11bis. In addition, authors of literary works are to be granted exclusive rights of “public recitation of their works . . . by any means or process” and “communication to the public of the recitation of their works.” Id. art. 11ter.

Pursuant to these provisions and to Article 8 of the WIPO Copyright Treaty Article 3 of the European Copyright Directive instructs:

1. Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them. . . .

3. The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.

that rule. See *Fox Broadcasting Co. v. Dish Network LLC*, 747 F. 3d 1060, 1066–1068 (CA9 2014); *Cartoon Network, supra*, at 130–131 (CA2 2008); *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F. 3d 544, 549–550 (CA4 2004). Although we have not opined on the issue, our cases are fully consistent with a volitional-conduct requirement. . . .

The distinction between direct and secondary liability would collapse if there were not a clear rule for determining whether *the defendant* committed the infringing act. The volitional-conduct requirement supplies that rule; its purpose is not to excuse defendants from accountability, but to channel the claims against them into the correct analytical track. See Brief for 36 Intellectual Property and Copyright Law Professors as *Amici Curiae* 7. . . .

Looking Forward

We will revisit *Aereo*, *Cartoon Network*, and the question of volitional conduct in Chapter 6 (Third Edition), which considers the question of direct versus secondary liability in more detail.

II. Application to Aereo

. . . Unlike video-on-demand services, Aereo does not provide a prearranged assortment of movies and television shows. Rather, it assigns each subscriber an antenna that—like a library card—can be used to obtain whatever broadcasts are freely available. Some of those broadcasts are copyrighted; others are in the public domain. The key point is that subscribers call all the shots . . .

In sum, Aereo does not “perform” for the sole and simple reason that it does not make the choice of content. And because Aereo does not perform, it cannot be held directly liable for infringing the Networks’ public-performance right. That conclusion does not necessarily mean that Aereo’s service complies with the Copyright Act. Quite the contrary. The Networks’ complaint alleges that Aereo is directly *and* secondarily liable for infringing their public-performance rights (§106(4)) *and also* their reproduction rights (§106(1)). . . . Affirming the judgment below would merely return this case to the lower courts for consideration of the Networks’ remaining claims.

III. Guilt By Resemblance

The Court’s conclusion that Aereo performs boils down to the following syllogism: (1) Congress amended the Act to overrule our decisions holding that cable systems do not perform when they retransmit over-the-air broadcasts; (2) Aereo looks a lot like a cable system; therefore (3) Aereo performs. That reasoning suffers from a trio of defects.

First, it is built on the shakiest of foundations. Perceiving the text to be ambiguous, the Court reaches out to decide the case based on a few isolated snippets of legislative history. . . .

Second, the Court’s reasoning fails on its own terms because there are material differences between the cable systems at issue in *Teleprompter* and *Fortnightly*, on the one hand and Aereo on the other. The former . . . captured the full range of broadcast signals and forwarded them to all subscribers at all times, whereas Aereo transmits only specific programs selected by the user, at specific times selected by the user. . . . At the time of our *Teleprompter* decision, cable companies “perform[ed] the same functions as ‘broadcasters’ by deliberately selecting and importing distant signals, originating programs, [and] selling commercials,” *id.*, at 20, thus making them curators of content—more akin to video-on-demand services than copy shops. So far as the record reveals, Aereo does none of those things.

Third, and most importantly, even accepting that the 1976 amendments had as their purpose the overruling of our cable-TV cases, what they were meant to do and how they did it are two different questions—and it is the latter that governs the case before us here. . . .

. . . [T]he Court provides no criteria for determining when its cable-TV-lookalike rule applies. . . .

That leaves as the criterion of cable-TV-resemblance nothing but th’ol’ totality-of-the-circumstances test (which is not a test at all but merely assertion of an intent to perform test-free, ad hoc, case-by-case evaluation). It will take years, perhaps decades, to determine which

automated systems now in existence are governed by the traditional volitional-conduct test and which get the Aereo treatment. . . .

* * *

I share the Court’s evident feeling that what Aereo is doing (or enabling to be done) to the Networks’ copyrighted programming ought not to be allowed. But perhaps we need not distort the Copyright Act to forbid it. . . . It is not the role of this Court to identify and plug loopholes. It is the role of good lawyers to identify and exploit them, and the role of Congress to eliminate them if it wishes. Congress can do that, I may add, in a much more targeted, better informed, and less disruptive fashion than the crude “looks-like-cable-TV” solution the Court invents today. . . .

Notes and Questions

1. Why do you think the plaintiffs in *Cartoon Network* and *Aereo* objected to the service that the defendant provided? From a practical standpoint, how might you predict that Cablevision’s and Aereo’s services would affect the market for plaintiffs’ copyrighted works?

2. Why do you think Cablevision wanted to offer a remote DVR service to its subscribers? What considerations do you think motivated Aereo’s entry into the Internet retransmission market?

3. Who has the better argument about whether Aereo “perform[s]” the plaintiffs’ copyrighted works, the majority or Justice Scalia? Do you read the dissenting Justices to be arguing simply that there is a better/easier way to accomplish the goal of finding Aereo liable for copyright infringement, or that the interpretation put forth by the majority is inconsistent with the Copyright Act, or both?

4. Focus on the language of the transmit clause. According to the *Aereo* majority, to determine whether particular transmissions are made “publicly,” a court may consider a set of actions that includes transmissions to other parties. Is that interpretation consistent with the portion of the Copyright Act’s legislative history quoted by the *Cartoon Network* court?

After *Aereo*, is it ever appropriate to consider the group of recipients capable of receiving a transmission from a particular copy, as the *Cartoon Network* court did? Put differently, does *Aereo* overrule *Cartoon Network*? Are there legally relevant distinctions between the fact patterns in the two cases? Is the remote DVR service in *Cartoon Network* more like a valet parking service or a car dealership? (Is either comparison a good fit?) Which analogy better describes a provider of cloud storage?

5. How would the disputes in *Aereo* and *Cartoon Network* be decided under the approach prescribed by the European Directive? Do you prefer the European approach? Why, or why not?

Practice Exercise: Counsel a Client

You represent a startup company that wants to offer Internet-based cloud storage to paying subscribers. Users would be assigned dedicated server space according to a tiered pricing system, and would be able to upload their content to your client’s servers and access it as needed. Video content would be accessed by streaming the content to any device registered to the user’s account. What recommendations do you have for the company?

Now imagine that the company also plans to operate in jurisdictions governed by legislation implementing the European Copyright Directive. Does that change your advice? How?

b. Diving Deeper: Cable and Satellite Retransmission

Cable television originated as an attempt to address the problem of weak television signals in rural areas of the country. Cable operators erected large towers to receive broadcast

television signals and retransmit them through wires to individual homes. As the *Aereo* Court recounts, copyright owners sought compensation for this activity, while cable system operators argued that their systems simply “enhance[d] the viewer’s capacity to receive the broadcaster’s signals” and therefore did not engage in a new public performance of the works. *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 399 (1968).

As you already know, the 1976 Act broadened the definition of “performance” to encompass rendering of copyrighted content by means of any device or process. At the same time, Congress balanced the competing interests of copyright owners and cable operators and viewers by subjecting cable retransmissions of broadcast television signals to a compulsory license. Pursuant to the license, codified in §111 of the Act, cable television operators are not liable for copyright infringement as long as they file periodic accountings of their broadcast operations and pay a license fee based on a formula in the statute. (As explained in Third Edition Chapter 5, pages 339-40, the ephemeral copies generated in the course of retransmission are exempted from the scope of the §106(1) reproduction right by §112.)

In large measure, the details of the retransmission rules reflect concern for both the need for competition in the marketplace and the potential threat that cable systems posed to local broadcast stations. In the early years of cable television, it was the cable operators that needed assistance to enter the market for providing television signals to homes. Thus, retransmission of local signals and network programming does not require any fee. Cable retransmission of these signals and programs is thought not to invade the market for the underlying copyrighted work, because the rates charged for advertising take into account households that receive these broadcasts over cable as well. Additionally, cable systems are required by the Communications Act to carry local broadcast stations (this requirement is sometimes referred to as the “must carry” rule). *See* 47 U.S.C. §§534-535. The retransmission of distant non-network programs, however, is not required by FCC regulations, and may potentially harm the television market for those programs. Thus, retransmission of distant non-networked programs requires payment of a license fee. Payments are made to the Copyright Office and subsequently divided among program suppliers, professional sports leagues, and individual copyright claimants. Additionally, FCC network nonduplication, syndicated exclusivity, and sports blackout rules limit the ability of a cable company to import a distant broadcast that duplicates certain local broadcasts. Finally, the statutory license contained in §111 cannot be used to authorize retransmission of most programming originating in Canada or Mexico.

The statutory license provided by the original 1976 Copyright Act only addressed cable television systems. An unintended consequence of that approach was that the next technological innovation, satellite systems, faced a clear disadvantage in the marketplace. In order to broadcast any stations, the provider of the satellite system had to negotiate licenses individually. In 1988, Congress enacted the Satellite Home Viewer Act, codifying a compulsory license scheme for satellite retransmissions in §119. Section 119 originally covered only delivery of broadcast programming to previously unserved households, but was amended in 1999 to cover all satellite retransmissions of local broadcasts. Such retransmissions are subject to a carry-one/carry all requirement: if a satellite provider retransmits any local broadcast station, it must carry them all. Like the must carry rule, this requirement is codified in the Communications Act. *See* 47 U.S.C. §338.

The amendments to the Satellite Home Viewer Act were to expire after 5 years; however, Congress has repeatedly renewed the provisions without allowing them to lapse. Most recently, the Satellite Television Extension and Localism Act of 2010 (STELA), reauthorized the retransmission rules through December 31, 2014, and updated the law to reflect the transition to digital television. As of this writing, Congress has again begun the reauthorization process.

As *Aereo* illustrates, Internet retransmission of broadcast programming has once again upset the compromise reflected in the Copyright Act’s statutory license provisions. Section 111(f)(3) defines a “cable system” as:

a facility, located in any State, territory, trust territory, or possession of the United States, that in whole or in part receives signals transmitted or programs broadcast by one or more television broadcast stations licensed by the Federal Communications Commission, and makes secondary transmissions of such signals or programs by wires, cables, microwave, or other communications channels to subscribing members of the public who pay for such service.

Id. May an Internet-based service that captures broadcast programming and retransmits it to paying subscribers claim the benefit of the statutory license? Answering this question in the negative, the Second Circuit reasoned:

The legislative history indicates that Congress enacted §111 with the intent to address the issue of poor television reception, or, more specifically, to mitigate the difficulties that certain communities and households faced in receiving over-the-air broadcast signals by enabling the expansion of cable systems.

Through §111's compulsory license scheme, Congress intended to support localized—rather than nationwide—systems that use cable or optical fibers to transmit signals through “a physical, point-to-point connection between a transmission facility and the television sets of individual subscribers.” *Turner*, 512 U.S. at 627–28.⁸

Congress did not, however, intend for §111's compulsory license to extend to Internet transmissions. Indeed, the legislative history indicates that if Congress had intended to extend §111's compulsory license to Internet retransmissions, it would have done so expressly—either through the language of §111 as it did for microwave retransmissions or by codifying a separate statutory provision as it did for satellite carriers.

Extending §111's compulsory license to Internet retransmissions, moreover, would not fulfill or further Congress's statutory purpose. Internet retransmission services are not seeking to address issues of reception and remote access to over-the-air television signals. They provide not a local but a nationwide (arguably international) service. . . .

WPIX, Inc. v. ivi, Inc., 691 F.3d 275, 282 (2d Cir. 2012). The court noted, in addition, that the Copyright Office repeatedly had expressed the view that the statutory license in §111 did not encompass Internet retransmission. It opined that, absent clear legislative direction to the contrary, the reasonable views of the agency charged with administering the statutory regime were entitled to deference. *Id.* at 283-85 (citing *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843-44 (1984)).

Practice Exercise: Advocacy

To date, Congress has not passed any legislation concerning Internet retransmission of broadcast programming. You are the legislative counsel to a member of the House Judiciary Committee. Your boss, who represents a district that is home to a large concentration of Internet companies, wants to propose that Congress adopt a compulsory licensing system for Internet retransmission of television broadcast programming. What arguments in support of such a provision would be most effective? What counterarguments should you anticipate?

⁸ The statute's reference to “contiguous communities,” and a “headend” in defining a cable system also indicates that Congress intended to direct §111's license at localized—rather than national—retransmission services. *See* 17 U.S.C. §111(f).

Chapter 6. The Different Faces of Infringement

C. Device Manufacturers

Pages 500-03. In the Notes and Questions:

a. Delete the last sentence of Question 10 and insert the following:

For additional background on the technology, see <http://en.wikipedia.org/wiki/BitTorrent>.

How should courts assess the liability of operators of BitTorrent websites? In *Columbia Pictures Industries v. Fung*, ___ F.3d ___ (9th Cir. 2013), the Ninth Circuit held that “[i]nducement liability is not limited, either logically or as articulated in *Grokster* . . . , to those who distribute a ‘device,’” *id.* at ___, but instead could extend to one operating a service if the plaintiff adduced evidence of actual infringement by users, provision of the service with the object of promoting its use to infringe copyright, and causation. The defendant, Fung, operated a group of websites, three of which collected and organized torrent files so that users could browse them by category or search them by keyword. Two of the sites maintained “continually-updated lists of, *inter alia*, the ‘Top 20 TV Shows,’ and ‘Top 20 Movies,’ and the ‘Top 20 Most Active Torrents.’” *Id.* at ___. The third site was designed to modify each uploaded torrent file by adding backup trackers, so that if the primary tracker was disrupted, users still would be able to download the content. The plaintiff’s expert testified that, based on the use of statistical sampling methods, the overwhelming majority of the content associated with the torrent files was “‘confirmed or highly likely copyright infringing’ material.” *Id.* at ___. The evidence also showed that, in addition to maintaining the “Top 20” lists, Fung actively solicited and provided torrents for specific copyrighted films, and answered users’ requests for assistance in locating, downloading, and playing copyrighted materials.

Appealing the district court’s grant of summary judgment on plaintiff’s inducement theory, Fung argued that plaintiffs had not proved that he did these

things in pursuit of an “improper object,” and had not proved that his actions proximately caused specific acts of infringement. The Ninth Circuit rejected both arguments. As to intention, it ruled that the improper object could be proved by evidence of Fung’s conduct; as to causation, it held that “if one provides a service that could be used to infringe copyrights, with the manifested intent that the service actually be used in that manner, that person is liable for the infringement that occurs through the use of the service.” *Id.* at ____. Do you agree with these rulings? For purposes of calculating damages, should Fung’s liability extend to every infringement committed with the assistance of files hosted by his sites? If not, how would you calculate damages?

b. Add new Question 13:

13. Peer-to-peer file-sharing technologies enable distributed sharing and copying of files stored on personal computers; social bookmarking technologies enable distributed indexing of materials already available on the Internet. Consider a hypothetical service, GoodVids, that enables its members to tag videos hosted elsewhere on the Internet and recommend those videos to others with similar tastes. When a user bookmarks a video, the GoodVids platform contacts the server where the video is stored and requests an “embed code” consisting of the video’s URL and any display instructions. It then generates a web page that includes a thumbnail of the video’s opening shot, along with GoodVids’ content framing the thumbnail and advertising. Users who click on a member’s bookmark are directed to this page. Clicking on the thumbnail activates the link to the originating site, causing the video to play. Has GoodVids committed contributory infringement? Has it induced infringement? See *Flava v. Gunter*, 689 F.3d 754 (7th Cir. 2012) (no).

D. Online Service Provider Liability

Pages 505-14. Delete the Notes and Questions on pages 505-12, the Note on OSPs and User-Generated Content, and the Notes and Questions on pages 513-14, and insert the following:

NOTES AND QUESTIONS

1. Consider first whether the idea of a “safe harbor” regime for OSPs makes sense. Would it make more sense simply to exempt OSPs from liability by analogizing them to common carriers like phone companies? No court has held a phone company liable for engaging in conduct like transmitting an infringing fax

Chapter 6. The Different Faces of Infringement

or storing an infringing recording on a voicemail service. *See also* §111(a)(3) of the Copyright Act (exempting a passive carrier from infringement liability when it engages in a secondary transmission by providing solely “wires, cables, or other communications channels for the use of others”). Are there relevant distinctions between phone companies and OSPs?

2. Focus now on §512(a) and (b). What are the differences between them? Does either adopt a common carrier model?

3. Why would the §512(c) safe harbor be the most important to an OSP? Assume that your client, an OSP that provides hosting services, seeks your advice on avoiding copyright infringement liability. Would you advise your client to ignore the requirements of §512(c) and rely solely on other defenses afforded by the Copyright Act? Why, or why not?

4. Note that nonprofit educational institutions that offer Internet services may rely on a safe harbor with a slightly different set of requirements, set forth in §512(e).

5. In its directive on electronic commerce, the European Union adopted safe harbors for transmission, caching, and hosting services that are very similar to those in §512. *See* Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, 2000 O.J. (L 178) 1, arts. 12-15. Member countries may determine the specific procedures for removing or disabling access to material that has been identified as infringing. *Id.*, arts. 12(3), 13(2), 14(3).

Viacom International, Inc. v. YouTube, Inc. **676 F.3d 19 (2d Cir. Apr. 5, 2012)**

CABRANES, J.:

This appeal requires us to clarify the contours of the “safe harbor” provision of the Digital Millennium Copyright Act (DMCA) that limits the liability of online service providers for copyright infringement that occurs “by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.” 17 U.S.C. §512(c). . . .

BACKGROUND . . .

YouTube was founded in February 2005 by Chad Hurley (“Hurley”), Steve Chen (“Chen”), and Jawed Karim (“Karim”), three former employees of the internet company Paypal. When YouTube announced the “official launch” of the website in December 2005, a press release described YouTube as a “consumer media company” that “allows people to watch, upload, and share personal video clips at www.YouTube.com.” Under the slogan “Broadcast yourself,” YouTube achieved rapid prominence and profitability, eclipsing competitors such as Google Video and Yahoo Video by wide margins. In November 2006, Google acquired YouTube in a stock-for-stock transaction valued at \$1.65 billion. By March 2010, at the time of summary judgment briefing in this litigation, site

traffic on YouTube had soared to more than 1 billion daily video views, with more than 24 hours of new video uploaded to the site every minute.

The basic function of the YouTube website permits users to “upload” and view video clips free of charge. Before uploading a video to YouTube, a user must register and create an account with the website. The registration process requires the user to accept YouTube’s Terms of Use agreement, which provides, *inter alia*, that the user “will not submit material that is copyrighted . . . unless [he is] the owner of such rights or ha[s] permission from their rightful owner to post the material and to grant YouTube all of the license rights granted herein.” When the registration process is complete, the user can sign in to his account, select a video to upload from the user’s personal computer, mobile phone, or other device, and instruct the YouTube system to upload the video by clicking on a virtual upload “button.”

Uploading a video to the YouTube website triggers a series of automated software functions. During the upload process, YouTube makes one or more exact copies of the video in its original file format. YouTube also makes one or more additional copies of the video in “Flash” format,⁴ a process known as “transcoding.” The transcoding process ensures that YouTube videos are available for viewing by most users at their request. The YouTube system allows users to gain access to video content by “streaming” the video to the user’s computer in response to a playback request. YouTube uses a computer algorithm to identify clips that are “related” to a video the user watches and display links to the “related” clips. . . .

Plaintiff Viacom, an American media conglomerate, and various Viacom affiliates filed suit against YouTube on March 13, 2007, alleging direct and secondary copyright infringement based on the public performance, display, and reproduction of their audiovisual works on the YouTube website. Plaintiff Premier League, an English soccer league, and Plaintiff Bourne Co. filed a putative class action against YouTube on May 4, 2007, alleging direct and secondary copyright infringement on behalf of all copyright owners whose material was copied, stored, displayed, or performed on YouTube without authorization. Specifically at issue were some 63,497 video clips identified by Viacom, as well as 13,500 additional clips (jointly, the “clips-in-suit”) identified by the putative class plaintiffs.

The plaintiffs in both actions principally demanded statutory damages pursuant to 17 U.S.C. §504(c) or, in the alternative, actual damages plus the defendants’ profits from the alleged infringement, as well as declaratory and injunctive relief. Judge Stanton, to whom the *Viacom* action was assigned, accepted the *Premier League* class action as related. At the close of discovery, the parties in both actions cross-moved for partial summary judgment with respect to the applicability of the DMCA safe harbor defense.

4. The “Flash” format “is a highly compressed streaming format that begins to play instantly. Unlike other delivery methods, it does not require the viewer to download the entire video file before viewing.” Joint App’x IV:73.

7. It is undisputed that all clips-in-suit had been removed from the YouTube website by the time of summary judgment, mostly in response to DMCA takedown notices.

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... [T]he District Court denied the plaintiffs' motions and granted summary judgment to the defendants, finding that YouTube qualified for DMCA safe harbor protection with respect to all claims of direct and secondary copyright infringement. *Viacom Int'l*, 718 F. Supp. 2d at 529. The District Court prefaced its analysis of the DMCA safe harbor by holding that, based on the plaintiffs' summary judgment submissions, "a jury could find that the defendants not only were generally aware of, but welcomed, copyright-infringing material being placed on their website." *Id.* at 518. However, the District Court also noted that the defendants had properly designated an agent pursuant to §512(c)(2), and "when they received specific notice that a particular item infringed a copyright, they swiftly removed it." *Id.* at 519. ...

DISCUSSION ...

A. *Actual and "Red Flag" Knowledge:* §512(c)(1)(A) ...

1. *The Specificity Requirement*

... Under §512(c)(1)(A), safe harbor protection is available only if the service provider:

- (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;
- (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
- (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material. ...

17 U.S.C. §512(c)(1)(A). ... [T]he District Court held that the statutory phrases "actual knowledge that the material ... is infringing" and "facts or circumstances from which infringing activity is apparent" refer to "knowledge of specific and identifiable infringements." *Viacom*, 718 F. Supp. 2d at 523. For the reasons that follow, we substantially affirm that holding.

Although the parties marshal a battery of other arguments on appeal, it is the text of the statute that compels our conclusion. In particular, we are persuaded that the basic operation of §512(c) requires knowledge or awareness of specific infringing activity. Under §512(c)(1)(A), knowledge or awareness alone does not disqualify the service provider; rather, the provider that gains knowledge or awareness of infringing activity retains safe-harbor protection if it "acts expeditiously to remove, or disable access to, the material." 17 U.S.C. §512(c)(1)(A)(iii). Thus, the nature of the removal obligation itself contemplates knowledge or awareness of specific infringing

material, because expeditious removal is possible only if the service provider knows with particularity which items to remove. Indeed, to require expeditious removal in the absence of specific knowledge or awareness would be to mandate an amorphous obligation to “take commercially reasonable steps” in response to a generalized awareness of infringement. *Viacom Br. 33*. Such a view cannot be reconciled with the language of the statute, which requires “expeditious[]” action to remove or disable “the material” at issue. 17 U.S.C. §512(c)(1)(A)(iii) (emphasis added).

On appeal, the plaintiffs dispute this conclusion by drawing our attention to §512(c)(1)(A)(ii), the so-called “red flag” knowledge provision. . . . In their view, the use of the phrase “facts or circumstances” demonstrates that Congress did not intend to limit the red flag provision to a particular type of knowledge. The plaintiffs contend that requiring awareness of specific infringements in order to establish “aware[ness] of facts or circumstances from which infringing activity is apparent,” 17 U.S.C. §512(c)(1)(A)(ii), renders the red flag provision superfluous, because that provision would be satisfied only when the “actual knowledge” provision is also satisfied. For that reason, the plaintiffs urge the Court to hold that the red flag provision “requires less specificity” than the actual knowledge provision.

This argument misconstrues the relationship between “actual” knowledge and “red flag” knowledge. . . . The phrase “actual knowledge,” which appears in §512(c)(1)(A)(i), is frequently used to denote subjective belief. *See, e.g., United States v. Quinones*, 635 F.3d 590, 602 (2d Cir. 2011) (“[T]he belief held by the defendant need not be reasonable in order for it to defeat . . . actual knowledge.”). By contrast, courts often invoke the language of “facts or circumstances,” which appears in §512(c)(1)(A)(ii), in discussing an objective reasonableness standard. *See, e.g., Maxwell v. City of New York*, 380 F.3d 106, 108 (2d Cir. 2004) (“Police officers’ application of force is excessive . . . if it is objectively unreasonable in light of the facts and circumstances confronting them, without regard to their underlying intent or motivation.” (internal quotation marks omitted)).

The difference between actual and red flag knowledge is thus not between specific and generalized knowledge, but instead between a subjective and an objective standard. In other words, the actual knowledge provision turns on whether the provider actually or “subjectively” knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement “objectively” obvious to a reasonable person. The red flag provision, because it incorporates an objective standard, is not swallowed up by the actual knowledge provision under our construction of the §512(c) safe harbor. Both provisions do independent work, and both apply only to specific instances of infringement.

The limited body of case law interpreting the knowledge provisions of the §512(c) safe harbor comports with our view of the specificity requirement. Most recently, a panel of the Ninth Circuit addressed the scope of §512(c) in *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022 (9th Cir. 2011), a copyright infringement case against Veoh Networks, a video-hosting service similar to YouTube. As in this case, various music publishers brought suit against the service provider, claiming direct and secondary copyright infringement based on the presence of unauthorized content on the website, and the website operator

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sought refuge in the §512(c) safe harbor. The Court of Appeals affirmed the district court’s determination on summary judgment that the website operator was entitled to safe harbor protection. With respect to the actual knowledge provision, the panel declined to “adopt[] a broad conception of the knowledge requirement,” *id.* at 1038, holding instead that the safe harbor “[r]equir[es] specific knowledge of particular infringing activity,” *id.* at 1037. The Court of Appeals “reach[ed] the same conclusion” with respect to the red flag provision, noting that “[w]e do not place the burden of determining whether [materials] are actually illegal on a service provider.” *Id.* at 1038. Although *Shelter Capital* contains the most explicit discussion of the §512(c) knowledge provisions, other cases are generally in accord. . . . [W]e note that no court has embraced the contrary proposition—urged by the plaintiffs—that the red flag provision “requires less specificity” than the actual knowledge provision. . . .

2. *The Grant of Summary Judgment*

The corollary question on appeal is whether, under the foregoing construction of §512(c)(1)(A), the District Court erred in granting summary judgment to YouTube on the record presented. . . .

i. *Specific Knowledge or Awareness*

The plaintiffs argue that, even under the District Court’s construction of the safe harbor, the record raises material issues of fact regarding YouTube’s actual knowledge or “red flag” awareness of specific instances of infringement. To that end, the plaintiffs draw our attention to various estimates regarding the percentage of infringing content on the YouTube website. For example, Viacom cites evidence that YouTube employees conducted website surveys and estimated that 75-80% of all YouTube streams contained copyrighted material. The class plaintiffs similarly claim that Credit Suisse, acting as financial advisor to Google, estimated that more than 60% of YouTube’s content was “premium” copyrighted content—and that only 10% of the premium content was authorized. These approximations suggest that the defendants were conscious that significant quantities of material on the YouTube website were infringing. . . . But such estimates are insufficient, standing alone, to create a triable issue of fact as to whether YouTube actually knew, or was aware of facts or circumstances that would indicate, the existence of particular instances of infringement.

Beyond the survey results, the plaintiffs rely upon internal YouTube communications that do refer to particular clips or groups of clips. The class plaintiffs argue that YouTube was aware of specific infringing material because, *inter alia*, YouTube attempted to search for specific Premier League videos on the site in order to gauge their “value based on video usage.” In particular, the class plaintiffs cite a February 7, 2007 e-mail from Patrick Walker, director of video partnerships for Google and YouTube, requesting that his colleagues calculate the number of

daily searches for the terms “soccer,” “football,” and “Premier League” in preparation for a bid on the global rights to Premier League content. On another occasion, Walker requested that any “clearly infringing, official broadcast footage” from a list of top Premier League clubs . . . be taken down in advance of a meeting with the heads of “several major sports teams and leagues.” YouTube ultimately decided not to make a bid for the Premier League rights—but the infringing content allegedly remained on the website.

The record in the *Viacom* action includes additional examples. For instance, YouTube founder Jawed Karim prepared a report in March 2006 which stated that, “[a]s of today[,] episodes and clips of the following well-known shows can still be found [on YouTube]: Family Guy, South Park, MTV Cribs, Daily Show, Reno 911, [and] Dave Chapelle [sic].” Karim further opined that, “although YouTube is not legally required to monitor content . . . and complies with DMCA takedown requests, we would benefit from *preemptively* removing content that is blatantly illegal and likely to attract criticism.” He also noted that “a more thorough analysis” of the issue would be required. At least some of the TV shows to which Karim referred are owned by Viacom. A reasonable juror could conclude from the March 2006 report that Karim knew of the presence of Viacom-owned material on YouTube, since he presumably located specific clips of the shows in question before he could announce that YouTube hosted the content “[a]s of today.” A reasonable juror could also conclude that Karim believed the clips he located to be infringing (since he refers to them as “blatantly illegal”), and that YouTube did not remove the content from the website until conducting “a more thorough analysis,” thus exposing the company to liability in the interim.

Furthermore, in a July 4, 2005 e-mail exchange, YouTube founder Chad Hurley sent an e-mail to his co-founders with the subject line “budlight commercials,” and stated, “we need to reject these too.” Steve Chen responded, “can we please leave these in a bit longer? another week or two can’t hurt.” Karim also replied, indicating that he “added back in all 28 bud videos.” Similarly, in an August 9, 2005 e-mail exchange, Hurley urged his colleagues “to start being *diligent* about rejecting copyrighted/inappropriate content,” noting that “there is a cnn clip of the shuttle clip on the site today, if the boys from Turner would come to the site, they might be pissed?” Again, Chen resisted:

but we should just keep that stuff on the site. i really don't see what will happen. what? someone from cnn sees it? he happens to be someone with power? he happens to want to take it down right away. he gets in touch with cnn legal. 2 weeks later, we get a cease & desist letter. we take the video down.

And again, Karim agreed, indicating that “the CNN space shuttle clip, I like. we can remove it once we’re bigger and better known, but for now that clip is fine.”

Upon a review of the record, we are persuaded that the plaintiffs may have raised a material issue of fact regarding YouTube’s knowledge or awareness of specific instances of infringement. The foregoing Premier League e-mails request the identification and removal of “clearly infringing, official broadcast footage.” The March 2006 report indicates Karim’s awareness of specific clips that he

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perceived to be “blatantly illegal.” Similarly, the Bud Light and space shuttle e-mails refer to particular clips in the context of correspondence about whether to remove infringing material from the website. On these facts, a reasonable juror could conclude that YouTube had actual knowledge of specific infringing activity, or was at least aware of facts or circumstances from which specific infringing activity was apparent. *See* §512(c)(1)(A)(i)-(ii). Accordingly, we hold that summary judgment to YouTube on all clips-in-suit, especially in the absence of any detailed examination of the extensive record on summary judgment, was premature.⁹

We hasten to note, however, that although the foregoing e-mails were annexed as exhibits to the summary judgment papers, it is unclear whether the clips referenced therein are among the current clips-in-suit. By definition, only the current clips-in-suit are at issue in this litigation. Accordingly, we vacate the order granting summary judgment and instruct the District Court to determine on remand whether any specific infringements of which YouTube had knowledge or awareness correspond to the clips-in-suit in these actions.

ii. “Willful Blindness”

The plaintiffs further argue that the District Court erred in granting summary judgment to the defendants despite evidence that YouTube was “willfully blind” to specific infringing activity. On this issue of first impression, we consider the application of the common law willful blindness doctrine in the DMCA context.

“The principle that willful blindness is tantamount to knowledge is hardly novel.” *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 110 n.16 (2d Cir. 2010) (collecting cases); *see In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003) (“Willful blindness is knowledge, in copyright law . . . as it is in the law generally.”). A person is “willfully blind” or engages in “conscious avoidance” amounting to knowledge where the person “was aware of a high probability of the fact in dispute and consciously avoided confirming that fact.” *United States v. Aina-Marshall*, 336 F.3d 167, 170 (2d Cir. 2003). . . . Writing in the trademark infringement context, we have held that “[a] service provider is not . . . permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way.” *Tiffany*, 600 F.3d at 109.

The DMCA does not mention willful blindness. As a general matter, we interpret a statute to abrogate a common law principle only if the statute “speak[s] directly to the question addressed by the common law.” *Matar v. Dichter*, 563 F.3d

9. We express no opinion as to whether the evidence discussed above will prove sufficient to withstand a renewed motion for summary judgment by YouTube on remand. In particular, we note that there is at least some evidence that the search requested by Walker in his February 7, 2007 e-mail was never carried out. *See* Joint App’x III:256. We also note that the class plaintiffs have failed to identify evidence indicating that any infringing content discovered as a result of Walker’s request in fact remained on the YouTube website. The class plaintiffs, drawing on the voluminous record in this case, may be able to remedy these deficiencies in their briefing to the District Court on remand.

9, 14 (2d Cir. 2009). . . . The DMCA provision most relevant to the abrogation inquiry is §512(m), which provides that safe harbor protection shall not be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i).” 17 U.S.C. §512(m)(1). Section 512(m) is explicit: DMCA safe harbor protection cannot be conditioned on affirmative monitoring by a service provider. For that reason, §512(m) is incompatible with a broad common law duty to monitor or otherwise seek out infringing activity based on general awareness that infringement may be occurring. That fact does not, however, dispose of the abrogation inquiry; as previously noted, willful blindness cannot be defined as an affirmative duty to monitor. . . . Because the statute does not “speak[] directly” to the willful blindness doctrine, §512(m) limits—but does not abrogate—the doctrine. Accordingly, we hold that the willful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA.

The District Court cited §512(m) for the proposition that safe harbor protection does not require affirmative monitoring, but did not expressly address the principle of willful blindness or its relationship to the DMCA safe harbors. As a result, whether the defendants made a “deliberate effort to avoid guilty knowledge,” *In re Aimster*, 334 F.3d at 650, remains a fact question for the District Court to consider in the first instance on remand.

B. Control and Benefit: §512(c)(1)(B) . . .

Apart from the foregoing knowledge provisions, the §512(c) safe harbor provides that an eligible service provider must “not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.” 17 U.S.C. §512(c)(1)(B). . . .

On appeal, the parties advocate two competing constructions of the “right and ability to control” infringing activity. 17 U.S.C. §512(c)(1)(B). . . .

The first construction, pressed by the defendants, is the one adopted by the District Court, which held that “the provider must know of the particular case before he can control it.” *Viacom*, 718 F. Supp. 2d at 527. The Ninth Circuit recently agreed, holding that “until [the service provider] becomes aware of specific unauthorized material, it cannot exercise its ‘power or authority’ over the specific infringing item. In practical terms, it does not have the kind of ability to control infringing activity the statute contemplates.” *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022, 1041 (9th Cir. 2011). The trouble with this construction is that importing a specific knowledge requirement into §512(c)(1)(B) renders the control provision duplicative of §512(c)(1)(A). Any service provider that has item-specific knowledge of infringing activity and thereby obtains financial benefit would already be excluded from the safe harbor

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under §512(c)(1)(A) for having specific knowledge of infringing material and failing to effect expeditious removal. No additional service provider would be excluded by §512(c)(1)(B) that was not already excluded by §512(c)(1)(A). Because statutory interpretations that render language superfluous are disfavored, we reject the District Court’s interpretation of the control provision.

The second construction, urged by the plaintiffs, is that the control provision codifies the common law doctrine of vicarious copyright liability. The common law imposes liability for vicarious copyright infringement “[w]hen 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 actual knowledge that the copyright mono[poly] is being impaired.” *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 407 (2d Cir. 1963). To support their codification argument, the plaintiffs rely on a House Report relating to a preliminary version of the DMCA: “The ‘right and ability to control’ language . . . codifies the second element of vicarious liability. . . . Subparagraph (B) is intended to preserve existing case law that examines all relevant aspects of the relationship between the primary and secondary infringer.” H.R. Rep. No. 105-551(I), at 26 (1998). In response, YouTube notes that the codification reference was omitted from the committee reports describing the final legislation, and that Congress ultimately abandoned any attempt to “embark[] upon a wholesale clarification” of vicarious liability, electing instead “to create a series of ‘safe harbors’ for certain common activities of service providers.” S. Rep. No. 105-190, at 19.

Happily, the future of digital copyright law does not turn on the confused legislative history of the control provision. The general rule with respect to common law codification is that when “Congress uses terms that have accumulated settled meaning under the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of those terms.” *Neder v. United States*, 527 U.S. 1, 21 (1999). Under the common law vicarious liability standard, “[t]he ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.” *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 157 (S.D.N.Y. 2009). To adopt that principle in the DMCA context, however, would render the statute internally inconsistent. Section 512(c) actually presumes that service providers have the ability to “block . . . access” to infringing material. *Id.* at 157; see *Shelter Capital*, 667 F.3d at 1042-43. Indeed, a service provider who has knowledge or awareness of infringing material or who receives a takedown notice from a copyright holder is *required* to “remove, or disable access to, the material” in order to claim the benefit of the safe harbor. 17 U.S.C. §§512(c)(1)(A)(iii) & (C). But in taking such action, the service provider would—in the plaintiffs’ analysis—be admitting the “right and ability to control” the infringing material. Thus, the prerequisite to safe harbor protection under §§512(c)(1)(A)(iii) & (C) would at the same time be a disqualifier under §512(c)(1)(B).

Moreover, if Congress had intended §512(c)(1)(B) to be coextensive with vicarious liability, “the statute could have accomplished that result in a more direct manner.” *Shelter Capital*, 667 F.3d at 1045. . . .

In any event, the foregoing tension . . . is sufficient to establish that the control provision “dictates” a departure from the common law vicarious liability standard, *Neder*, 527 U.S. at 21. Accordingly, we conclude that the “right and ability to control” infringing activity under §512(c)(1)(B) “requires something more than the ability to remove or block access to materials posted on a service provider’s website.” . . . The remaining—and more difficult—question is how to define the “something more” that is required.

To date, only one court has found that a service provider had the right and ability to control infringing activity under §512(c)(1)(B). In *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002), the court found control where the service provider instituted a monitoring program by which user websites received “detailed instructions regard[ing] issues of layout, appearance, and content.” *Id.* at 1173. The service provider also forbade certain types of content and refused access to users who failed to comply with its instructions. *Id.* Similarly, inducement of copyright infringement under *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), which “premises liability on purposeful, culpable expression and conduct,” *id.* at 937, might also rise to the level of control under §512(c)(1)(B). Both of these examples involve a service provider exerting substantial influence on the activities of users, without necessarily—or even frequently—acquiring knowledge of specific infringing activity.

In light of our holding that §512(c)(1)(B) does not include a specific knowledge requirement, we think it prudent to remand to the District Court to consider in the first instance whether the plaintiffs have adduced sufficient evidence to allow a reasonable jury to conclude that YouTube had the right and ability to control the infringing activity and received a financial benefit directly attributable to that activity.

C. “By Reason of” Storage: §512(c)(1)

The §512(c) safe harbor is only available when the infringement occurs “by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.” 17 U.S.C. §512(c)(1). In this case, the District Court held that YouTube’s software functions fell within the safe harbor for infringements that occur “by reason of” user storage, noting that a contrary holding would “confine[] the word ‘storage’ too narrowly to meet the statute’s purpose.” *Viacom*, 718 F. Supp. 2d at 526. For the reasons that follow, we affirm that holding with respect to three of the challenged software functions—the conversion (or “transcoding”) of videos into a standard display format, the playback of videos on “watch” pages, and the “related videos” function. We remand for further fact-finding with respect to a fourth software function, involving the third-party syndication of videos uploaded to YouTube.

As a preliminary matter, we note that . . . [t]he structure of the statute distinguishes between so-called “conduit only” functions under §512(a) and the

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functions addressed by §512(c) and the other subsections. . . . Most notably, [§512] contains two definitions of “service provider.” 17 U.S.C. §512(k)(1)(A)-(B). The narrower definition, which applies only to service providers falling under §512(a), is limited to entities that “offer[] the transmission, routing or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, *without modification to the content of the material* as sent or received.” *Id.* §512(k)(1)(A) (emphasis added). No such limitation appears in the broader definition, which applies to service providers—including YouTube—falling under §512(c). Under the broader definition, “the term ‘service provider’ means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A).” *Id.* §512(k)(1)(B). In the absence of a parallel limitation on the ability of a service provider to modify user-submitted material, we conclude that §512(c) “is clearly meant to cover more than mere electronic storage lockers.” *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081, 1088 (C.D. Cal. 2008) (“*UMG I*”).

The relevant case law makes clear that the §512(c) safe harbor extends to software functions performed “for the purpose of facilitating access to user-stored material.” *Id.*; see *Shelter Capital*, 667 F.3d at 1031-35. Two of the software functions challenged here—transcoding and playback—were expressly considered by our sister Circuit in *Shelter Capital*, which held that liability arising from these functions occurred “by reason of the storage at the direction of a user.” 17 U.S.C. §512(c); see *Shelter Capital*, 667 F.3d at 1027-28, 1031. . . . Transcoding involves “[m]aking copies of a video in a different encoding scheme” in order to render the video “viewable over the Internet to most users.” Supp. Joint App’x I:236. The playback process involves “deliver[ing] copies of YouTube videos to a user’s browser cache” in response to a user request. *Id.* at 239. The District Court correctly found that to exclude these automated functions from the safe harbor would eviscerate the protection afforded to service providers by §512(c).

A similar analysis applies to the “related videos” function, by which a YouTube computer algorithm identifies and displays “thumbnails” of clips that are “related” to the video selected by the user. The plaintiffs claim that this practice constitutes content promotion, not “access” to stored content, and therefore falls beyond the scope of the safe harbor. Citing similar language in the Racketeer Influenced and Corrupt Organizations Act (“RICO”), 18 U.S.C. §§1961-68, and the Clayton Act, 15 U.S.C. §§12 *et seq.*, the plaintiffs argue that the statutory phrase “by reason of” requires a finding of proximate causation between the act of storage and the infringing activity. . . . But even if the plaintiffs are correct that §512(c) incorporates a principle of proximate causation—a question we need not resolve here—the indexing and display of related videos retain a sufficient causal link to the prior storage of those videos. The record makes clear that the related videos algorithm “is fully automated and operates solely in response to user input without the active involvement of YouTube employees.” Supp. Joint App’x I:237. Furthermore, the related videos function serves to help YouTube users locate and gain access to material stored at the direction of other users. Because the algorithm “is closely related to, and follows from, the storage itself,” and is “narrowly

directed toward providing access to material stored at the direction of users,” *UMG I*, 620 F. Supp. 2d at 1092, we conclude that the related videos function is also protected by the §512(c) safe harbor.

The final software function at issue here—third-party syndication—is the closest case. In or around March 2007, YouTube transcoded a select number of videos into a format compatible with mobile devices and “syndicated” or licensed the videos to Verizon Wireless and other companies. The plaintiffs argue—with some force—that business transactions do not occur at the “direction of a user” within the meaning of §512(c)(1) when they involve the manual selection of copyrighted material for licensing to a third party. The parties do not dispute, however, that none of the clips-in-suit were among the approximately 2,000 videos provided to Verizon Wireless. In order to avoid rendering an advisory opinion on the outer boundaries of the storage provision, we remand for fact-finding on the question of whether any of the clips-in-suit were in fact syndicated to any other third party.

D. Other Arguments

1. Repeat Infringer Policy

The class plaintiffs briefly argue that YouTube failed to comply with the requirements of §512(i), which conditions safe harbor eligibility on the service provider having “adopted and reasonably implemented . . . a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers.” 17 U.S.C. §512(i)(1)(A). Specifically, the class plaintiffs allege that YouTube “deliberately set up its identification tools to try to avoid identifying infringements of class plaintiffs’ works.” This allegation rests primarily on the assertion that YouTube permitted only designated “partners” to gain access to content identification tools by which YouTube would conduct network searches and identify infringing material.

Because the class plaintiffs challenge YouTube’s deployment of search technology, we must consider their §512(i) argument in conjunction with §512(m). As previously noted, §512(m) provides that safe harbor protection cannot be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, *except to the extent consistent with a standard technical measure complying with the provisions of subsection (i).*” 17 U.S.C. §512(m)(1) (emphasis added). In other words, the safe harbor expressly disclaims any affirmative monitoring requirement—except to the extent that such monitoring comprises a “standard technical measure” within the meaning of §512(i). . . . In this case, the class plaintiffs make no argument that the content identification tools implemented by YouTube constitute “standard technical measures,” such that YouTube would be exposed to liability under §512(i). For that reason, You-

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Tube cannot be excluded from the safe harbor by dint of a decision to restrict access to its proprietary search mechanisms.

2. *Affirmative Claims*

Finally, the plaintiffs argue that the District Court erred in denying summary judgment to the plaintiffs on their claims for direct infringement, vicarious liability, and contributory liability under *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). . . .

The District Court correctly determined that a finding of safe harbor application necessarily protects a defendant from all affirmative claims for monetary relief. . . . For the reasons previously stated, further fact-finding is required to determine whether YouTube is ultimately entitled to safe harbor protection in this case. Accordingly, we vacate the order denying summary judgment to the plaintiffs and remand the cause without expressing a view on the merits of the plaintiffs' affirmative claims.

NOTES AND QUESTIONS

1. A threshold question in the *Viacom* case is whether the §512(c) safe harbor is available to a platform like YouTube's. Does the court's interpretation of the statutory reference to infringement "by reason of" storage make sense? In terms of simple chronology, plaintiffs' attempted distinction between mere storage and the sorts of activities performed by YouTube has some merit; so-called "Web 2.0" platforms offering functionality such as transcoding, playback, and search did not exist when the DMCA was being drafted. Should that fact influence interpretation of the statutory language? On remand, what facts would support a conclusion that third-party syndication of videos falls outside the scope of the safe harbor?

2. Alternatively, should YouTube's manipulation of the files uploaded by users be deemed "volitional" and therefore subject to a claim of direct infringement under *Netcom's* reasoning? In *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544 (4th Cir. 2004), defendant LoopNet operated a commercial real estate listing system. All photographs uploaded to the system were reviewed by a LoopNet employee "for two purposes: (1) to block photographs that do not depict commercial real estate, and (2) to block photographs with obvious signs that they are copyrighted by a third party." *Id.* at 556. The court ruled that such conduct could not supply the basis for a direct infringement claim: "LoopNet can be compared to an owner of a copy machine who has stationed a guard by the door to turn away customers who are attempting to duplicate clearly copyrighted works. LoopNet has not by this screening process become engaged as a 'copier' of copyrighted works." *Id.* at 556. What do you think of this reasoning? Does it translate to the context of services like YouTube's? As a policy matter, is direct infringement for intermediaries desirable?

3. Consider the *Viacom* court's interpretation of the "actual knowledge" and "red flag" provisions of §512(c). According to the court, the provisions describe

different types of ways to know about specific infringing acts, not different degrees of specificity regarding what is known. Does the court's reasoning make sense as a matter of statutory interpretation? Does it make sense as a matter of policy?

4. An OSP cannot claim the §512(c) safe harbor if it has received knowledge of specific acts of alleged infringement via notification. The notification must identify the allegedly infringing material and provide "information reasonably sufficient to permit the service provider to locate the material." 17 U.S.C. §512(c)(3)(A)(iii). What does that mean in practice? If you were in-house counsel to the OSP in each of the following hypotheticals, how would you respond?

- a. A letter sent to eBay.com states that counterfeit copies of a particular work are being traded on eBay, but does not provide the relevant eBay item numbers. *See Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1090 (C.D. Cal. 2001) (notification insufficient).
- b. A letter sent to Amazon.com identifies "all *Manson* DVDs" as infringing. *See Hendrickson v. Amazon.com, Inc.*, 298 F. Supp. 2d 914, 916 (C.D. Cal. 2003) (notification sufficient).
- c. A letter sent to a provider of Internet hosting services identifies two hosted sites that it asserts were created for the sole purpose of displaying the copyrighted works, and states that essentially all of the images at those sites are infringing. *See ALS Scan, Inc. v. RemarQ Cmities., Inc.*, 239 F.3d 619, 625 (4th Cir. 2001) (notification sufficient).

For how long must an OSP monitor its system for the infringing material identified in a notification that substantially complies with the statutory requirements? *See Hendrickson*, 298 F. Supp. 2d at 917 (no obligation to detect items posted nine months after date of notification). How would you advise a client on this issue?

5. On remand in *Viacom*, what type(s) of evidence would be sufficient to raise a triable issue of fact regarding "red flag" awareness of specific infringing acts? Would media coverage of YouTube referring specifically to any of the clips-in-suit suffice? What about a personal e-mail from Viacom's CEO to one of YouTube's founders? *See UMG Recordings v. Shelter Capital, LLC*, ___ F.3d ___, 2013 WL 1092793, *1L (9th Cir. Mar. 14, 2013) (content owners seeking to establish knowledge must use the statutory notification procedure). The *Viacom* district court ultimately concluded that "[i]t has now become clear that neither side possesses the kind of evidence that would allow a clip-by-clip assessment of actual knowledge." *Viacom Int'l v. YouTube*, ___ F. Supp. 2d ___, 2013 WL 1689071, *2 (S.D.N.Y. Apr. 18, 2013). In the court's view, that state of affairs "merely demonstrates the wisdom of the legislative requirement" that the copyright owner shoulder the burden of identifying infringements. *Id.* at *3. Do you agree?

Now review the description of the defendant's conduct in *Columbia Pictures Industries v. Fung*, 710 F.3d 1020 (9th Cir. 2013), page 399 *supra*. The court concluded that "Fung had 'red flag' knowledge of a broad range of infringing activity . . . and therefore is ineligible for the §512(c) safe harbor." *Id.* at 1043. Do you agree with that reasoning? Is it consistent with the "specific infringing acts" standard articulated by the *Viacom* and *UMG* courts?

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6. What do you make of the *Viacom* court's holding that §512 does not abrogate the common law principle that willful blindness amounts to knowledge? Is that conclusion consistent with the policies underlying §512? Why, or why not?

7. Consider the *Viacom* court's disagreement with the Ninth Circuit regarding interpretation of the statutory reference to "right and ability to control" the infringing activity. Responding to UMG's petition for rehearing, the Ninth Circuit withdrew its original opinion and issued a superseding opinion aligning its reasoning with the Second Circuit's:

We agree with the Second Circuit and hold that, in order to have the 'right and ability to control,' the service provider must 'exert[] substantial influence on the activities of users.' [*Viacom*, 676 F.3d at 38.] 'Substantial influence' may include, as the Second Circuit suggested, high levels of control over activities of users. . . . Or it may include purposeful conduct, as in *Grokster*.

UMG Recordings v. Shelter Capital, LLC, ___ F.3d ___, 2013 WL 1092793 *19 (9th Cir. Mar. 14, 2013). Did the Ninth Circuit make the right decision? Based on the *Viacom* Court's summary of the facts, did YouTube's conduct evidence "something more" or "substantial influence" that should negate the protection of the safe harbor? See *Viacom Int'l v. YouTube*, 2013 WL 1689071, *5-9 (no) What about the conduct of the defendant in *Columbia Pictures Industries v. Fung*, 710 F.3d 10 (9th Cir. 2013), described at page 399 *supra*? See *id.* at 1046 (yes).

8. How should loss of the §512(c) safe harbor affect the calculation of damages? Should the defendant lose the safe harbor only for the infringements in suit, or for all infringing activity committed using defendant's service? Does it matter which safe harbor is lost? In *Columbia Pictures Industries v. Fung*, 710 F.3d 1020 (9th Cir. 2013), the court reasoned:

We have no difficulty concluding that where the §512(c)(1)(B) safe harbor requirements are not met, the service provider loses protection with regard to any infringing activity using the service. . . . As we held in *UMG*, the §512(c)(1)(B) "right and ability to control" requirement does not depend only upon the ability to remove known or apparent infringing material. Instead, there must also be substantial influence on the infringing activities of users, indicating that it is the overall relationship between the service provider and infringing users that matters. Also, to the degree this DMCA provision had its origin in vicarious liability concepts, those concepts rest on the overall relationship between the defendant and the infringers, rather than on specific instances of infringement. . . . The term "right and ability to control such activity" so reflects, as it emphasizes a general, structural relationship and speaks of "such activity," not any particular activity.

Id. at 1046. Do you agree? Why, or why not? Is that resolution tantamount to predicating liability on the design of the technology? The *Fung* court declined to resolve the parallel question about the §512(c)(1)(A)(i)-(ii) safe harbors. See *id.* at 1043 n.20. How would you resolve that question?

9. In granting YouTube's summary judgment motion, the district court rejected Viacom's argument that YouTube had induced infringement by designing its service to enable infringement on a massive scale:

The *Grokster* model does not comport with that of a service provider who furnishes a platform on which its users post and access all sorts of materials as they wish, while the provider is unaware of its content, but identifies an agent to receive complaints of infringement, and removes identified material when he learns it infringes. To such a provider, the DMCA gives a safe harbor, even if otherwise he would be held as a contributory infringer under the general law.

Viacom Int'l, Inc. v. YouTube, Inc., 718 F. Supp. 2d 514, 526 (S.D.N.Y. 2010). Does the Second Circuit's opinion call this reasoning into question? Is the court suggesting that design decisions made by an OSP should inform the district court's evaluation of willful blindness and/or "right and ability to control" the infringing activity? Do you think that is what Congress intended? Should §512(c) provide safe harbor protection against a claim for inducing infringement? The *Columbia Pictures v. Fung* court declined to reach this question, holding only that no safe harbor was available to the defendant before it.

Lenz v. Universal Music Corp.
572 F. Supp. 2d 1150 (N.D. Cal. 2008)

FOGEL, J.: . . .

Plaintiff Stephanie Lenz ("Lenz") videotaped her young children dancing in her family's kitchen. The song "Let's Go Crazy" by the artist professionally known as Prince ("Prince") played in the background. The video is twenty-nine seconds in length, and "Let's Go Crazy" can be heard for approximately twenty seconds, albeit with difficulty given the poor sound quality of the video. . . . On February 8, 2007, Lenz titled the video "Let's Go Crazy #1" and uploaded it to YouTube.com . . . for the alleged purpose of sharing her son's dancing with friends and family. . . . The video was available to the public at <http://www.youtube.com/watch?v=N1KfJHFW1hQ>.

Universal owns the copyright to "Let's Go Crazy." On June 4, 2007, Universal sent YouTube a takedown notice pursuant to Title II of the Digital Millennium Copyright Act ("DMCA"). . . . YouTube removed the video the following day and sent Lenz an email notifying her that it had done so in response to Universal's accusation of copyright infringement. YouTube's email also advised Lenz of the DMCA's counter-notification procedures and warned her that any repeated incidents of copyright infringement could lead to the deletion of her account and all of her videos. After conducting research and consulting counsel, Lenz sent YouTube a DMCA counter-notification pursuant to 17 U.S.C. §512(g) on June 27, 2007. Lenz asserted that her video constituted fair use of "Let's Go Crazy" and thus did not infringe Universal's copyrights. Lenz demanded that the video be reposted. YouTube re-posted the video on its website about six weeks later. As of

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the date of this order, the “Let’s Go Crazy #1” video has been viewed on YouTube more than 593,000 times. . . .

[Lenz sued Universal alleging misrepresentation in violation of §512(f), which provides a cause of action against one who “knowingly materially misrepresents . . . that material or activity is infringing.” Universal moved to dismiss pursuant to Rule 12(b)(6).]

III. DISCUSSION . . .

. . . [T]he question in this case is whether 17 U.S.C. §512(c)(3)(A)(v) requires a copyright owner to consider the fair use doctrine in formulating a good faith belief that “use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.”

Universal contends that copyright owners cannot be required to evaluate the question of fair use prior to sending a takedown notice because fair use is merely an *excused* infringement of a copyright rather than a use *authorized* by the copyright owner or by law. Universal emphasizes that Section 512(c)(3)(A) does not even mention fair use, let alone require a good faith belief that a given use of copyrighted material is not fair use. Universal also contends that even if a copyright owner were required by the DMCA to evaluate fair use with respect to allegedly infringing material, any such duty would arise only *after* a copyright owner receives a counter-notice and considers filing suit. *See* 17 U.S.C. §512(g)(2)(C). . . .

. . . [T]he Court concludes that the plain meaning of “authorized by law” is unambiguous. An activity or behavior “authorized by law” is one permitted by law or not contrary to law. Though Congress did not expressly mention the fair use doctrine in the DMCA, the Copyright Act provides explicitly that “the fair use of a copyrighted work . . . is not an infringement of copyright.” 17 U.S.C. §107. Even if Universal is correct that fair use only *excuses* infringement, the fact remains that fair use is a lawful use of a copyright. Accordingly, in order for a copyright owner to proceed under the DMCA with “a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law,” the owner must evaluate whether the material makes fair use of the copyright. 17 U.S.C. §512(c)(3)(A)(v). An allegation that a copyright owner acted in bad faith by issuing a takedown notice without proper consideration of the fair use doctrine thus is sufficient to state a misrepresentation claim pursuant to Section 512(f) of the DMCA. Such an interpretation of the DMCA furthers both the purposes of the DMCA itself and copyright law in general. In enacting the DMCA, Congress noted that the “provisions in the bill balance the need for rapid response to potential infringement with the end-users [sic] legitimate interests in not having material removed without recourse.” Sen. Rep. No. 105-190 at 21 (1998).

Universal suggests that copyright owners may lose the ability to respond rapidly to potential infringements if they are required to evaluate fair use prior to issuing takedown notices. Universal also points out that the question of whether a particular use of copyrighted material constitutes fair use is a fact-intensive inquiry, and that it is difficult for copyright owners to predict whether a court eventually

may rule in their favor. However, while these concerns are understandable, their actual impact likely is overstated. Although there may be cases in which such considerations will arise, there are likely to be few in which a copyright owner's determination that a particular use is not fair use will meet the requisite standard of subjective bad faith required to prevail in an action for misrepresentation under 17 U.S.C. §512(f). See *Rossi v. Motion Picture Ass'n of America, Inc.*, 391 F.3d 1000, 1004 (9th Cir. 2004) (holding that "the 'good faith belief' requirement in §512(c)(3)(A)(v) encompasses a subjective, rather than objective, standard").

. . . Undoubtedly, some evaluations of fair use will be more complicated than others. But in the majority of cases, a consideration of fair use prior to issuing a takedown notice will not be so complicated as to jeopardize a copyright owner's ability to respond rapidly to potential infringements. . . . As the Ninth Circuit observed in *Rossi*, a full *investigation* to verify the accuracy of a claim of infringement is not required. *Rossi*, 391 F.3d at 1003-04.

The purpose of Section 512(f) is to prevent the abuse of takedown notices. If copyright owners are immune from liability by virtue of ownership alone, then to a large extent Section 512(f) is superfluous. As Lenz points out, the unnecessary removal of non-infringing material causes significant injury to the public where time-sensitive or controversial subjects are involved and the counter-notification remedy does not sufficiently address these harms. A good faith consideration of whether a particular use is fair use is consistent with the purpose of the statute. Requiring owners to consider fair use will help "ensure[] that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will expand" without compromising "the movies, music, software and literary works that are the fruit of American creative genius." Sen. Rep. No. 105-190 at 2 (1998). . . .

The [complaint] contains sufficient allegations of bad faith and deliberate ignorance of fair use to survive the instant motion to dismiss. Lenz alleges that Universal is a sophisticated corporation familiar with copyright actions, and that rather than acting in good faith, Universal acted solely to satisfy Prince. Lenz alleges that Prince has been outspoken on matters of copyright infringement on the Internet and has threatened multiple suits against internet service providers to protect his music. . . . Although the Court has considerable doubt that Lenz will be able to prove that Universal acted with the subjective bad faith required by *Rossi*, and following discovery her claims well may be appropriate for summary judgment, Lenz's allegations are sufficient at the pleading stage. . . .

Note on OSPs and Automated Enforcement

As *Lenz* illustrates, many users rely on the Internet to distribute content that they have created. Web platforms like YouTube and Flickr, which did not exist when Congress enacted §512, were designed specifically as venues for such user-generated content (UGC). Today, those sites and many others receive millions of visitors daily. Those visits translate into substantial advertising revenues for the OSPs that operate the sites. Often, UGC includes material drawn from preexisting copyright works. The uses of preexisting materials are so diverse as to defy description, and

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include everything from mashups and fan fiction to snippets of video material reproduced for commentary to videos of users dancing or singing (or simply going about their daily activities) to a soundtrack consisting of copyrighted music.

The major copyright industries have sought to engage the OSP industry in negotiations that would yield privately agreed, largely automated methods of policing for copyright infringement within UGC. In 2007, a group of major copyright owners including Disney, Fox, Microsoft, NBC Universal, and Viacom released a document titled “Copyright Principles for UGC Services,” <http://www.ugcprinciples.com>. According to the proposed principles, Web platforms for UGC should implement “effective content identification technology.” *Id.* ¶3. The proposed principles define “effective content identification technology” as any technology that is both “commercially reasonable” and “highly effective, in relation to other technologies commercially available at the time of implementation.” *Id.* The technology should automatically block user uploads for which a copyright owner has provided “reference data for content required to establish a match with user-uploaded content” unless the copyright owner has instructed that matches should be handled in some other way. *Id.* ¶3(a)-(c).

Pursuant to the proposed principles, a UGC service may undertake “manual (human) review of all user-uploaded audio and video content in lieu of, or in addition to, use of Identification Technology, if feasible and if such review is as effective as Identification Technology in achieving the goal of eliminating infringing content.” *Id.* ¶3(f). UGC services also must give copyright owners that register with them access to “commercially reasonable enhanced searching and identification means” to locate infringing content themselves. *Id.* ¶5. The proposed principles state that “Copyright Owners and UGC services should cooperate to ensure that the Identification Technology is implemented in a manner that effectively balances legitimate interests in (1) blocking infringing user-uploaded content, (2) allowing wholly original and authorized uploads, and (3) accommodating fair use.” *Id.* ¶3(d).

Peer-to-peer file-sharing technologies that enable users to share material maintained on their own computers present different enforcement challenges. At least two major Internet access providers appear to have deployed “deep packet inspection” technologies to analyze traffic passing through their networks. Deep packet inspection examines bits of digital information to determine which application generated the information, and can also be used to identify digital watermarks. Once identified, traffic generated by particular applications can be blocked or slowed. After subscribers of the Internet access provider Comcast discovered a network utility that hampered use of the popular BitTorrent file-sharing protocol, Comcast admitted that it had deliberately interfered with subscribers’ BitTorrent downloads. According to Comcast, this helped it to manage competing demands for bandwidth. In March 2008, following an investigation by the Federal Communications Commission, Comcast announced that it would no longer engage in the challenged practice, and pledged to come up with other traffic management solutions, although it did not indicate what those solutions might be.

NOTES AND QUESTIONS

1. *Lenz* involves the intersection of §512(c)(3)(A)(v)'s requirement of "good faith belief" that material is infringing with §512(f)'s requirement that a user seeking damages must show that the copyright owner "knowingly materially misrepresent[ed]" the material's infringing status. The court indicates that the standard for "good faith belief" is a subjective one. Does §512(f) similarly indicate a subjective standard of knowledge? In *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195 (N.D. Cal. 2004), the court assessed a notification sent by Diebold, a manufacturer of electronic voting machines, demanding removal from the Internet of copied portions of an archive of e-mail exchanged among Diebold employees that revealed serious technical problems with Diebold's machines. In concluding that Diebold had violated §512(f), the court reasoned:

"Knowingly" means that a party actually knew, should have known if it acted with reasonable care or diligence, or would have had no substantial doubt had it been acting in good faith, that it was making misrepresentations. . . . "Material" means that the misrepresentation affected the ISP's response to a DMCA letter. . . .

. . . No reasonable copyright holder could have believed that [the material] was protected by copyright, and there is no genuine issue of fact that Diebold knew—and indeed that it specifically intended . . . that its [notifications] would result in prevention of publication of that content. . . . Diebold sought to use [§512] . . . as a sword to suppress publication of embarrassing content rather than as a shield to protect its intellectual property.

Id. at 1204-05. Is this interpretation of §512(f) consistent with the interpretation of §512(c)(3)(A)(v) as requiring a subjective standard of good faith belief?

2. In cases like *Lenz* that involve disputes about UGC, what type of evidence would show a lack of good faith belief on the part of the copyright holder? How would you craft discovery requests to elicit the required evidence? Following the rejection of Universal's Rule 12(b)(6) motion, the parties in *Lenz* engaged in a number of discovery battles and then filed cross-motions for summary judgment on the question of subjective good faith. *Lenz* argued that the Universal's procedures for evaluating UGC for copyright infringement evidenced willful blindness to the possibility of fair use. The court rejected that argument, reasoning that the evidence did not show that Universal "subjectively believed either that there was a high probability that any given video might make fair use of a Prince composition or that her own video in particular made fair use of Prince's song." *Lenz v. Universal Music Corp.*, 2013 WL 271673 (Jan 24, 2013), at *7, interlocutory appeal certified (Mar. 1, 2013). It also concluded, however, that Universal had not shown as a matter of undisputed fact that it lacked such a belief.

The summary judgment motions focused principally on deposition testimony by the Universal employee assigned to review YouTube videos for violation of Prince's copyrights. A video would be excluded from the removal list "if it had only 'a second or less of a Prince song, literally a one line, half line of a Prince song,' or if it was shot in a noisy environment like a bar where the song was playing 'deep in the

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background.” Lenz’s video was placed on the removal list because “it was titled ‘Let’s Go Crazy # 1’; [the employee] recognized the song in the background ‘right off the bat’; the song was loud and played through the entire video; and the audio track included a voice asking the children whether they liked the music.” *Id.* at *5. If the case proceeds to trial, where a preponderance-of-the-evidence standard applies, who should prevail on the question of subjective bad faith?

3. Note that YouTube took six weeks to restore Lenz’s video, rather than the statutorily provided 10 to 14 business days. What do you think explains the delay? From the perspective of an Internet user, what do you make of the notification and counternotification procedures established by §512? Do they reflect an appropriate balancing of the various interests affected? If not, what changes would you recommend?

4. As of this writing, only a handful of OSPs have endorsed the proposed Copyright Principles for UGC services. If you represented an OSP that provides hosting services, would you favor adoption? Why, or why not? If you were a member of Congress, would you favor amending §512 to include some version of the principles? In making this decision, would it matter whether automated filtering would result in the blocking of Stephanie Lenz’s video?

In response to the principles, a group of nonprofit organizations offered a competing proposal, titled “Fair Use Principles for User Generated Video Content.” We will consider that proposal in Chapter 7 of the casebook, after you have learned about fair use.

5. Some industry observers think Viacom expected the sheer number of takedown notices it served on YouTube to bring YouTube to the bargaining table, where it might then agree to use content filtering tools approved by Viacom. If so, Viacom was mistaken, but YouTube did institute a “content verification program” through which copyright owners with an “ongoing need to remove allegedly infringing content” can register to expedite the notification process, and a “content ID” program through which copyright owners can submit reference data for identification of their copyrighted content. Copyright owners can request removal of content so identified, or can authorize YouTube to add a pop-up advertisement telling users how the content may be purchased. *See* <http://www.youtube.com/yt/copyright>. If you represented Viacom, would you be satisfied with these measures? What additional terms, if any, would you want included in any settlement? What terms would you want if you represented Google/YouTube?

6. Is deep packet inspection by Internet access providers a good solution to the problem of online copyright infringement via peer-to-peer file-sharing? Why, or why not? Review §512(a) again. If an OSP engages in deep packet inspection, will it lose eligibility to claim the safe harbor? If so, is that result appropriate?

7. Pursuant to the Higher Education Opportunity Act (HEOA), Pub. L. No. 110-315, as a condition for obtaining federal financial aid for students, colleges and universities must develop plans to block peer-to-peer file-sharing and must offer students an alternative to illegal downloading. *See* 20 U.S.C. §1094(a)(29). If you were a member of Congress, would you have voted for the provision? Would deep packet inspection be an appropriate measure for colleges and universities to implement?

Pages 515-16. In the Notes and Questions:

a. Replace Question 6 with the following:

In July 2011, the RIAA announced that it had reached a “six strikes” agreement with five major providers of Internet access. The agreement provides for a Copyright Alert System that issues a graduated series of warnings to subscribers whose activities are identified as infringing. Alerts at the first two states are informational; those at the next two stages require subscriber acknowledgment of receipt; and those at the final two stages may involve sanctions such as referral to a copyright education program, reductions in transmission speed, or temporary suspension of service. Cessation of service is not mandated. *See* Memorandum of Understanding, July 6, 2011, <http://www.copyrightinformation.org/wp-content/uploads/2013/02/Memorandum-of-Understanding.pdf>.

Recall that §512 does not shelter an OSP that fails to adopt and reasonably implement a policy for terminating repeat infringers. Read §512(i) and identify its requirements. If the statute will not shelter OSPs that tolerate repeat infringers, why do you think the RIAA sought private agreements with OSPs? What are the pros and cons of this approach from the RIAA’s perspective? From the OSP’s perspective? Note that, partly as a result of the HEOA (*see* page 506 in the casebook), some colleges and universities had already adopted three strikes policies. Why might they have been more willing to do so than other OSPs?

b. Insert new Question 8:

8. In *Scarlet Extended SA v. Société belge des auteurs, compositeurs et éditeurs SCRL (SABAM)*, [2012] E.C.D.R. 4, a Belgian ISP challenged a court order directing it to implement a system to monitor its subscribers’ peer-to-peer downloads and filter out all works in the catalog of the Belgian collective rights organization SABAM. The Court of Justice of the European Union ruled that the order violated the EU directive mandating certain OSP safe harbors and specifying that OSPs should not be subjected to a general monitoring requirement. *See* Directive 2000/ 31/EC of the European Parliament and of the Council of June 8, 2000, on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, 2000 O.J. (L 178) 1, art. 15. It further ruled that user IP addresses were “protected personal information” and that their routine monitoring would violate rights to the protection of personal information and to freedom of information secured by the Charter of Fundamental Rights of the European Union, arts. 8 and 11.

Can this ruling be reconciled with the “right of information” discussed in Question 3, page 515 in the casebook? In the *SABAM* decision, the court observed that “in the context of measures adopted to protect copyright holders, national authorities and courts must strike a fair balance between the protection of copyright and the protection of the fundamental rights of individuals who are affected

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by such measures,” and also between the protection of copyright and protection of “the freedom to conduct a business enjoyed by operators such as ISPs.” *SABAM*, [2012] E.C.D.R. 4, ¶¶45-46. Which exercises of the “right of information” preserve a fair balance? What implications does the *SABAM* ruling have for enforcement of the French HADOPI law described in Question 7 on page 516 of the casebook?

Page 516. *After the Notes and Questions insert the following:*

Note on Strategies to Address Online Infringement

As the Note on Identifying and Suing the Direct Infringer (pp. 514-15 of the casebook) illustrates, it can be expensive and time-consuming to identify and locate direct infringers in the online setting. Once located, a direct infringer may prove to be judgment-proof or outside the jurisdiction of U.S. courts. Moreover, as the experience of the U.S. music industry suggests, a strategy of suing individuals who, although infringers at times, are also customers, is unlikely either to enhance sales or effectively curb online infringement.

For many copyright owners, the better strategy is to proceed against OSPs. What are the pros and cons of such an approach? Certainly, one drawback is that once information becomes available online, it is virtually impossible to recapture even if take-down occurs fairly quickly. This helps to explain why, as we discuss on pages 418-19 of this Supplement, copyright owners have also been lobbying OSPs to adopt filtering technologies. Their aim is to prevent infringing material from ever being made available on a website. Does this approach appropriately balance copyright owners’ desires to stop infringement and concerns about permitting potentially lawful uses?

In addition to OSPs, other third parties may play a role in enabling infringement. Recall, for example, *Perfect 10, Inc. v. Visa International Service Association* on pages 482-87 of the casebook. There, Perfect 10 sought to use secondary liability under copyright law to hold Visa liable for providing payment processing services to customers accessing websites containing infringing images. Although the court rejected the claim, the question whether copyright owners should be able somehow to enlist so-called third-party “facilitators” of infringing conduct in their own fight against infringement has become a matter of heated debate.

In 2011, the Senate considered the Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act (“PROTECT IP Act” or “PIPA”). S. 968, 112th Cong., 1st Sess. The House debated a similar bill entitled the Stop Online Piracy Act (“SOPA”), H.R. 3261, 112th Cong., 1st Sess. Although there are some differences between the two bills, both would have permitted the Attorney General or “qualifying plaintiffs” to bring *in rem* proceedings against a nondomestic domain name if the individual infringer could not be located and sued within the United States. Proceeding *ex parte*, courts could issue orders requiring operators of domain name servers that translate the domain name into its Internet protocol address to prevent access to the domain. The orders could

Chapter 6. The Different Faces of Infringement

require other intermediaries, including financial transaction providers, Internet advertising services, and information location tools (like Google) to prevent their services from dealing with or being used to access the infringing site. As originally drafted, SOPA would have permitted plaintiffs to avoid the necessity of a court order by sending written notifications of infringing activity to payment providers and Internet advertising services and thereby requiring those entities to cease dealing with the infringing site within five days after delivery of the notification.

Both bills proved enormously controversial. Critics expressed concerns that provisions requiring domain blocking would pose technical problems that could affect the Internet's reliability and security. They also questioned the wisdom of allowing a court to determine whether a site is dedicated to infringing activity without a full hearing. A number of sites, including Wikipedia, went dark for a day to protest the legislation. In part as a result of the unprecedented public outcry, the bills were tabled.

The question of how to address large-scale infringements, particularly when the infringer is located offshore but domestic third parties facilitate location of, access to, and in some cases the profitability, of the infringing site, is unlikely to decline in importance. What do you think of the SOPA and PIPA proposals? Section 512(j) of the DMCA permits a court to issue an order directing an OSP to refuse access to an infringing subscriber or to block access to an online location outside the United States even if the OSP qualifies for §512(a)'s limitations on remedies. In light of §512(j), is additional legislation necessary? Is there a way to accommodate both the goal of protecting copyright owners from large-scale electronic infringements and that of upholding values of freedom of expression and the largely unfettered flow of information?

Chapter 7. Another Limitation on Copyright: Fair Use

B. The Different Faces of Fair Use

Page 563. In Question 6.g, replace the case citation with the following:

Salinger v. Colting, 641 F. Supp. 2d 250 (S.D.N.Y. 2009) (no fair use), *vacated*, 607 F.3d 68 (2d Cir. 2010).

Page 592. In the Notes and Questions, replace Question 5 with the following and add Question 6:

5. Review the Note on Copyright's Default Rules and the Google Book Search Project and the Notes and Questions following it, *supra* pp. 359-61. Is a court likely to consider the copies that Google makes when it scans material into its systems fair? What about the short excerpts it returns in search results?

6. Would your fair use analysis change if you were considering HathiTrust's conduct rather than Google's? In *Authors Guild, Inc. v. HathiTrust*, 902 F. Supp. 2d 445 (S.D.N.Y. 2012), *appeal docketed*, No. 12-4547 (2d Cir. Nov. 14, 2012), the court held the defendant universities' and HathiTrust's conduct fair. The court found the use transformative "because the copies serve an entirely different purpose than the original works: the purpose is superior search capabilities rather than actual access to copyrighted material" and because the libraries used the digital copies to facilitate access for print-disabled persons. *Id.* at 459-60. The court also noted that "the program helps Defendants preserve their collections in the face of normal deterioration during circulation, natural disasters, or other catastrophes that decimate library collections, as well as loss due to theft or misplacement." *Id.* at 459.

Should it matter to the fair use inquiry that a work is an orphan work? How should the preferences of different types of authors be considered in the orphan work context? Should it matter whether authors of works that might someday become orphan works would desire different levels of “fair use” of such works? (In the *HathiTrust* case, the district court ruled that the legality of the orphan works project was not ripe for adjudication. *Id.* at 455-56.)

Pages 600-601. In the Notes and Questions

a. At the end of Question 3 add the following:

In *Authors Guild, Inc. v. HathiTrust*, 902 F. Supp. 2d 445 (S.D.N.Y. 2012), *appeal docketed*, No. 12-4547 (2d Cir. Nov. 14, 2012) (*see* Note 3, *supra* pp. 360-61), the court cited *BGA* approvingly for the proposition that “[a] copyright holder cannot preempt a transformative market,” and noted that *Texaco* “concludes that courts should consider ‘only traditional, reasonable or likely to be developed markets.’” *Id.* at 463. The *HathiTrust* court stated:

Because I conclude at least two of the uses are transformative — that is, the provision of search capabilities and access for print-disabled individuals — any harm arises, if at all to a “transformative market.” *Bill Graham*, 448 F.3d at 614 (“Appellant asserts that it established a market for licensing its images, and in this case expressed a willingness to license images. . . . Neither of these arguments shows impairment to a traditional, as opposed to a transformative market.”). A use that “falls within a transformative market” does not cause the copyright holder to “suffer market harm due to the loss of license fees.”

Defendants offer substantial evidence that it would be prohibitively expensive to develop a market to license the use of works for search purposes, access for print-disabled individuals, or preservation purposes. This also assumes that the holder of each copyright could be identified, a tenuous assumption to say the least. Plaintiffs characterize this as an argument that “it is permissible to steal the goods if it is too expensive to buy them.” However, Defendants argue that the high costs will prohibit the formation of a viable market *in the first place*, and as a consequence there will be no one to buy the goods from. Although Plaintiffs assert that the Copyright Clearance Center (“CCC”) could eventually develop a license for the uses to which Defendants put the works the CCC has no plans to provide for or develop such a license. Even if Congress will eventually find a way to regulate this area of the law, “it is not the [court’s] job to apply laws that have not yet been written.” *Sony*, 464 U.S. at 456.

Id. at 463-64.

Chapter 7. Another Limitation on Copyright: Fair Use

b. At the end of Question 6 add the following:

e. A university permits professors to post excerpts of copyrighted material on the university library's electronic reserve system. The excerpts are available only to students officially enrolled in the class. All are from non-fiction works and although some are from textbooks, most are from books of interest to educators in the particular area. See *Cambridge Univ. Press v. Becker*, 863 F. Supp. 2d 1190 (N.D. Ga. 2012) (addressing unlicensed copying of 75 excerpts, developing rough guidelines for the amount of copying weighing for and against fair use under factor three of the inquiry, and concluding that most infringements at issue were excused as fair), *appeal docketed*, No. 12-15147 (11th Cir. Oct. 5, 2012), *sub nom.* *Cambridge Univ. Press v. Albert*.

Cariou v. Prince
714 F.3d 694 (2d. Circ. 2013)

PARKER, J. . . .

BACKGROUND

. . . Cariou is a professional photographer who, over the course of six years in the mid–1990s, lived and worked among Rastafarians in Jamaica. The relationships that Cariou developed with them allowed him to take a series of portraits and landscape photographs that Cariou published in 2000 in a book titled *Yes Rasta*. As Cariou testified, *Yes Rasta* is “extreme classical photography [and] portraiture,” and he did not “want that book to look pop culture at all.” Cariou Dep. 187:8–15, Jan. 12, 2010.

Cariou’s publisher, PowerHouse Books, Inc., printed 7,000 copies of *Yes Rasta*, in a single printing. Like many, if not most, such works, the book enjoyed limited commercial success. The book is currently out of print. As of January 2010, PowerHouse had sold 5,791 copies, over sixty percent of which sold below the suggested retail price of sixty dollars. PowerHouse has paid Cariou, who holds the copyrights to the *Yes Rasta* photographs, just over \$8,000 from sales of the book. Except for a handful of private sales to personal acquaintances, he has never sold or licensed the individual photographs.

Prince is a well-known appropriation artist. The Tate Gallery has defined appropriation art as “the more or less direct taking over into a work of art a real object or even an existing work of art.” J.A. 446. Prince’s work, going back to the mid–1970s, has involved taking photographs and other images that others have produced and incorporating them into paintings and collages that he then presents, in a different context, as his own. He is a leading exponent of this genre and his work has been displayed in museums around the world, including New York’s Solomon R. Guggenheim Museum and Whitney Museum, San Francisco’s Museum of Modern Art, Rotterdam’s Museum Boijmans van Beuningen, and Basel’s Museum fur Gegenwartskunst. As Prince has described his work, he “completely tr[ies] to change [another artist’s work] into something that’s completely different.” Prince Dep. 338:4–8, Oct. 6, 2009.

Prince first came across a copy of *Yes Rasta* in a bookstore in St. Barth’s in 2005. Between December 2007 and February 2008, Prince had a show at the Eden Rock hotel in St. Barth’s that included a collage, titled *Canal Zone (2007)*, comprising 35 photographs torn out of *Yes Rasta* and pinned to a piece of plywood. Prince altered those photographs significantly, by among other things painting “lozenges” over their subjects’ facial features and using only portions of some of the images. In June 2008, Prince purchased three additional copies of *Yes Rasta*. He went on to create thirty additional artworks in the *Canal Zone* series, twenty-nine of which incorporated partial or whole images from *Yes Rasta*.³ The portions of *Yes Rasta* photographs used, and the amount of each artwork that they constitute, vary significantly from piece to piece. In certain works, such as *James Brown Disco Ball*, Prince affixed headshots from *Yes Rasta* onto other appropriated images, all of which Prince placed on a canvas that he had painted. In these, Cariou’s work is almost entirely obscured. The Prince artworks also incorporate photographs that have been enlarged or tinted, and incorporate photographs appropriated from artists other than Cariou as well. *Yes Rasta* is a book of photographs measuring approximately 9.5” x 12”. Prince’s artworks, in contrast, comprise inkjet printing and acrylic paint, as well as pasted-on elements, and are several times that size. For instance, *Graduation* measures 72 3/4” x 52 1/2” and *James Brown Disco Ball* 100 1/2” x 104 1/2”. The smallest of the Prince artworks measures 40” x 30”, or approximately ten times as large as each page of *Yes Rasta*.



Patrick Cariou, Photographs from *Yes Rasta*, pp. 11, 59



Richard Prince, *James Brown Disco Ball*

In other works, such as *Graduation*, Cariou's original work is readily apparent: Prince did little more than paint blue lozenges over the subject's eyes and mouth, and paste a picture of a guitar over the subject's body.



Patrick Cariou, Photograph from *Yes Rasta*, pp. 118



Richard Prince, *Graduation*

Between November 8 and December 20, 2008, the Gallery put on a show featuring twenty-two of Prince's *Canal Zone* artworks, and also published and sold an exhibition catalog from the show. The catalog included all of the *Canal Zone* artworks (including those not in the Gagosian show) except for one, as well as, among other things, photographs showing *Yes Rasta* photographs in Prince's studio. Prince never sought or received permission from Cariou to use his photographs.

Prior to the Gagosian show, in late August, 2008, a gallery owner named Cristiane Celle contacted Cariou and asked if he would be interested in discussing the possibility of an exhibit in New York City. Celle did not mention *Yes Rasta*, but did express interest in photographs Cariou took of surfers, which he published in 1998 in the aptly titled *Surfers*. Cariou responded that *Surfers* would be republished in 2008, and inquired whether Celle might also be interested in a book Cariou had recently completed on gypsies. The two subsequently met and discussed Cariou's exhibiting work in Celle's gallery, including prints from *Yes Rasta*. They did not select a date or photographs to exhibit, nor did they finalize any other details about the possible future show.

At some point during the *Canal Zone* show at Gagosian, Celle learned that Cariou’s photographs were “in the show with Richard Prince.” Celle then phoned Cariou and, when he did not respond, Celle mistakenly concluded that he was “doing something with Richard Prince. . . . At that point, Celle decided that she would not put on a “Rasta show” because it had been “done already,” and that any future Cariou exhibition she put on would be of photographs from *Surfers*. . . .

According to Cariou, he learned about the Gagosian *Canal Zone* show from Celle in December 2008. On December 30, 2008, he sued Prince, the Gagosian Gallery, and Lawrence Gagosian, raising claims of copyright infringement. The defendants asserted a fair use defense, arguing that Prince’s artworks are transformative of Cariou’s photographs and, accordingly, do not violate Cariou’s copyrights. . . . Ruling on the parties’ subsequently-filed cross-motions for summary judgment, the district court (Batts, *J.*) “impose[d] a requirement that the new work in some way comment on, relate to the historical context of, or critically refer back to the original works” in order to be qualify as fair use, and stated that “Prince’s Paintings are transformative only to the extent that they comment on the Photos.” *Cariou v. Prince*, 784 F.Supp.2d 337, 348–49 (S.D.N.Y. 2011). The court concluded that “Prince did not intend to comment on Cariou, on Cariou’s Photos, or on aspects of popular culture closely associated with Cariou or the Photos when he appropriated the Photos,” . . . and for that reason rejected the defendants’ fair use defense. . . .

DISCUSSION . . .

II

The purpose of the copyright law is “[t]o promote the Progress of Science and useful Arts. . . .” U.S. Const., Art. I, § 8, cl. 8. As Judge Pierre Leval of this court has explained, “[t]he copyright is not an inevitable, divine, or natural right that confers on authors the absolute ownership of their creations. It is designed rather to stimulate activity and progress in the arts for the intellectual enrichment of the public.” Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L.Rev. 1105, 1107 (1990) (hereinafter “Leval”). Fair use is “necessary to fulfill [that] very purpose.” Because “ ‘excessively broad protection would stifle, rather than advance, the law’s objective,’ ” fair use doctrine “mediates between” “the property rights [copyright law] establishes in creative works, which must be protected up to a point, and the ability of authors, artists, and the rest of us to express them—or ourselves by reference to the works of others, which must be protected up to a point.” *Blanch v. Koons*, 467 F.3d, [244] at 250 [2nd Cir. 2006] (brackets omitted) (quoting Leval at 1109). . . .

As the statute indicates, and as the Supreme Court and our court have recognized, the fair use determination is an open-ended and context-sensitive inquiry. . . .

The first statutory factor to consider, which addresses the manner in which the copied work is used, is “[t]he heart of the fair use inquiry.” *Blanch*, 467 F.3d at 251. We ask

whether the new work merely ‘supersedes the objects’ of the original creation, or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message [,] . . . in other words, whether and to what extent the new work is transformative. . . . [T]ransformative works . . . lie at the heart of the fair use doctrine’s guarantee of breathing space. . . .

Campbell v. Acuff–Rose Music, Inc., 510 U.S. 569, 579 (1994).

. . . The district court imposed a requirement that, to qualify for a fair use defense, a secondary use must “comment on, relate to the historical context of, or critically refer back to the original works.” *Cariou*, 784 F.Supp.2d at 348. Certainly, many types of fair use, such as satire and parody, invariably comment on an original work and/or on popular culture. . . . Much of Andy Warhol’s work, including work incorporating appropriated images of Campbell’s soup cans or of Marilyn Monroe, comments on consumer culture and explores the relationship between celebrity culture and advertising. As even Cariou

concedes, however, the district court's legal premise was not correct. The law imposes no requirement that a work comment on the original or its author in order to be considered transformative, and a secondary work may constitute a fair use even if it serves some purpose other than those (criticism, comment, news reporting, teaching, scholarship, and research) identified in the preamble to the statute. . . . Instead, as the Supreme Court as well as decisions from our court have emphasized, to qualify as a fair use, a new work generally must alter the original with "new expression, meaning, or message." *Campbell*, 510 U.S. at 579; *see also Blanch*, 467 F.3d at 253 (original must be employed "in the creation of new information, new aesthetics, new insights and understandings" (quotation marks omitted)).

. . . Here, our observation of Prince's artworks themselves convinces us of the transformative nature of all but five, which we discuss separately below. These twenty-five of Prince's artworks manifest an entirely different aesthetic from Cariou's photographs. Where Cariou's serene and deliberately composed portraits and landscape photographs depict the natural beauty of Rastafarians and their surrounding environs, Prince's crude and jarring works, on the other hand, are hectic and provocative. Cariou's black-and-white photographs were printed in a 9 1/2" x 12" book. Prince has created collages on canvas that incorporate color, feature distorted human and other forms and settings, and measure between ten and nearly a hundred times the size of the photographs. Prince's composition, presentation, scale, color palette, and media are fundamentally different and new compared to the photographs, as is the expressive nature of Prince's work.

Prince's deposition testimony further demonstrates his drastically different approach and aesthetic from Cariou's. Prince testified that he "[doesn't] have any really interest in what [another artist's] original intent is because . . . what I do is I completely try to change it into something that's completely different. . . . I'm trying to make a kind of fantastic, absolutely hip, up to date, contemporary take on the music scene." Prince Dep. 338:4–339:3, Oct. 6, 2009. As the district court determined, Prince's *Canal Zone* artworks relate to a "post-apocalyptic screenplay" Prince had planned, and "emphasize themes [of Prince's planned screenplay] of equality of the sexes; highlight 'the three relationships in the world, which are men and women, men and men, and women and women'; and portray a contemporary take on the music scene." *Cariou*, 784 F.Supp.2d at 349; *see* Prince Dep. 339:3–7, Oct. 6, 2009.

The district court based its conclusion that Prince's work is not transformative in large part on Prince's deposition testimony that he "do [es]n't really have a message," that he was not "trying to create anything with a new meaning or a new message," and that he "do[es]n't have any . . . interest in [Cariou's] original intent." *Cariou*, 784 F.Supp.2d at 349; *see* Prince Dep. 45:25–46:2, 338:5–6, 360:18–20, Oct. 6, 2009. On appeal, Cariou argues that we must hold Prince to his testimony and that we are not to consider how Prince's works may reasonably be perceived unless Prince claims that they were satire or parody. No such rule exists, and we do not analyze satire or parody differently from any other transformative use.

It is not surprising that, when transformative use is at issue, the alleged infringer would go to great lengths to explain and defend his use as transformative. Prince did not do so here. However, the fact that Prince did not provide those sorts of explanations in his deposition—which might have lent strong support to his defense—is not dispositive. What is critical is how the work in question appears to the reasonable observer, not simply what an artist might say about a particular piece or body of work. Prince's work could be transformative even without commenting on Cariou's work or on culture, and even without Prince's stated intention to do so. Rather than confining our inquiry to Prince's explanations of his artworks, we instead examine how the artworks may "reasonably be perceived" in order to assess their transformative nature. *Campbell*, 510 U.S. at 582. The focus of our infringement analysis is

primarily on the Prince artworks themselves, and we see twenty-five of them as transformative as a matter of law. . . .

. . . The first fair use factor—the purpose and character of the use—also requires that we consider whether the allegedly infringing work has a commercial or nonprofit educational purpose. This factor must be applied with caution because, as the Supreme Court has recognized, Congress “could not have intended” a rule that commercial uses are presumptively unfair. *Campbell*, 510 U.S. at 584. Instead, “[t]he more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.” *Id.* at 579. Although there is no question that Prince’s artworks are commercial, we do not place much significance on that fact due to the transformative nature of the work.

We turn next to the fourth statutory factor, the effect of the secondary use upon the potential market for the value of the copyrighted work, because such discussion further demonstrates the significant differences between Prince’s work, generally, and Cariou’s. Much of the district court’s conclusion that Prince and Gagosian infringed on Cariou’s copyrights was apparently driven by the fact that Celle decided not to host a *Yes Rasta* show at her gallery once she learned of the Gagosian *Canal Zone* show. The district court determined that this factor weighs against Prince because he “has unfairly damaged both the actual and potential markets for Cariou’s original work and the potential market for derivative use licenses for Cariou’s original work.” *Cariou*, 784 F.Supp.2d at 353.

. . . Contrary to the district court’s conclusion, the application of this factor does not focus principally on the question of damage to Cariou’s derivative market. We have made clear that “our concern is not whether the secondary use suppresses or even destroys the market for the original work or its potential derivatives, but whether the secondary use *usurps* the market of the original work.” *Blanch*, 467 F.3d at 258 (quotation marks omitted) (emphasis added). “The market for potential derivative uses includes only those that creators of original works would in general develop or license others to develop.” *Campbell*, 510 U.S. at 592. Our court has concluded that an accused infringer has usurped the market for copyrighted works, including the derivative market, where the infringer’s target audience and the nature of the infringing content is the same as the original. For instance, a book of trivia about the television show *Seinfeld* usurped the show’s market because the trivia book “substitute[d] for a derivative market that a television program copyright owner . . . would in general develop or license others to develop.” *Castle Rock*, 150 F.3d at 145 (quotation marks omitted). Conducting this analysis, we are mindful that “[t]he more transformative the secondary use, the less likelihood that the secondary use substitutes for the original,” even though “the fair use, being transformative, might well harm, or even destroy, the market for the original.” *Id.*

As discussed above, Celle did not decide against putting on a *Yes Rasta* show because it had already been done at Gagosian, but rather because she mistakenly believed that Cariou had collaborated with Prince on the Gagosian show. Although certain of Prince’s artworks contain significant portions of certain of Cariou’s photographs, neither Prince nor the *Canal Zone* show usurped the market for those photographs. Prince’s audience is very different from Cariou’s, and there is no evidence that Prince’s work ever touched—much less usurped—either the primary or derivative market for Cariou’s work. There is nothing in the record to suggest that Cariou would ever develop or license secondary uses of his work in the vein of Prince’s artworks. Nor does anything in the record suggest that Prince’s artworks had any impact on the marketing of the photographs. Indeed, Cariou has not aggressively marketed his work, and has earned just over \$8,000 in royalties from *Yes Rasta* since its publication. He has sold four prints from the book, and only to personal acquaintances.

Prince's work appeals to an entirely different sort of collector than Cariou's. Certain of the *Canal Zone* artworks have sold for two million or more dollars. The invitation list for a dinner that Gagosian hosted in conjunction with the opening of the *Canal Zone* show included a number of the wealthy and famous such as the musicians Jay-Z and Beyonce Knowles, artists Damien Hirst and Jeff Koons, professional football player Tom Brady, model Gisele Bundchen, *Vanity Fair* editor Graydon Carter, *Vogue* editor Anna Wintour, authors Jonathan Franzen and Candace Bushnell, and actors Robert DeNiro, Angelina Jolie, and Brad Pitt. Prince sold eight artworks for a total of \$10,480,000, and exchanged seven others for works by painter Larry Rivers and by sculptor Richard Serra. Cariou on the other hand has not actively marketed his work or sold work for significant sums, and nothing in the record suggests that anyone will not now purchase Cariou's work, or derivative non-transformative works (whether Cariou's own or licensed by him) as a result of the market space that Prince's work has taken up. This fair use factor therefore weighs in Prince's favor.

The next statutory factor that we consider, the nature of the copyrighted work, "calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." *Campbell*, 510 U.S. at 586. We consider " '(1) whether the work is expressive or creative, ... with a greater leeway being allowed to a claim of fair use where the work is factual or informational, and (2) whether the work is published or unpublished, with the scope for fair use involving unpublished works being considerably narrower.' " *Blanch*, 467 F.3d at 256. . . .

Here, there is no dispute that Cariou's work is creative and published. Accordingly, this factor weighs against a fair use determination. However, just as with the commercial character of Prince's work, this factor "may be of limited usefulness where," as here, "the creative work of art is being used for a transformative purpose." *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 612 (2d Cir. 2006).

. . . The final factor that we consider in our fair use inquiry is "the amount and substantiality of the portion used in relation to the copyrighted work as a whole." 17 U.S.C. § 107(3). We ask "whether the quantity and value of the materials used[] are reasonable in relation to the purpose of the copying." *Blanch*, 467 F.3d at 257 (quotation marks omitted). In other words, we consider the proportion of the original work used, and not how much of the secondary work comprises the original.

. . . The district court determined that Prince's "taking was substantially greater than necessary." *Cariou*, 784 F.Supp.2d at 352. We are not clear as to how the district court could arrive at such a conclusion. In any event, the law does not require that the secondary artist may take no more than is necessary. *See Campbell*, 510 U.S. at 588. We consider not only the quantity of the materials taken but also "their quality and importance" to the original work. *Campbell*, 510 U.S. at 587. The secondary use "must be [permitted] to 'conjure up' at least enough of the original" to fulfill its transformative purpose. *Id.* at 588 (emphasis added). Prince used key portions of certain of Cariou's photographs. In doing that, however, we determine that in twenty-five of his artworks, Prince transformed those photographs into something new and different and, as a result, this factor weighs heavily in Prince's favor.

As indicated above, there are five artworks that, upon our review, present closer questions. Specifically, *Graduation*, *Meditation*, *Canal Zone (2008)*, *Canal Zone (2007)*, and *Charlie Company* do not sufficiently differ from the photographs of Cariou's that they incorporate for us confidently to make a determination about their transformative nature as a matter of law. Although the minimal alterations that Prince made in those instances moved the work in a different direction from Cariou's classical portraiture

and landscape photos, we can not say with certainty at this point whether those artworks present a “new expression, meaning, or message.” *Campbell*, 510 U.S. at 579.

Certainly, there are key differences in those artworks compared to the photographs they incorporate. *Graduation*, for instance, is tinted blue, and the jungle background is in softer focus than in Cariou’s original. Lozenges painted over the subject’s eyes and mouth—an alteration that appears frequently throughout the *Canal Zone* artworks—make the subject appear anonymous, rather than as the strong individual who appears in the original. Along with the enlarged hands and electric guitar that Prince pasted onto his canvas, those alterations create the impression that the subject is not quite human. Cariou’s photograph, on the other hand, presents a human being in his natural habitat, looking intently ahead. Where the photograph presents someone comfortably at home in nature, *Graduation* combines divergent elements to create a sense of discomfort. However, we cannot say for sure whether *Graduation* constitutes fair use or whether Prince has transformed Cariou’s work enough to render it transformative.

We have the same concerns with *Meditation*, *Canal Zone (2007)*, *Canal Zone (2008)*, and *Charlie Company*. Each of those artworks differs from, but is still similar in key aesthetic ways, to Cariou’s photographs. In *Meditation*, Prince again added lozenges and a guitar to the same photograph that he incorporated into *Graduation*, this time cutting the subject out of his background, switching the direction he is facing, and taping that image onto a blank canvas. In *Canal Zone (2007)*, Prince created a gridded collage using 31 different photographs of Cariou’s, many of them in whole or significant part, with alterations of some of those photographs limited to lozenges or cartoonish appendages painted or drawn on. *Canal Zone (2008)* incorporates six photographs of Cariou’s in whole or in part, including the same subject as *Meditation* and *Graduation*. Prince placed the subject, with lozenges and guitar, on a background comprising components of various landscape photographs, taped together. The cumulative effect is of the subject in a habitat replete with lush greenery, not dissimilar from many of Cariou’s *Yes Rasta* photographs. And *Charlie Company* prominently displays four copies of Cariou’s photograph of a Rastafarian riding a donkey, substantially unaltered, as well as two copies of a seated nude woman with lozenges covering all six faces. Like the other works just discussed, *Charlie Company* is aesthetically similar to Cariou’s original work because it maintains the pastoral background and individual focal point of the original photograph—in this case, the man on the burro. While the lozenges, repetition of the images, and addition of the nude female unarguably change the tenor of the piece, it is unclear whether these alterations amount to a sufficient transformation of the original work of art such that the new work is transformative.

We believe the district court is best situated to determine, in the first instance, whether such relatively minimal alterations render *Graduation*, *Meditation*, *Canal Zone (2007)*, *Canal Zone (2008)*, and *Charlie Company* fair uses (including whether the artworks are transformative) or whether any impermissibly infringes on Cariou’s copyrights in his original photographs. We remand for that determination. . . .

CONCLUSION

For the reasons discussed, we hold that all except five (*Graduation*, *Meditation*, *Canal Zone (2007)*, *Canal Zone (2008)*, and *Charlie Company*) of Prince’s artworks make fair use of Cariou’s photographs. .

Eds. Note:

The Second Circuit’s opinion includes an appendix with images of all of the works at issue: <http://www.ca2.uscourts.gov/11-1197apx.htm>.

Review the material in Chapter 3 (Third Edition) concerning the Google Book Search Project. The Authors Guild filed a class action against Google in 2004. The parties proposed a complicated settlement of the class action that would have involved the payment of millions of dollars into a fund to compensate copyright owners. The district court, however, rejected the settlement *Authors Guild v. Google, Inc.*, 770 F.Supp.2d 666 (S.D.N.Y.2011). Following an appeal of the district court’s subsequent certification of the class, the Second Circuit held the issue of class certification in abeyance and remanded the case with directions for the court to address Google’s fair use defense. The Second Circuit noted that it believed “that the resolution of Google’s fair use defense in the first instance will necessarily inform and perhaps moot . . . analysis of many class certification issues” *Authors Guild, Inc. v. Google Inc.*, 721 F.3d 132, 134 (2d Cir.2013). The opinion below is the district court’s opinion on remand.

The Authors Guild, Inc., v. Google Inc.,
954 F.Supp.2d 282 (S.D.N.Y. 2013)

CHIN, J.:

Since 2004, when it announced agreements with several major research libraries to digitally copy books in their collections, defendant Google Inc. (“Google”) has scanned more than twenty million books. It has delivered digital copies to participating libraries, created an electronic database of books, and made text available for online searching through the use of “snippets.” Many of the books scanned by Google, however, were under copyright, and Google did not obtain permission from the copyright holders for these usages of their copyrighted works. As a consequence, in 2005, plaintiffs brought this class action charging Google with copyright infringement. . . .

2. The Google Books Project

In 2004, Google announced two digital books programs. The first, initially called “Google Print” and later renamed the “Partner Program,” involved the “hosting” and display of material provided by book publishers or other rights holders. . . . The second became known as the “Library Project,” and over time it involved the digital scanning of books in the collections of the New York Public Library, the Library of Congress, and a number of university libraries. . . .

The Partner Program and the Library Project together comprise the Google Books program (“Google Books”). . . . All types of books are encompassed, including novels, biographies, children’s books, reference works, textbooks, instruction manuals, treatises, dictionaries, cookbooks, poetry books, and memoirs. . . . Some 93% of the books are non-fiction while approximately 7% are fiction.³ Both in-print and out-of-print books are included, although the great majority are out-of-print. . . .

In the Partner Program, works are displayed with permission of the rights holders. The Partner Program is aimed at helping publishers sell books and helping books become discovered. Initially, Google shared revenues from ads with publishers or other rights holders in certain circumstances. In 2011, however, Google stopped displaying ads in connection with all books. . . . Partners provide Google with a printed copy of their books for scanning, or a digital copy if one already exists. . . . Partners decide how much of their books—from a few sample pages to the entire book—are browsable. . . . As of early 2012, the Partner Program included approximately 2.5 million books, with the consent of some 45,000 rights holders. . . .

As for the Library Project, Google has scanned more than twenty million books, in their entirety, using newly-developed scanning technology. . . . Pursuant to their agreement with Google, participating libraries can download a digital copy of each book scanned from their collections. . . . Google has

provided digital copies of millions of these books to the libraries, in accordance with these agreements. . . . Some libraries agreed to allow Google to scan only public domain works, while others allowed Google to scan in-copyright works as well. . . .

Google creates more than one copy of each book it scans from the library collections, and it maintains digital copies of each book on its servers and back-up tapes. . . . Google did not seek or obtain permission from the copyright holders to digitally copy or display verbatim expressions from in-copyright books. . . . Google has not compensated copyright holders for its copying of or displaying of verbatim expression from in-copyright books or its making available to libraries for downloading of digital copies of in-copyright books scanned from their collections. . . .

3. Google Books

In scanning books for its Library Project, including in-copyright books, Google uses optical character recognition technology to generate machine-readable text, compiling a digital copy of each book. Google analyzes each scan and creates an overall index of all scanned books. The index links each word or phrase appearing in each book with all of the locations in all of the books in which that word or phrase is found. The index allows a search for a particular word or phrase to return a result that includes the most relevant books in which the word or phrase is found. Because the full texts of books are digitized, a user can search the full text of all the books in the Google Books corpus. .

Users of Google’s search engine may conduct searches, using queries of their own design. In response to inquiries, Google returns a list of books in which the search term appears. A user can click on a particular result to be directed to an “About the Book” page, which will provide the user with information about the book in question. The page includes links to sellers of the books and/or libraries that list the book as part of their collections. No advertisements have ever appeared on any About the Book page that is part of the Library Project.

For books in “snippet view” (in contrast to “full view” books), Google divides each page into eighths—each of which is a “snippet,” a verbatim excerpt. Each search generates three snippets, but by performing multiple searches using different search terms, a single user may view far more than three snippets, as different searches can return different snippets. For example, by making a series of consecutive, slightly different searches of the book *Ball Four*, a single user can view many different snippets from the book.

Google takes security measures to prevent users from viewing a complete copy of a snippet-view book. For example, a user cannot cause the system to return different sets of snippets for the same search query; the position of each snippet is fixed within the page and does not “slide” around the search term; only the first responsive snippet available on any given page will be returned in response to a query; one of the snippets on each page is “black-listed,” meaning it will not be shown; and at least one out of ten entire pages in each book is black-listed. An “attacker” who tries to obtain an entire book by using a physical copy of the book to string together words appearing in successive passages would be able to obtain at best a patchwork of snippets that would be missing at least one snippet from every page and 10% of all pages. In addition, works with text organized in short “chunks,” such as dictionaries, cookbooks, and books of haiku, are excluded from snippet view. . . .

4. The Benefits of the Library Project and Google Books

The benefits of the Library Project are many. First, Google Books provides a new and efficient way for readers and researchers to find books. It makes tens of millions of books searchable by words and phrases. It provides a searchable index linking each word in any book to all books in which that word appears. Google Books has become an essential research tool, as it helps librarians identify and find

research sources, it makes the process of interlibrary lending more efficient, and it facilitates finding and checking citations. (Br. of Amici Curiae American Library Ass'n et al. at 4–7 (Doc. No. 1048)). Indeed, Google Books has become such an important tool for researchers and librarians that it has been integrated into the educational system—it is taught as part of the information literacy curriculum to students at all levels. (*Id.* at 7).

Second, in addition to being an important reference tool, Google Books greatly promotes a type of research referred to as “data mining” or “text mining.” (Br. of Digital Humanities and Law Scholars as Amici Curiae at 1 (Doc. No. 1052)). Google Books permits humanities scholars to analyze massive amounts of data—the literary record created by a collection of tens of millions of books. Researchers can examine word frequencies, syntactic patterns, and thematic markers to consider how literary style has changed over time. Using Google Books, for example, researchers can track the frequency of references to the United States as a single entity (“the United States is”) versus references to the United States in the plural (“the United States are”) and how that usage has changed over time. The ability to determine how often different words or phrases appear in books at different times “can provide insights about fields as diverse as lexicography, the evolution of grammar, collective memory, the adoption of technology, the pursuit of fame, censorship, and historical epidemiology.” Jean-Baptiste Michel et al., *Quantitative Analysis of Culture Using Millions of Digitized Books*, 331 *Science* 176, 176 (2011).

Third, Google Books expands access to books. In particular, traditionally underserved populations will benefit as they gain knowledge of and access to far more books. Google Books provides print-disabled individuals with the potential to search for books and read them in a format that is compatible with text enlargement software, text-to-speech screen access software, and Braille devices. Digitization facilitates the conversion of books to audio and tactile formats, increasing access for individuals with disabilities. (Letter from Marc Maurer, President of the National Federation for the Blind, to J. Michael McMahon, Office of the Clerk (Jan. 19, 2010)). Google Books facilitates the identification and access of materials for remote and underfunded libraries that need to make efficient decisions as to which resources to procure for their own collections or through interlibrary loans. (Br. of Amici Curiae American Library Ass'n at 5–6).

Fourth, Google Books helps to preserve books and give them new life. Older books, many of which are out-of-print books that are falling apart buried in library stacks, are being scanned and saved. These books will now be available, at least for search, and potential readers will be alerted to their existence.

Finally, by helping readers and researchers identify books, Google Books benefits authors and publishers. When a user clicks on a search result and is directed to an “About the Book” page, the page will offer links to sellers of the book and/or libraries listing the book as part of their collections. . . . Hence, Google Books will generate new audiences and create new sources of income.

As amici observe: “Thanks to ... [Google Books], librarians can identify and efficiently sift through possible research sources, amateur historians have access to a wealth of previously obscure material, and everyday readers and researchers can find books that were once buried in research library archives.” (Br. of Amici Curiae American Library Ass'n at 3).

DISCUSSION

For purposes of these motions, I assume that plaintiffs have established a *prima facie* case of copyright infringement against Google under 17 U.S.C. § 106. . . . Google has digitally reproduced millions of copyrighted books, including the individual plaintiffs’ books, maintaining copies for itself on its servers and backup tapes. *See* 17 U.S.C. § 106(1) (prohibiting unauthorized reproduction). Google has made digital copies available for its Library Project partners to download. *See* 17 U.S.C. § 106(3)

(prohibiting unauthorized distribution). Google has displayed snippets from the books to the public. *See* 17 U.S.C. § 106(5) (prohibiting unauthorized display). Google has done all of this, with respect to in-copyright books in the Library Project, without license or permission from the copyright owners. The sole issue now before the Court is whether Google’s use of the copyrighted works is “fair use” under the copyright laws. For the reasons set forth below, I conclude that it is. . . .

1. Purpose and Character of Use

The first factor is “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.” 17 U.S.C. § 107(1).

. . . Google’s use of the copyrighted works is highly transformative. Google Books digitizes books and transforms expressive text into a comprehensive word index that helps readers, scholars, researchers, and others find books. Google Books has become an important tool for libraries and librarians and cite-checkers as it helps to identify and find books. The use of book text to facilitate search through the display of snippets is transformative. *See Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1168 (9th Cir.2007) (holding that use of works—“thumbnail images,” including copyrighted photographs—to facilitate search was “transformative”); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir.2003) (same); *see also Bill Graham Archives*, 448 F.3d at 609–11 (holding that display of images of posters in 480–page cultural history of the Grateful Dead was transformative, explaining that “[w]hile the small size [of the images of the posters] is sufficient to permit readers to recognize the historical significance of the posters, it is inadequate to offer more than a glimpse of their expressive value”). The display of snippets of text for search is similar to the display of thumbnail images of photographs for search or small images of concert posters for reference to past events, as the snippets help users locate books and determine whether they may be of interest. Google Books thus uses words for a different purpose—it uses snippets of text to act as pointers directing users to a broad selection of books.

Similarly, Google Books is also transformative in the sense that it has transformed book text into data for purposes of substantive research, including data mining and text mining in new areas, thereby opening up new fields of research. Words in books are being used in a way they have not been used before. Google Books has created something new in the use of book text—the frequency of words and trends in their usage provide substantive information.

Google Books does not supersede or supplant books because it is not a tool to be used to read books. Instead, it “adds value to the original” and allows for “the creation of new information, new aesthetics, new insights and understandings.” Leval, *Toward a Fair Use Standard*, 103 Harv. L.Rev. at 1111. Hence, the use is transformative.

. . . It is true, of course, as plaintiffs argue, that Google is a for-profit entity and Google Books is largely a commercial enterprise. The fact that a use is commercial “tends to weigh against a finding of fair use.” *Harper & Row*, 471 U.S. at 562; *accord Campbell*, 510 U.S. at 585. On the other hand, fair use has been found even where a defendant benefitted commercially from the unlicensed use of copyrighted works. *See, e.g., Blanch*, 467 F.3d at 253; *Bill Graham Archives*, 448 F.3d at 612. *See also Castle Rock Entm’t, Inc. v. Carol Publ’g Grp., Inc.*, 150 F.3d 132, 142 (2d Cir.1998) (observing that Second Circuit does “not give much weight to the fact that the secondary use was for commercial gain”). Here, Google does not sell the scans it has made of books for Google Books; it does not sell the snippets that it displays; and it does not run ads on the About the Book pages that contain snippets. It does not engage in the direct commercialization of copyrighted works. *See* 17 U.S.C. § 107(1). Google does, of course, benefit commercially in the sense that users are drawn to the Google websites by the ability to search Google

Books. While this is a consideration to be acknowledged in weighing all the factors, even assuming Google’s principal motivation is profit, the fact is that Google Books serves several important educational purposes.

Accordingly, I conclude that the first factor strongly favors a finding of fair use.

2. Nature of Copyrighted Works

. . . The second factor is “the nature of the copyrighted work.” 17 U.S.C. § 107(2).⁴ Here, the works are books—all types of published books, fiction and non-fiction, in-print and out-of-print. While works of fiction are entitled to greater copyright protection, . . . here the vast majority of the books in Google Books are non-fiction. Further, the books at issue are published and available to the public. These considerations favor a finding of fair use. . . .

3. Amount and Substantiality of Portion Used

The third factor is “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.” . . . Google scans the full text of books—the entire books—and it copies verbatim expression. On the other hand, courts have held that copying the entirety of a work may still be fair use. *See, e.g., Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417. . . ; *Bill Graham Archives*, 448 F.3d at 613 (“copying the entirety of a work is sometimes necessary to make a fair use of the image”). Here, as one of the keys to Google Books is its offering of full-text search of books, full-work reproduction is critical to the functioning of Google Books. Significantly, Google limits the amount of text it displays in response to a search.

On balance, I conclude that the third factor weighs slightly against a finding of fair use.

4. Effect of Use Upon Potential Market or Value

. . . The fourth factor is “the effect of the use upon the potential market for or value of the copyrighted work.” 17 U.S.C. § 107(4). Here, plaintiffs argue that Google Books will negatively impact the market for books and that Google’s scans will serve as a “market replacement” for books. It also argues that users could put in multiple searches, varying slightly the search terms, to access an entire book.

Neither suggestion makes sense. Google does not sell its scans, and the scans do not replace the books. While partner libraries have the ability to download a scan of a book from their collections, they owned the books already—they provided the original book to Google to scan. Nor is it likely that someone would take the time and energy to input countless searches to try and get enough snippets to comprise an entire book. Not only is that not possible as certain pages and snippets are blacklisted, the individual would have to have a copy of the book in his possession already to be able to piece the different snippets together in coherent fashion.

To the contrary, a reasonable factfinder could only find that Google Books enhances the sales of books to the benefit of copyright holders. An important factor in the success of an individual title is whether it is discovered—whether potential readers learn of its existence. Google Books provides a way for authors’ works to become noticed, much like traditional in-store book displays. Indeed, both librarians and their patrons use Google Books to identify books to purchase. Many authors have noted that online browsing in general and Google Books in particular helps readers find their work, thus increasing their audiences. Further, Google provides convenient links to booksellers to make it easy for a reader to order a book. In this day and age of on-line shopping, there can be no doubt but that Google Books improves books sales.

⁴ The parties agree that the second factor plays little role in the ultimate fair use determination.

Hence, I conclude that the fourth factor weighs strongly in favor of a finding of fair use.

5. Overall Assessment

Finally, the various non-exclusive statutory factors are to be weighed together, along with any other relevant considerations, in light of the purposes of the copyright laws.

. . . In my view, Google Books provides significant public benefits. It advances the progress of the arts and sciences, while maintaining respectful consideration for the rights of authors and other creative individuals, and without adversely impacting the rights of copyright holders. It has become an invaluable research tool that permits students, teachers, librarians, and others to more efficiently identify and locate books. It has given scholars the ability, for the first time, to conduct full-text searches of tens of millions of books. It preserves books, in particular out-of-print and old books that have been forgotten in the bowels of libraries, and it gives them new life. It facilitates access to books for print-disabled and remote or underserved populations. It generates new audiences and creates new sources of income for authors and publishers. Indeed, all society benefits.

. . .

CONCLUSION

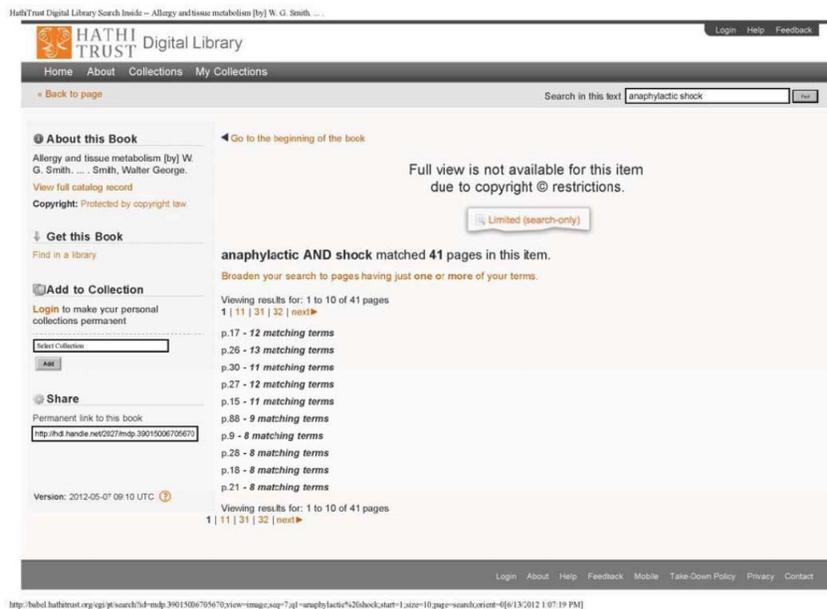
For the reasons set forth above, plaintiffs' motion for partial summary judgment is denied and Google's motion for summary judgment is granted. . . .

The Authors Guild, Inc. v. HathiTrust
2014 WL 2576342 (2d Cir. June 10, 2014)

Parker, J.: Beginning in 2004, several research universities including the University of Michigan, the University of California at Berkeley, Cornell University, and the University of Indiana agreed to allow Google to electronically scan the books in their collections. In October 2008, thirteen universities announced plans to create a repository for the digital copies and founded an organization called HathiTrust to set up and operate the HathiTrust Digital Library (or “HDL”). Colleges, universities, and other nonprofit institutions became members of HathiTrust and made the books in their collections available for inclusion in the HDL. HathiTrust currently has 80 member institutions and the HDL contains digital copies of more than ten million works, published over many centuries, written in a multitude of languages, covering almost every subject imaginable. . . .

HathiTrust permits three uses of the copyrighted works in the HDL repository. First, HathiTrust allows the general public to search for particular terms across all digital copies in the repository. Unless the copyright holder authorizes broader use, the search results show only the page numbers on which the search term is found within the work and the number of times the term appears on each page. The HDL does not display to the user any text from the underlying copyrighted work (either in “snippet” form or otherwise). Consequently, the user is not able to view either the page on which the term appears or any other portion of the book.

Below is an example of the results a user might see after running an HDL full-text search:



Second, the HDL allows member libraries to provide patrons with certified print disabilities access to the full text of copyrighted works. A “print disability” is any disability that prevents a person from effectively reading printed material. Blindness is one example, but print disabilities also include those that prevent a person from physically holding a book or turning pages. To use this service, a patron must obtain certification of his disability from a qualified expert. Through the HDL, a print-disabled user can obtain access to the contents of works in the digital library using adaptive technologies such as software that converts the text into spoken words, or that magnifies the text. . . .

[The Second Circuit determined that the plaintiffs lacked standing to challenge the third use identified by the court that allowed HDL member libraries “to create a replacement copy of the work, if the member already owned an original copy, the member’s original copy is lost, destroyed, or stolen, and a replacement copy is unobtainable at a ‘fair’ price elsewhere.” –Eds.]

The HDL stores digital copies of the works in four different locations. One copy is stored on its primary server in Michigan, one on its secondary server in Indiana, and two on separate backup tapes at the University of Michigan.³ Each copy contains the full text of the work, in a machine readable format, as well as the *images* of each page in the work as they appear in the print version. . . .

This case began when twenty authors and authors’ associations (collectively, the “Authors”) sued HathiTrust, one of its member universities, and the presidents of four other member universities (collectively, the “Libraries”) for copyright infringement seeking declaratory and injunctive relief. . . .

The District Court’s Opinion

The district court granted the Libraries’ . . . motions for summary judgment on the infringement claims on the basis that the three uses permitted by the HDL were fair uses. In this assessment, the district court gave considerable weight to what it found to be the “transformative” nature of the three uses and to what it described as the HDL’s “invaluable” contribution to the advancement of knowledge. The district court explained:

Although I recognize that the facts here may on some levels be without precedent, I am convinced that they fall safely within the protection of fair use such that there is no genuine issue of material fact. I cannot imagine a definition of fair use that would not encompass the transformative uses made by [the HDL] and would require that I terminate this invaluable contribution to the progress of science and cultivation of the arts that at the same time effectuates the ideals espoused by the [Americans With Disabilities Act of 1990, Pub.L. No. 101–336, 104 Stat. 327 (codified as amended at 42 U.S.C. §§ 12101, et seq.)].

[*Authors Guild, Inc. v. HathiTrust*, 902 F.Supp.2d 445, 464 (S.D.N.Y.2012)]. . .

I. Fair Use . . .

. . . Section 107 requires a court to consider four nonexclusive factors which are to be weighed together to assess whether a particular use is fair

An important focus of the first factor is whether the use is “transformative.” A use is transformative if it does something more than repackage or republish the original copyrighted work. The inquiry is whether the work “adds something new, with a further purpose or different character, altering the first with new expression, meaning or message...” *Campbell*, 510 U.S. at 579. “[T]he more transformative the new work, the less will be the significance of other factors ... that may weigh against a finding of fair use.” *Id.* Contrary to what the district court implied, a use does not become transformative by making an “invaluable contribution to the progress of science and cultivation of the arts.” *HathiTrust*, 902 F.Supp.2d at 464. Added value or utility is not the test: a transformative work is one that serves a new and different function from the original work and is not a substitute for it. . . .

1. Full-Text Search

It is not disputed that, in order to perform a full-text search of books, the Libraries must first create digital copies of the entire books. Importantly, as we have seen, the HDL does not allow users to view any portion of the books they are searching. Consequently, in providing this service, the HDL does not add

³ Separate from the HDL, one copy is also kept by Google. Google’s use of its copy is the subject of a separate lawsuit currently pending in this Court. See *Authors Guild, Inc. v. Google, Inc.*, 721 F.3d 132 (2d Cir.2013), *on remand*, 954 F.Supp.2d 282 (S.D.N.Y.2013), *appeal docketed*, No. 13–4829 (2d Cir. Dec. 23, 2013).

into circulation any new, human-readable copies of any books. Instead, the HDL simply permits users to “word search”—that is, to locate where specific words or phrases appear in the digitized books. Applying the relevant factors, we conclude that this use is a fair use.

i.

Turning to the first factor, we conclude that the creation of a full-text searchable database is a quintessentially transformative use. As the example on page 7, *supra*, demonstrates, the result of a word search is different in purpose, character, expression, meaning, and message from the page (and the book) from which it is drawn. Indeed, we can discern little or no resemblance between the original text and the results of the HDL full-text search.

There is no evidence that the Authors write with the purpose of enabling text searches of their books. Consequently, the full-text search function does not “supersede[] the objects [or purposes] of the original creation,” *Campbell*, 510 U.S. at 579. The HDL does not “merely repackage[] or republish[] the original[s],” *Leval*, 103 HARV. L.REV. at 1111, or merely recast “an original work into a new mode of presentation,” *Castle Rock Entm’t, Inc. v. Carol Publ’g Grp., Inc.*, 150 F.3d 132, 143 (2d Cir.1998). Instead, by enabling full-text search, the HDL adds to the original something new with a different purpose and a different character.

Full-text search adds a great deal more to the copyrighted works at issue than did the transformative uses we approved in several other cases. For example, in *Cariou v. Prince*, we found that certain photograph collages were transformative, even though the collages were cast in the same medium as the copyrighted photographs. 714 F.3d at 706. Similarly, in *Bill Graham Archives v. Dorling Kindersley Ltd.*, we held that it was a transformative use to include in a biography copyrighted concert photos, even though the photos were unaltered (except for being reduced in size). 448 F.3d 605, 609–11 (2d Cir. 2006).

Cases from other Circuits reinforce this conclusion. In *Perfect 10, Inc.*, the Ninth Circuit held that the use of copyrighted thumbnail images in internet search results was transformative because the thumbnail copies served a different function from the original copyrighted images. 508 F.3d at 1165. And in *A.V. ex rel. Vanderhye v. iParadigms, LLC*, a company created electronic copies of unaltered student papers for use in connection with a computer program that detects plagiarism. Even though the electronic copies made no “substantive alteration to” the copyrighted student essays, the Fourth Circuit held that plagiarism detection constituted a transformative use of the copyrighted works. 562 F.3d 630, 639–40.

ii.

The second fair-use factor—the nature of the copyrighted work—is not dispositive. The HDL permits the full-text search of every type of work imaginable. Consequently, there is no dispute that the works at issue are of the type that the copyright laws value and seek to protect. However, “this factor ‘may be of limited usefulness where,’ as here, ‘the creative work ... is being used for a transformative purpose.’” *Cariou*, 714 F.3d at 710 (quoting *Bill Graham Archives*, 448 F.3d at 612). Accordingly, our fair-use analysis hinges on the other three factors.

iii.

The third factor asks whether the copying used more of the copyrighted work than necessary and whether the copying was excessive. As we have noted, “[t]here are no absolute rules as to how much of a copyrighted work may be copied and still be considered a fair use.” *Maxtone–Graham v. Burtchaell*, 803 F.2d 1253, 1263 (2d Cir.1986). “[T]he extent of permissible copying varies with the purpose and character of the use.” *Campbell*, 510 U.S. at 586–87. The crux of the inquiry is whether “no more was

taken than necessary.” *Id.* at 589. For some purposes, it may be necessary to copy the entire copyrighted work, in which case Factor Three does not weigh against a finding of fair use.

In order to enable the full-text search function, the Libraries, as we have seen, created digital copies of all the books in their collections.⁵ Because it was reasonably necessary for the HDL to make use of the entirety of the works in order to enable the full-text search function, we do not believe the copying was excessive.

The Authors also contend that the copying is excessive because the HDL creates and maintains copies of the works at four different locations. But the record demonstrates that these copies are also reasonably necessary in order to facilitate the HDL’s legitimate uses. In particular, the HDL’s services are offered to patrons through two servers, one at the University of Michigan (the primary server) and an identical one at the University of Indiana (the “mirror” server). Both servers contain copies of the digital works at issue. According to the HDL executive director, the “existence of a[n] [identical] mirror site allows for balancing the load of user web traffic to avoid overburdening a single site, and each site acts as a back-up of the HDL collection in the event that one site were to cease operation (for example, due to failure caused by a disaster, or even as a result of routine maintenance).” (Wilkin Decl.). To further guard against the risk of data loss, the HDL stores copies of the works on two encrypted backup tapes, which are disconnected from the internet and are placed in separate secure locations on the University of Michigan campus. *Id.* The HDL creates these backup tapes so that the data could be restored in “the event of a disaster causing large-scale data loss” to the primary and mirror servers. *Id.*

We have no reason to think that these copies are excessive or unreasonable in relation to the purposes identified by the Libraries and permitted by the law of copyright. In sum, even viewing the evidence in the light most favorable to the Authors, the record demonstrates that these copies are reasonably necessary to facilitate the services HDL provides to the public and to mitigate the risk of disaster or data loss. Accordingly, we conclude that this factor favors the Libraries.

iv.

The fourth factor requires us to consider “the effect of the use upon the potential market for or value of the copyrighted work,” 17 U.S.C. § 107(4), and, in particular, whether the secondary use “usurps the market of the original work,” *NXIVM Corp.*, 364 F.3d at 482.

The Libraries contend that the full-text-search use poses no harm to any existing or potential traditional market and point to the fact that, in discovery, the Authors admitted that they were unable to identify “any specific, quantifiable past harm, or any documents relating to any such past harm,” resulting from any of the Libraries’ uses of their works (including full-text search). Defs.-Appellees’ Br. 38 (citing Pls.’ Resps. to Interrogs.). The district court agreed with this contention, as do we.

At the outset, it is important to recall that the Factor Four analysis is concerned with only one type of economic injury to a copyright holder: the harm that results because the secondary use serves as a substitute for the original work. *See Campbell*, 510 U.S. at 591 (“cognizable market harm” is limited to “market substitution”). In other words, under Factor Four, any economic “harm” caused by transformative uses does not count because such uses, by definition, do not serve as substitutes for the original work. *See Bill Graham Archives*, 448 F.3d at 614.

⁵ The HDL also creates digital copies of the images of each page of the books. As the Libraries acknowledge, the HDL does not need to retain these copies to enable the full-text search use. We discuss the fair-use justification for these copies in the context of the disability-access use, *see infra* pp. 29–30.

To illustrate why this is so, consider how copyright law treats book reviews. Book reviews often contain quotations of copyrighted material to illustrate the reviewer’s points and substantiate his criticisms; this is a paradigmatic fair use. And a negative book review can cause a degree of economic injury to the author by dissuading readers from purchasing copies of her book, even when the review does not serve as a substitute for the original. But, obviously, in that case, the author has no cause for complaint under Factor Four: The only market harms that count are the ones that are caused because the secondary use serves as a substitute for the original, not when the secondary use is transformative (as in quotations in a book review). See *Campbell*, 510 U.S. at 591–92 (“[W]hen a lethal parody, like a scathing theater review, kills demand for the original, it does not produce a harm cognizable under the Copyright Act.”).

The Authors assert two reasons why the full-text-search function harms their traditional markets. The first is a “lost sale” theory which posits that a market for licensing books for digital search could possibly develop in the future, and the HDL impairs the emergence of such a market because it allows patrons to search books without any need for a license. Thus, according to the Authors, every copy employed by the HDL in generating full-text searches represents a lost opportunity to license the book for search.

This theory of market harm does not work under Factor Four, because the full-text search function does not serve as a substitute for the books that are being searched. Thus, it is irrelevant that the Libraries might be willing to purchase licenses in order to engage in this transformative use (if the use were deemed unfair). Lost licensing revenue counts under Factor Four only when the use serves as a substitute for the original and the full-text-search use does not.

Next, the Authors assert that the HDL creates the risk of a security breach which might impose irreparable damage on the Authors and their works. In particular, the Authors speculate that, if hackers were able to obtain unauthorized access to the books stored at the HDL, the full text of these tens of millions of books might be distributed worldwide without restriction, “decimat[ing]” the traditional market for those works.

The record before us documents the extensive security measures the Libraries have undertaken to safeguard against the risk of a data breach. . . .

This showing of the security measures taken by the Libraries is essentially un rebutted. Consequently, we see no basis in the record on which to conclude that a security breach is likely to occur, much less one that would result in the public release of the specific copyrighted works belonging to any of the plaintiffs in this case. Cf. *Clapper v. Amnesty Int’l USA*, 133 S.Ct. 1138, 1143, 1149 (2013) (risk of future harm must be “certainly impending,” rather than merely “conjectural” or “hypothetical,” to constitute a cognizable injury-in-fact); *Sony Corp.*, 464 U.S. at 453–54 (concluding that time-shifting using a Betamax is fair use because the copyright owners’ “prediction that live television or movie audiences will decrease” was merely “speculative”). Factor Four thus favors a finding of fair use.

Without foreclosing a future claim based on circumstances not now predictable, and based on a different record, we hold that the balance of relevant factors in this case favors the Libraries. In sum, we conclude that the doctrine of fair use allows the Libraries to digitize copyrighted works for the purpose of permitting full-text searches.

2. Access to the Print–Disabled

The HDL also provides print-disabled patrons with versions of all of the works contained in its digital archive in formats accessible to them. . . .

i.

In applying the Factor One analysis, the district court concluded that “[t]he use of digital copies to facilitate access for print-disabled persons is [a] transformative” use. *HathiTrust*, 902 F.Supp.2d at 461. This is a misapprehension; providing expanded access to the print disabled is not “transformative.”

As discussed above, a transformative use adds something new to the copyrighted work and does not merely supersede the purposes of the original creation. *See Campbell*, 510 U.S. at 579. The Authors state that they “write books to be read (or listened to).” By making copyrighted works available in formats accessible to the disabled, the HDL enables a larger audience to read those works, but the underlying purpose of the HDL’s use is the same as the author’s original purpose.

Indeed, when the HDL recasts copyrighted works into new formats to be read by the disabled, it appears, at first glance, to be creating derivative works over which the author ordinarily maintains control. *See* 17 U.S.C. § 106(2). . . . [P]aradigmatic examples of derivative works include translations of the original into a different language, or adaptations of the original into different forms or media. *See id.* § 101 (defining “derivative work”). The Authors contend that by converting their works into a different, accessible format, the HDL is simply creating a derivative work.

It is true that, oftentimes, the print-disabled audience has no means of obtaining access to the copyrighted works included in the HDL. But, similarly, the non-English-speaking audience cannot gain access to untranslated books written in English and an unauthorized translation is not transformative simply because it enables a new audience to read a work.

This observation does not end the analysis. “While a transformative use generally is more likely to qualify as fair use, ‘transformative use is not absolutely necessary for a finding of fair use.’” *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P.*, — F.3d —, —, 2014 WL 2219162, at *7 (2d Cir.2014) (quoting *Campbell*, 510 U.S. at 579). We conclude that providing access to the print-disabled is still a valid purpose under Factor One even though it is not transformative. We reach that conclusion for several reasons.

First, the Supreme Court has already said so. As Justice Stevens wrote for the Court: “Making a copy of a copyrighted work for the convenience of a blind person is expressly identified by the House Committee Report as an example of fair use, with no suggestion that anything more than a purpose to entertain or to inform need motivate the copying.” *Sony Corp. of Am.*, 464 U.S. at 455 n. 40.

Our conclusion is reinforced by the legislative history on which he relied. The House Committee Report that accompanied codification of the fair use doctrine in the Copyright Act of 1976 expressly stated that making copies accessible “for the use of blind persons” posed a “special instance illustrating the application of the fair use doctrine...” H.R. REP. NO. 94–1476, at 73 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5686. The Committee noted that “special [blind-accessible formats] ... are not usually made by the publishers for commercial distribution.” *Id.* In light of its understanding of the market (or lack thereof) for books accessible to the blind, the Committee explained that “the making of a single copy or phonorecord by an individual as a free service for a blind persons [*sic*] would properly be considered a fair use under section 107.” *Id.* We believe this guidance supports a finding of fair use in the unique circumstances presented by print-disabled readers.

Since the passage of the 1976 Copyright Act, Congress has reaffirmed its commitment to ameliorating the hardships faced by the blind and the print disabled. In the Americans with Disabilities Act, Congress declared that our “Nation’s proper goals regarding individuals with disabilities are to assure equality of opportunity, full participation, independent living, and economic self-sufficiency for such individuals.” 42 U.S.C. § 12101(7). . . .

ii.

Through the HDL, the disabled can obtain access to copyrighted works of all kinds, and there is no dispute that those works are of the sort that merit protection under the Copyright Act. As a result, Factor Two weighs against fair use. This does not preclude a finding of fair use, however, given our analysis of the other factors.

iii.

Regarding Factor Three, as previously noted, the HDL retains copies as digital image files and as text-only files, which are then stored in four separate locations. The Authors contend that this amount of copying is excessive because the Libraries have not demonstrated their need to retain the digital *image* files in addition to the text files.

We are unconvinced. The text files are required for text searching and to create text-to-speech capabilities for the blind and disabled. But the image files will provide an additional and often more useful method by which many disabled patrons, especially students and scholars, can obtain access to these works. These image files contain information, such as pictures, charts, diagrams, and the layout of the text on the printed page that cannot be converted to text or speech. None of this is captured by the HDL's text-only copies. Many legally blind patrons are capable of viewing these images if they are sufficiently magnified or if the color contrasts are increased. And other disabled patrons, whose physical impairments prevent them from turning pages or from holding books, may also be able to use assistive devices to view all of the content contained in the image files for a book. For those individuals, gaining access to the HDL's image files—in addition to the text-only files—is necessary to perceive the books fully. Consequently, it is reasonable for the Libraries to retain both the text and image copies.

iv.

The fourth factor also weighs in favor of a finding of fair use. It is undisputed that the present-day market for books accessible to the handicapped is so insignificant that “it is common practice in the publishing industry for authors to forgo royalties that are generated through the sale of books manufactured in specialized formats for the blind...” Appellants’ Br. 34. “[T]he number of accessible books currently available to the blind for borrowing is a mere few hundred thousand titles, a minute percentage of the world’s books. In contrast, the HDL contains more than ten million accessible volumes.” J.A. 173 ¶ 10 (Maurer Decl.). When considering the 1976 Act, Congress was well aware of this problem. The House Committee Report observed that publishers did not “usually ma[ke]” their books available in specialized formats for the blind. H.R. REP. NO. 94–1476, at 73, 1976 U.S.C.C.A.N. at 5686. That observation remains true today.

Weighing the factors together, we conclude that the doctrine of fair use allows the Libraries to provide full digital access to copyrighted works to their print-disabled patrons. . . .

Chapter 8. Copyright and Contract

C. New Licensing Models and the Contract/License Distinction

Page 632. At the end of Question 5 add the following:

In 2012, commercial publisher Reed Elsevier's support of the re-introduced Research Works Act, H.R. 3699, 112th Cong., 1st Sess. (2011), resulted in a global boycott by more than 8,800 scholars vowing not to review for or publish in its journals. In February 2012, Elsevier withdrew its support of the legislation and, later that same day, the co-sponsors of the Research Works Act released a joint statement indicating that they would not be taking any further action on the bill. The proposed Fair Access to Science and Technology Research Act (FASTR) would require any federal agencies that provide over \$100,000,000 in "extramural research expenditures" to establish policies to provide for "free online public access to . . . final peer-reviewed manuscripts or published versions as soon as practicable, but not later than 6 months after publication in peer-reviewed journals." H.R. 708, 113th Cong., 1st Sess. at 4(b)(4). Should Congress enact this bill? What information would be helpful to you in making that decision?

Pages 632-40. Replace Vernor v. Autodesk, Inc. and the Notes and Questions with the following:

Vernor v. Autodesk, Inc.
621 F.3d 1102 (9th Cir. 2010)

CALLAHAN, J.:. . . .

I.

A. Autodesk's Release 14 Software and Licensing Practices

The material facts are not in dispute. Autodesk makes computer-aided design software used by architects, engineers, and manufacturers. It has more than nine million customers. It first released its AutoCAD software in 1982. It holds registered copyrights in all versions of the software including the discontinued Release 14 version, which is at issue in this case. It provided Release 14 to customers on CD-ROMs.

Since at least 1986, Autodesk has offered AutoCAD to customers pursuant to an accompanying software license agreement ("SLA"), which customers must accept before installing the software. A customer who does not accept the SLA can return the software for a full refund. Autodesk offers SLAs with different terms for commercial, educational institution, and student users. The commercial license, which is the most expensive, imposes the fewest restrictions on users and allows them software upgrades at discounted prices.

The SLA for Release 14 first recites that Autodesk retains title to all copies. Second, it states that the customer has a nonexclusive and nontransferable license to use Release 14. Third, it imposes transfer restrictions, prohibiting customers from renting, leasing, or transferring the software without Autodesk's prior consent and from electronically or physically transferring the software out of the Western Hemisphere. Fourth, it imposes significant use restrictions:

YOU MAY NOT: (1) modify, translate, reverse-engineer, decompile, or disassemble the Software . . . (3) remove any proprietary notices, labels, or marks from the Software or Documentation; (4) use . . . the Software outside of the Western Hemisphere; (5) utilize any computer software or hardware designed to defeat any hardware copyprotection device, should the software you have licensed be equipped with such protection; or (6) use the Software for commercial or other revenue-generating purposes if the Software has been licensed or labeled for educational use only.

Fifth, the SLA provides for license termination if the user copies the software without authorization or does not comply with the SLA's restrictions. Finally, the SLA provides that if the software is an upgrade of a previous version [the licensee must destroy the software within 60 days and furnish proof of destruction on Autodesk's request.]

Autodesk takes measures to enforce these license requirements. It assigns a serial number to each copy of AutoCAD and tracks registered licensees. It requires customers to input "activation codes" within one month after installation to continue using the software. The customer obtains the code by providing the product's serial number to Autodesk. Autodesk issues the activation code after confirming that the serial number is authentic, the copy is not registered to a different customer, and the product has not been upgraded. Once a customer has

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an activation code, he or she may use it to activate the software on additional computers without notifying Autodesk.

B. Autodesk's Provision of Release 14 Software to CTA

In March 1999, Autodesk reached a settlement agreement with its customer Cardwell/Thomas & Associates, Inc. ("CTA"), which Autodesk had accused of unauthorized use of its software. As part of the settlement, Autodesk licensed ten copies of Release 14 to CTA. CTA agreed to the SLA, which appeared (1) on each Release 14 package that Autodesk provided to CTA; (2) in the settlement agreement; and (3) on-screen, while the software is being installed.

CTA later upgraded to the newer, fifteenth version of the AutoCAD program, AutoCAD 2000. It paid \$495 per upgrade license, compared to \$3,750 for each new license. The SLA for AutoCAD 2000, like the SLA for Release 14, required destruction of copies of previous versions of the software, with proof to be furnished to Autodesk on request. However, rather than destroying its Release 14 copies, CTA sold them to Vernor at an office sale with the handwritten activation codes necessary to use the software.

C. Vernor's eBay Business and Sales of Release 14

Vernor has sold more than 10,000 items on eBay. In May 2005, he purchased an authentic used copy of Release 14 at a garage sale from an unspecified seller. He never agreed to the SLA's terms, opened a sealed software packet, or installed the Release 14 software. Though he was aware of the SLA's existence, he believed that he was not bound by its terms. He posted the software copy for sale on eBay.

Autodesk filed a Digital Millennium Copyright Act ("DMCA") take-down notice with eBay claiming that Vernor's sale infringed its copyright, and eBay terminated Vernor's auction. Autodesk advised Vernor that it conveyed its software copies pursuant to non-transferable licenses, and resale of its software was copyright infringement. Vernor filed a DMCA counter-notice with eBay contesting the validity of Autodesk's copyright claim. Autodesk did not respond to the counter-notice. eBay reinstated the auction, and Vernor sold the software to another eBay user.

In April 2007, Vernor purchased four authentic used copies of Release 14 at CTA's office sale. The authorization codes were handwritten on the outside of the box. He listed the four copies on eBay sequentially, representing, "This software is not currently installed on any computer." On each of the first three occasions, the same DMCA process [as discussed above] ensued. Autodesk filed a DMCA take-down notice with eBay, and eBay removed Vernor's auction. Vernor submitted a counter-notice to which Autodesk did not respond, and eBay reinstated the auction.

When Vernor listed his fourth, final copy of Release 14, Autodesk again filed a DMCA take-down notice with eBay. This time, eBay suspended Vernor's account because of Autodesk's repeated charges of infringement. Vernor also wrote to Autodesk, claiming that he was entitled to sell his Release 14 copies pursuant to the first sale doctrine, because he never installed the software or agreed to the SLA. In response, Autodesk's counsel directed Vernor to stop selling the software. Vernor filed a final counter-notice with eBay. When Autodesk again did not respond to Vernor's counter-notice, eBay reinstated Vernor's account. At that point, Vernor's eBay account had been suspended for one month, during which he was unable to earn income on eBay.

Vernor currently has two additional copies of Release 14 that he wishes to sell on eBay. Although the record is not clear, it appears that Vernor sold two of the software packages that he purchased from CTA, for roughly \$600 each, but did not sell the final two to avoid risking further suspension of his eBay account.

II.

In August 2007, Vernor brought a declaratory action against Autodesk to establish that his resales of used Release 14 software are protected by the first sale doctrine and do not infringe Autodesk's copyright. . . . On January 15, 2008, Autodesk moved to dismiss Vernor's complaint, or in the alternative, for summary judgment. The district court denied the motion, holding that Vernor's sales were non-infringing under the first sale doctrine and the essential step defense. *See Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1170-71, 1175 (W.D. Wash. 2008).

Following discovery, the parties filed cross-motions for summary judgment. The district court granted summary judgment to Vernor as to copyright infringement in an unpublished decision. . . .

III.

. . . The [Copyright Act's] exclusive distribution right is limited by the **first sale doctrine**, an affirmative defense to copyright infringement that allows owners of copies of copyrighted works to resell those copies. The exclusive reproduction right is limited within the software context by the **essential step defense**, another affirmative defense to copyright infringement that is discussed further *infra*. Both of these affirmative defenses are unavailable to those who are only licensed to use their copies of copyrighted works. . . .

[] Owners vs. Licensees

We turn to our precedents governing whether a transferee of a copy of a copyrighted work is an owner or licensee of that copy. . . .

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1. *United States v. Wise, 550 F.2d 1180 (9th Cir. 1977)*

In *Wise*, a criminal copyright infringement case, we considered whether copyright owners who transferred copies of their motion pictures pursuant to written distribution agreements had executed first sales. *Id.* at 1187. The defendant was found guilty of copyright infringement based on his for-profit sales of motion picture prints. *See id.* at 1183. The copyright owners distributed their films to third parties pursuant to written agreements that restricted their use and transfer. *Id.* at 1183-84. On appeal, the defendant argued that the government failed to prove the absence of a first sale for each film. If the copyright owners' initial transfers of the films were first sales, then the defendant's resales were protected by the first sale doctrine and thus were not copyright infringement.

To determine whether a first sale occurred, we considered multiple factors pertaining to each film distribution agreement. Specifically, we considered whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration. *Id.* at 1190-92. Our use of these several considerations, none dispositive, may be seen in our treatment of each film print.

For example, we reversed the defendant's conviction with respect to *Camelot*. *Id.* at 1194. It was unclear whether the *Camelot* print sold by the defendant had been subject to a first sale. Copyright owner Warner Brothers distributed *Camelot* prints pursuant to multiple agreements, and the government did not prove the absence of a first sale with respect to each agreement. *Id.* at 1191-92, 1194. We noted that, in one agreement, Warner Brothers had retained title to the prints, required possessor National Broadcasting Company ("NBC") to return the prints if the parties could select a mutual agreeable price, and if not, required NBC's certification that the prints were destroyed. *Id.* at 1191. We held that these factors created a license rather than a first sale. *Id.*

We further noted, however, that Warner Brothers had also furnished another *Camelot* print to actress Vanessa Redgrave. *Id.* at 1192. The print was provided to Redgrave at cost, and her use of the print was subject to several restrictions. She had to retain possession of the print and was not allowed to sell, license, reproduce, or publicly exhibit the print. *Id.* She had no obligation to return the print to Warner Brothers. *Id.* We concluded, "While the provision for payment for the cost of the film, standing alone, does not establish a sale, when taken with the rest of the language of the agreement, it reveals a transaction strongly resembling a sale with restrictions on the use of the print." *Id.* There was no evidence of the print's whereabouts, and we held that "[i]n the absence of such proof," the government failed to prove the absence of a first sale with respect to this Redgrave print. *Id.* at 1191-92. Since it was unclear which copy the defendant had obtained and resold, his conviction for sale of *Camelot* had to be reversed. *Id.*

Thus, under *Wise*, where a transferee receives a particular copy of a copyrighted work pursuant to a written agreement, we consider all of the provisions of the agreement to determine whether the transferee became an owner of the copy

or received a license. We may consider (1) whether the agreement was labeled a license and (2) whether the copyright owner retained title to the copy, required its return or destruction, forbade its duplication, or required the transferee to maintain possession of the copy for the agreement's duration. *Id.* at 1190-92. We did not find any one factor dispositive in *Wise*: we did not hold that the copyright owner's retention of title itself established the absence of a first sale or that a transferee's right to indefinite possession itself established a first sale.

3. The "MAI trio" of cases

Over fifteen years after *Wise*, we again considered the distinction between owners and licensees of copies of copyrighted works in three software copyright cases, the "MAI trio." See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993); *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995); *Wall Data, Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006). In the MAI trio, we considered which software purchasers were owners of copies of copyrighted works for purposes of a second affirmative defense to infringement, the essential step defense.

The enforcement of copyright owners' exclusive right to reproduce their work under the Copyright Act, 17 U.S.C. §106(1), has posed special challenges in the software context. In order to use a software program, a user's computer will automatically copy the software into the computer's random access memory ("RAM"), which is a form of computer data storage. See *MAI*, 991 F.2d at 513. Congress enacted the **essential step defense** to codify that a software user who is the "owner of a copy" of a copyrighted software program does not infringe by making a copy of the computer program, if the new copy is "created as an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner." 17 U.S.C. §117(a)(1). . . .

In *MAI* and *Triad*, the defendants maintained computers that ran the plaintiffs' operating system software. *MAI*, 991 F.2d at 513; *Triad*, 64 F.3d at 1333. When the defendants ran the computers, the computers automatically loaded plaintiffs' software into RAM. *MAI*, 991 F.2d at 517-18; *Triad*, 64 F.3d at 1333, 1335-36. The plaintiffs in both cases sold their software pursuant to restrictive license agreements, and we held that their customers were licensees who were therefore not entitled to claim the essential step defense. We found that the defendants infringed plaintiffs' software copyrights by their unauthorized loading of copyrighted software into RAM. *MAI*, 991 F.2d at 517-18 & n.5; *Triad*, 64 F.3d at 1333, 1335-36. In *Triad*, the plaintiff had earlier sold software outright to some customers. 64 F.3d at 1333 n.2. We noted that these customers were owners who were entitled to the essential step defense, and the defendant did not infringe by making RAM copies in servicing their computers. *Id.*

In *Wall Data*, plaintiff sold 3,663 software licenses to the defendant. *Wall Data*, 447 F.3d at 773. The licenses (1) were non-exclusive; (2) permitted use of the software on a single computer; and (3) permitted transfer of the software once per month, if the software was removed from the original computer. *Id.* at 775 n.5,

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781. The defendant installed the software onto 6,007 computers via hard drive imaging, which saved it from installing the software manually on each computer. It made an unverified claim that only 3,663 users could simultaneously access the software. *Id.* at 776.

The plaintiff sued for copyright infringement, contending that the defendant violated the license by “over-installing” the software. *Id.* at 775. The defendant raised an essential step defense, contending that its hard drive imaging was a necessary step of installation. *Id.* at 776. On appeal, we held that the district court did not abuse its discretion in denying the defendant’s request for a jury instruction on the essential step defense. *Id.* at 784. Citing *MAI*, we held that the essential step defense does not apply where the copyright owner grants the user a license and significantly restricts the user’s ability to transfer the software. *Id.* at 784-85. Since the plaintiff’s license imposed “significant restrictions” on the defendant’s software rights, the defendant was a licensee and was not entitled to the essential step defense. *Id.* at 785. . . .

We read *Wise* and the *MAI* trio to prescribe three considerations that we may use to determine whether a software user is a licensee, rather than an owner of a copy. First, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user’s ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions. Our holding reconciles the *MAI* trio and *Wise*, even though the *MAI* trio did not cite *Wise*. . . .

In response to *MAI*, Congress amended §117 to permit a *computer owner* to copy software for maintenance or repair purposes. *See* 17 U.S.C. §117(c); *see also* H.R. Rep. No. 105-551, pt. 1, at 27 (1998). However, Congress did not disturb *MAI*’s holding that licensees are not entitled to the essential step defense.

IV . . .

The district court interpreted *Wise* to hold that a first sale occurs whenever the transferee is entitled to keep the copy of the work. Since Autodesk does not require its customers to return their copies of Release 14, the district court found that Autodesk had sold Release 14 to CTA. . . .

The district court acknowledged that were it to follow the *MAI* trio, it would conclude that Autodesk had licensed Release 14 copies to CTA, rather than sold them. However, it viewed *Wise* and the *MAI* trio as irreconcilable, and it followed *Wise* as the first-decided case. . . .

We hold today that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions. Applying our holding to Autodesk’s SLA, we conclude that CTA was a licensee rather than an owner of copies of Release 14 and thus was not entitled to invoke the first sale doctrine or the essential step defense.

Autodesk retained title to the software and imposed significant transfer restrictions: it stated that the license is nontransferable, the software could not be

transferred or leased without Autodesk’s written consent, and the software could not be transferred outside the Western Hemisphere. The SLA also imposed use restrictions against the use of the software outside the Western Hemisphere and against modifying, translating, or reverse-engineering the software, removing any proprietary marks from the software or documentation, or defeating any copy protection device. Furthermore, the SLA provided for termination of the license upon the licensee’s unauthorized copying or failure to comply with other license restrictions. Thus, because Autodesk reserved title to Release 14 copies and imposed significant transfer and use restrictions, we conclude that its customers are licensees of their copies of Release 14 rather than owners.

CTA was a licensee rather than an “owner of a particular copy” of Release 14, and it was not entitled to resell its Release 14 copies to Vernor under the first sale doctrine. 17 U.S.C. §109(a). Therefore, Vernor did not receive title to the copies from CTA and accordingly could not pass ownership on to others. Both CTA’s and Vernor’s sales infringed Autodesk’s exclusive right to distribute copies of its work. *Id.* §106(3).

Because Vernor was not an owner, his customers are also not owners of Release 14 copies. Therefore, when they install Release 14 on their computers, the copies of the software that they make during installation infringe Autodesk’s exclusive reproduction right because they too are not entitled to the benefit of the essential step defense.¹³ 17 U.S.C. §§106(1), 117(a)(1). . . .

Vernor contends that *Bobbs-Merrill* establishes his entitlement to a first sale defense. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). However, *Bobbs-Merrill* stands only for the proposition that a copyright owner’s exclusive distribution right does not allow it to control sales of copies of its work after the first sale. *Id.* at 350. Decided in 1908, *Bobbs-Merrill* did not and could not address the question of whether the right to use software is distinct from the ownership of copies of software. Moreover, the Supreme Court in *Bobbs-Merrill* made explicit that its decision did not address the use of restrictions to create a license. *Id.* (“There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”) . . .

V.

Although our holding today is controlled by our precedent, we recognize the significant policy considerations raised by the parties and amici on both sides of this appeal.

13. It may seem intuitive that every lawful user of a copyrighted software program, whether they own their copies or are merely licensed to use them, should be entitled to an “essential step defense” that provides that they do not infringe simply by using a computer program that they lawfully acquired. However, the Copyright Act confers this defense only on owners of software copies. *See* 17 U.S.C. §117. In contrast, a licensee’s right to use the software, including the right to copy the software into RAM, is conferred by the terms of its license agreement.

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Autodesk, the Software & Information Industry Association (“SIIA”), and the Motion Picture Association of America (“MPAA”) have presented policy arguments that favor our result. For instance, Autodesk argues in favor of judicial enforcement of software license agreements that restrict transfers of copies of the work. Autodesk contends that this (1) allows for tiered pricing for different software markets, such as reduced pricing for students or educational institutions; (2) increases software companies’ sales; (3) lowers prices for all consumers by spreading costs among a large number of purchasers; and (4) reduces the incidence of piracy by allowing copyright owners to bring infringement actions against unauthorized resellers. SIIA argues that a license can exist even where a customer (1) receives his copy of the work after making a single payment and (2) can indefinitely possess a software copy, because it is the software code and associated rights that are valuable rather than the inexpensive discs on which the code may be stored. Also, the MPAA argues that a customer’s ability to possess a copyrighted work indefinitely should not compel a finding of a first sale, because there is often no practically feasible way for a consumer to return a copy to the copyright owner.

Vernor, eBay, and the American Library Association (“ALA”) have presented policy arguments against our decision. Vernor contends that our decision (1) does not vindicate the law’s aversion to restraints on alienation of personal property; (2) may force everyone purchasing copyrighted property to trace the chain of title to ensure that a first sale occurred; and (3) ignores the economic realities of the relevant transactions, in which the copyright owner permanently released software copies into the stream of commerce without expectation of return in exchange for upfront payment of the full software price. eBay contends that a broad view of the first sale doctrine is necessary to facilitate the creation of secondary markets for copyrighted works, which contributes to the public good by (1) giving consumers additional opportunities to purchase and sell copyrighted works, often at belowretail prices; (2) allowing consumers to obtain copies of works after a copyright owner has ceased distribution; and (3) allowing the proliferation of businesses.

The ALA contends that the first sale doctrine facilitates the availability of copyrighted works after their commercial lifespan, by *inter alia* enabling the existence of libraries, used bookstores, and hand-to-hand exchanges of copyrighted materials. The ALA further contends that judicial enforcement of software license agreements, which are often contracts of adhesion, could eliminate the software resale market, require used computer sellers to delete legitimate software prior to sale, and increase prices for consumers by reducing price competition for software vendors. It contends that Autodesk’s position (1) undermines 17 U.S.C. §109(b)(2), which permits non-profit libraries to lend software for non-commercial purposes, and (2) would hamper efforts by non-profits to collect and preserve out-of-print software. The ALA fears that the software industry’s licensing practices could be adopted by other copyright owners, including book publishers, record labels, and movie studios.

These are serious contentions on both sides, but they do not alter our conclusion that our precedent from *Wise* through the *MAI* trio requires the result we

reach. Congress is free, of course, to modify the first sale doctrine and the essential step defense if it deems these or other policy considerations to require a different approach.

... VACATED AND REMANDED.

NOTES AND QUESTIONS

1. There can be a lot at stake in determining who is an owner of a copy and who is a mere licensee. If copyright owners can control the subsequent transfer of copies of software, they will not need to compete with “used” copies of their own products. Should copyright owners be protected against such competition? Are the markets for used software the same as markets for new software? Are there other ways software producers can effectively maintain a competitive edge without relying on copyright law?

2. In *Vernor* the court had to determine whether the transaction was properly characterized as a sale or a license in order to decide whether an infringement claim would be permissible. Similarly, in *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011), the plaintiff had sent promotional CDs to music industry insiders. The CDs contained a label that stated:

This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.

Id. at 1177-78. The defendant had obtained copies of the CDs and, as in *Vernor*, was selling them on eBay, advertising them as “rare . . . industry editions” and . . . “Promo CDs.” *Id.* at 1178. Nothing required the recipient to return the promotional CDs to UMG and there were no consequences if the CDs were lost or destroyed.

The same judges that decided *Vernor* held that a first sale had occurred. *See id.* at 1182. The court stated:

[The *Vernor*] formulation . . . applies in terms to software users, and software users who order and pay to acquire copies are in a very different position from that held by the recipients of UMG’s promotional CDs. . . . UMG has virtually no control over the unordered CDs it issues because of its means of distribution, and it has no assurance that any recipient has assented or will assent to the creation of any license or accept its limitations. UMG also does not require the ultimate return of the promotional CDs to its possession . . . [,] one more indication that UMG had no control over the promotional CDs once it dispatched them. UMG thus did not retain “sufficient incidents of ownership” over the promotional copies “to be sensibly considered the owner of the cop[ies]” . . .

Id. at 1183.

Are *Augusto* and *Vernor* consistent? Under the standard announced in *Vernor*, had a first sale of the CDs occurred? Should there be a different rule for software

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than for other copyrighted works? Is there authorization for a different rule in the statute?

3. *Vernor* and *UMG* both involved the transfer of physical objects that contained copies of the work. Physical copies often can be resold before the defendants confront an EULA with its “I agree” button. When copyrighted works are downloaded from the Internet, there is no tangible disk to be sold on the “used” market. Are contractual restrictions on resale more or less troubling in such circumstances?

4. Companies attempting to use contracts to restrict resale of copies of their software may be able to maintain actions for breach of contract against distributors who breach their distribution agreements. The company from which Vernor purchased the copies, CTA, had entered into a settlement agreement binding itself to the EULA. Should Autodesk also be able to pursue a claim of breach of contract against CTA? Would it matter how the settlement agreement was worded?

5. Should other aspects of the balance of rights and limitations contained in the Copyright Act be open to recrafting by contract? Imagine that Autodesk had used a license agreement that purported to transfer copies subject to the proviso that recipients not publish negative reviews of the software. Would characterizing the transactions as sales rather than licenses assist a court in determining whether to enforce such a provision?

6. The TRIPS Agreement does not adopt any rule of exhaustion or “first sale.” Accordingly, countries are free to adopt their own approaches to determine what constitutes a “license” or a “sale” for purposes of assessing infringement claims. In *EU case C-128/11—Marketing of Used Licences for Computer programs downloaded from the Internet*, Oracle brought proceedings in Germany against UsedSoft, a company that sold used software licenses including user licenses for Oracle computer programs. After buying a used license, UsedSoft customers who did not have the Oracle software in question could download a copy of the program directly from Oracle’s website. Customers who already had a copy of the program but who bought licenses for additional users were directed by UsedSoft to copy the program to the computers of those users. Oracle’s license agreement for the software stated: “With the payment for services you receive, exclusively for your internal business purposes, for an unlimited period a non-exclusive non-transferable user right free of charge for everything that Oracle develops and makes available to you on the basis of this agreement.”

UsedSoft lost in the lower court and appealed to the German Federal Court of Justice. That Court referred three interrelated questions of law to the European Court of Justice. One was whether a lawful acquirer of a used software license can rely on the exhaustion of the distribution right (first sale) to distribute the copy of the program by downloading the program from the Internet if the first licensee has erased the program or no longer uses it. The European Court of Justice held that “[t]he right of distribution of a copy of a computer program is exhausted if the copyright holder who has authorized . . . the downloading of that copy from the Internet . . . has also conferred, in return for payment of a fee . . . a right to use that copy for an unlimited period.” *Id.* at para. 89(1). The Court further ruled that “in the event of the resale of a user licence entailing the resale of a copy of a

computer program downloaded from the copyright holder’s website, . . . the second acquirer of the licence, as well as any subsequent acquirer of it, will be able to rely on the exhaustion of the distribution right . . . and hence be regarded as lawful acquirers of a copy of a computer program . . . and benefit from the right of reproduction. . . .” *Id.* at para. 89(2). Do you agree with this reasoning? How is the language in Oracle’s license different from the language in *Vernor*? From the language in *Augusto*?

7. Some of the concerns voiced by the American Library Association (ALA), which the court in *Vernor* acknowledged as “serious,” appear to have materialized. Most publishers allow libraries to purchase an e-book and lend it out to one reader at a time without limitation. However, in March 2011, a major publisher, HarperCollins, announced a shift in its policy to require that e-books purchased by public libraries be checked out only 26 times before the book expires. *See* Julie Bosman, *Library E-Books Live Longer, So Publisher Limits Shelf Life*, N.Y. Times, Mar. 15, 2011, at A1. Under such new contractual limits and with a typical two-week checkout period, an e-book would last only a year in a library’s collections. *Id.* In defense of its new policy, HarperCollins stated that “selling e-books to libraries in perpetuity, if left unchanged, would undermine the emerging e-book ecosystem, hurt the growing e-book channel, place additional pressure on physical bookstores, and in the end lead to a decrease in book sales and royalties paid to authors.” *Id.* Who has the better policy argument, HarperCollins or the ALA?

Page 644. *At the end of Question 7 insert the following:*

For these and other reasons, many plaintiffs would prefer to bring a copyright infringement action rather than a breach of contract action. Could a plaintiff make any breach of contract a copyright infringement by making the grant of rights expressly conditional on compliance with all obligations under the contract? In *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, 629 F.3d 928 (9th Cir. 2011), the court addressed the question whether certain terms in a software license were conditions or covenants, stating:

. . . [A]ny software copyright holder[] could designate any disfavored conduct during software use as a copyright infringement, by purporting to condition the license on the player’s abstention from the disfavored conduct. The rationale would be that because the conduct occurs while the player’s computer is copying the software code into RAM in order for it to run, the violation is copyright infringement. This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners.

We conclude that for a licensee’s violation of a contract to constitute copyright infringement, there must be a nexus between the condition and the licensor’s exclusive rights of copyright.

Id. at 941. The court held that clauses in the agreement labeled “Conditions” that prohibited the use of bots (software that automates play) were covenants, not

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conditions, and thus no copyright infringement occurred when players used bots in violation of the agreement. *Id.* Do you find the nexus test helpful for distinguishing covenants from conditions?

D. Misuse

Page 653. *Renumber Questions 4-5 as Questions 5-6 and insert the following as Question 4:*

4. Watchmaker Omega manufactures watches in Switzerland with a tiny copyrighted “Omega Globe” design engraved on the underside and sells them to authorized dealers overseas. Prior to the Supreme Court’s decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), see *supra* pp. 382-93 of this Supplement, when some of those watches made their way to Costco in the United States, Omega sued for violation of its distribution right. The Ninth Circuit rejected Costco’s first sale defense. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *aff’d by an equally divided court*, 131 S. Ct. 565 (2010). On remand, the district court held that Omega had misused its copyright. “Omega used the defensive shield of copyright law as an offensive sword . . . and misused its copyright . . . by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its . . . watches.” *Omega S.A. v. Costco Wholesale Corp.*, CV 04-05443 TJH (C.D. Cal. Nov. 9, 2011), at 2-3. Omega argued that the copyrighted design had other purposes besides controlling importation of the watches, including “promot[ing] the creativity and aesthetics of the [design] and [increasing] the value that the design gives to a watch.” *Id.* at 4. The court rejected that argument, reasoning that “[w]hile the [design] might have its own independent creative and aesthetic values, those aspects of the design are protected by its copyright and are not a defense to copyright misuse.” *Id.* Do you agree with the court’s decision?



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B. The Digital Millennium Copyright Act and Circumvention of Technological Protections

Pages 676-77. In the Note on Library of Congress Rulemakings Under §1201, delete the last paragraph on page 677 and insert the following:

In its fourth rulemaking, the Copyright Office established six classes of exemptions. U.S. Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Final Rule, 75 Fed. Reg. 43825 (July 27, 2010). The first exemption permitted circumvention to excerpt short clips from DVDs for use in documentary filmmaking and non-commercial videos, and for purposes of criticism and commentary by college and university professors and by college and university film and media studies students. Under the 2006 Final Rule, this exemption had applied only to film and media studies professors. The second exemption, a new one, allowed owners of used mobile phones to circumvent software on their phones for the sole purpose of enabling interoperability with third-party software applications. The Copyright Office determined that this practice, known colloquially as “jailbreaking,” is “consistent with congressional interest in interoperability.” *Id.* at 43829. The third exemption continued the 2006 exemption for computer programs to “unlock” mobile phones, enabling them to connect to wireless networks other than those of the original carrier. The fourth exemption applied to video games accessible on personal computers “when circumvention is accomplished solely for the purpose of good faith testing for investigating, or correcting security flaws or vulnerabilities,” *id.* at 43832, and the fifth, to computer programs protected by dongles that are malfunctioning, damaged, or obsolete, *id.* The sixth exemption continued the 2006 exemption for literary works distributed in e-book format when all existing e-book editions prevent “enabling either of the book’s read-aloud function

or of screen readers that render the text into a specialized format.” *Id.* at 43837. The Copyright Office had declined to extend this exemption under the 2009 Rule, but was overruled by the Librarian of Congress, who determined that “the proposed exemption should be granted because: (1) the record includes statements on the likelihood of access not being available to blind individuals, (2) no one opposed the exemption, and (3) there are broad benefits to society in making works accessible to the visually impaired.” *Id.* at 43838.

The fifth rulemaking, completed in 2012, continued the exemptions for DVD excerpting, mobile phone jailbreaking, and the enabling of assistive technologies for e-books, and recognized a new exemption permitting circumvention solely for the purpose of research and development to facilitate the captioning of audiovisual works for the deaf and hearing-impaired and the provision of descriptive audio for the blind and visually-impaired. U.S. Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Final Rule, 77 Fed. Reg. 65260 (Oct. 26, 2012). The Copyright Office declined, however, to extend the jailbreaking exemption to tablet devices such as the iPad, reasoning that the class of tablet devices was “broad and ill-defined.” *Id.* at 65264. Except for a limited exemption for so-called legacy phones, it declined to continue the exemption allowing the unlocking of mobile phones, noting that “the marketplace has evolved such that there is now a wide array of unlocked phone options available to consumers.” *Id.* at 65265. It also declined requests to recognize several new exemptions: one permitting access to public domain literary works; one permitting “space-shifting” of lawfully acquired copies of audiovisual works; one for video game consoles to permit use of lawfully-acquired but non-vendor-approved software; and one for personal computing devices to permit circumvention of “operating system locks” and “application locks” so that alternative operating systems and applications might be installed.

The discontinuation of the exemption for mobile phone unlocking has become controversial. A public petition to the White House, requesting that the President intervene in the matter, garnered more than 100,000 signatures and resulted in an official statement disapproving of the Copyright Office’s ruling. Subsequently, Senator Ron Wyden introduced the Wireless Device Independence Act, S.B. 467, which would amend §1201 to allow mobile phone unlocking.

C. Authorized Versus Unauthorized Access and Interoperable Products

Pages 690-92. In the Notes and Questions:

a. At the end of Question 2 insert the following:

In *MGE UPS Systems v. GE Consumer and Industrial Inc.*, 622 F.3d 361 (5th Cir. 2010), plaintiff MGE, a manufacturer of uninterruptible power supply (“UPS”)

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machines, had developed a software program for servicing some of its UPS machines. To function properly, the software required connection with an external security key (a “dongle”), each of which had an expiration date, a maximum number of uses, and a unique password. Although MGE’s UPS machines could be serviced without use of the software, key functions such as recalibration and adjustments of voltage levels required its use.

Some years after MGE introduced its software, hackers posted information on the Internet about how to defeat the security features of the dongle. Defendant GE, which serviced several brands of MGE’s UPS machines, formerly subcontracted MGE to service machines that required use of MGE’s security software, but stopped doing so after some of its employees obtained at least one disabled copy of MGE’s software program. MGE sued, among other things, for a violation of §1201(a)(1). The court dismissed the claim, holding that §1201(a)(1) prohibits only circumvention and so does not apply to use of the protected work after such circumvention has occurred. According to the court, the words “bypass” or “avoid” in §1201(a)(3)(A), which defines what acts constitute circumvention, should not be construed to extend to use of a copyrighted work subsequent to an act of circumvention. Do you agree?

b. Replace the last paragraph of Question 6 with the following:

Is *Davidson* more like *Reimerdes* or more like *Lexmark* and *Chamberlain*? Should creating a platform on which to play unauthorized copies of a video game fall within the §1201(f) exception? If EULAs or Terms of Use expressly prohibit such activities, does engaging in them “violate applicable law” and therefore remove any protection available under §1201(c)(1) or §1201(f)?

c. Insert the following as Questions 9-11:

9. In *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, 629 F.3d 928 (9th Cir. 2011), MDY developed and sold a software robot or “bot” called Glider that allowed automated play of early levels of Blizzard’s multiplayer online role-playing game, World of Warcraft (WoW). Blizzard subsequently developed its own software technology, Warden, to prevent WoW players who use unauthorized bots from connecting to WoW’s servers. The Warden technology had two components: a software module called “scan.dll” that scanned a computer’s RAM for bots before allowing a player to connect to WoW’s servers, and a “resident” component that periodically ran a background check on the player’s computer to detect patterns associated with bots or other cheats. Using its Warden technology, Blizzard was able to detect Glider users and immediately banned most of them. MDY then programmed Glider to avoid detection and promoted its new anti-detection features on its website. Blizzard sued for, *inter alia*, a violation of §1201.

MDY argued that only scan.dll qualifies as an access control measure under §1201(a)(2). The Ninth Circuit disagreed. It held that an access control measure “can both (1) attempt to block initial access and (2) revoke access if a secondary check determines that access was unauthorized.” *Id.* at 943. Is this interpretation consistent with the language of §1201(a)(2)? Can you discern any limits to what may constitute an access control measure?

10. MDY also argued that §1201 does not prohibit circumvention of access controls when access does not constitute copyright infringement. Recall that in *Chamberlain*, the Federal Circuit stated that interpreting §1201 to bar access without infringement would be “problematic for a number of reasons.” See page 685 in the casebook. The *MDY* court disagreed, holding that the language “work protected under this title” extends “a new form of protection, i.e., the right to prevent circumvention of access controls” to copyrighted works independent of copyright infringement. *MDY Industries*, 629 F.3d at 945. According to the court, neither §1201(a)(1) nor (a)(2) explicitly refers to “traditional copyright infringement under §106.” *Id.* It concluded that the infringement nexus required by *Chamberlain* “is contrary to the plain reading of the statute.” *Id.* at 950. Which court’s interpretation is more faithful to the statutory text, the Federal Circuit’s or the Ninth Circuit’s? Which court’s approach to the DMCA makes more sense with respect to the goals of copyright law?

11. Review notes 5 and 6 on pages 691-692 of the casebook. What are consumer expectations regarding what constitutes appropriate behavior in multi-player online computer games? Should creating a bot to automate play fall within the §1201(f) exception? When Blizzard Entertainment added the Warden component to its multi-player platform it also changed its Terms of Use to prohibit the use of bots to play the game. Should a maker of a video game be able not only to ensure compliance with the game’s rules through technology, but also to assert a violation of federal law when someone offers a technology that is meant to help game players evade the rules?

D. Protection for Copyright Management Information

Pages 693-97. Replace IQ Group, Ltd. v. Wiesner Publishing, LLC with the following:

Murphy v. Millennium Radio Group LLC
650 F.3d 295 (3d Cir. 2011)

FUENTES, J.: . . .

In 2006, [Peter] Murphy was hired by the magazine *New Jersey Monthly* (“*NJM*”) to take a photo of Craig Carton and Ray Rossi, who at the time were the hosts of a show on the New Jersey radio station WKXW, which is owned by

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Millennium Radio Group. *NJM* used the photo to illustrate an article in its “Best of New Jersey” issue naming Carton and Rossi “best shock jocks” in the state. The photo (“the Image”) depicted Carton and Rossi standing, apparently nude, behind a WKXW sign. Murphy retained the copyright to the Image.

An unknown employee of WKXW then scanned in the Image from *NJM* and posted the resulting electronic copy to the WKXW website and to another website, myspacetv.com. The resulting image, as scanned and posted to the Internet, cut off part of the original *NJM* caption referring to the “Best of New Jersey” award. It also eliminated *NJM*’s gutter credit (that is, a credit placed in the inner margin, or “gutter,” of a magazine page, ordinarily printed in a smaller type and running perpendicular to the relevant image on the page) identifying Murphy as the author of the Image. The WKXW website invited visitors to alter the Image using photomanipulation software and submit the resulting versions to WKXW. A number of visitors eventually submitted their versions of the photo to WKXW, and it posted 26 of those submissions to its site. [Millennium Radio Group, Craig Carton, and Ray Rossi (the “Station Defendants”)] never received Murphy’s permission to make use of the Image. . . .

[Murphy sued the Station Defendants for, *inter alia*, violations of §1202. The district court granted the defendants’ motion for summary judgment. Murphy appealed.]

II. DISCUSSION

A. DMCA Claim . . .

Murphy’s claim against the Station Defendants involves §1202 of the DMCA, which deals with “copyright management information” (“CMI”). . . .

Murphy’s argument is straightforward. He contends that the *NJM* gutter credit identifying him as the author of the Image is CMI because it is “the name of . . . the author of [the Image]” and was “conveyed in connection with copies of [the Image].” By posting the Image on the two websites without the credit, therefore, the Station Defendants “remove[d] or alter[ed]” CMI and “distribute[d]” a work knowing that its CMI had been “removed or altered” in violation of §1202.⁶

The Station Defendants, on the other hand, insist that one cannot read §1202 in isolation, but must interpret it in conjunction with §1201 and in light of the legislative history of the DMCA to impose an additional limitation on the defi-

6. Because the District Court rejected Murphy’s argument on this point, it did not consider whether summary judgment was appropriate on the other elements of a §1202 claim, such as whether the Station Defendants acted knowing that the removal would induce or enable infringement. Thus, although the Station Defendants attempt to raise that issue now, we take no position on it at this time.

inition of CMI. They argue that the chapter as a whole protects various kinds of automated systems which protect and manage copyrights. Specifically, §1201 covers the systems . . . that *protect* copyrighted materials and §1202 covers the systems that *manage* copyrighted materials (such as the name of the author of a work). Therefore, they conclude, despite the apparently plain language of §1202, information like the name of the author of a work is not CMI unless it also functions as part of an “automated copyright protection or management system.” In other words, to remove, as the Station Defendants did, a printed credit from a magazine photograph which was then posted to a website does not violate §1202, because the credit, although apparently meeting the definition of §1202(c)(2), was not part of an “automated copyright protection or management system.” They claim that both the legislative history of the DMCA and the language of the [WIPO] treaties which the DMCA implemented support such a reading. Viewed thus, the Station Defendants argue, §1202 will be seen not to apply to Murphy’s name as it appeared in the gutter credit near the Image.

We are not aware of any other federal appellate courts which have considered whether the definition of “copyright management information” should be restricted to the context of “automated copyright protection or management systems.” We begin, as we must, with the text of §1202. . . . “Generally, where the text of a statute is unambiguous, the statute should be enforced as written and only the most extraordinary showing of contrary intentions in the legislative history will justify a departure from that language.” *In re Philadelphia Newspapers, LLC*, 599 F.3d 298, 314 (3d Cir. 2010) (internal quotation marks and citation omitted).

There is nothing particularly difficult about the text of §1202. Even the Station Defendants, and the courts whose decisions they cite, do not contend that §1202 is, in itself, ambiguous or unclear. Read in isolation, §1202 simply establishes a cause of action for the removal of (among other things) the name of the author of a work when it has been “conveyed in connection with copies of” the work. The statute imposes no explicit requirement that such information be part of an “automated copyright protection or management system,” as the Station Defendants claim. In fact, it appears to be extremely broad, with no restrictions on the context in which such information must be used in order to qualify as CMI. If there is a difficulty here, it is a problem of policy, not of logic. Such an interpretation might well provide an additional cause of action under the DMCA in many circumstances in which only an action for copyright infringement could have been brought previously. Whether or not this result is desirable, it is not *absurd*, as might compel us to make a more restrictive reading of §1202’s scope.⁸

8. The Station Defendants argue that this interpretation would cause the DMCA to “swallow up” the Copyright Act, effectively making the latter redundant. In fact, if an infringer merely copies an entire work whole—as in the example above of a pirated film on DVD—Section 1202 will probably not be implicated, as the infringer will not have removed or altered any CMI. However, unlike §1201, §1202 applies only when a defendant knows or has reasonable grounds to know that the removal will “induce, enable, facilitate, or conceal” an infringement. Thus, those intending to make fair use of a copyrighted work are unlikely to be liable under §1202.

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The Station Defendants argue that to read §1202 by itself is to take too narrow a view of the “plain language” of the statutory text. When interpreting statutory language, we must examine the statute as a whole, rather than considering provisions in isolation. *Samantar v. Yousuf*, 130 S. Ct. 2278, 2289 (2010). However, nothing in §1201, the provision regarding circumvention of “technological measures” . . . to which the Station Defendants point most insistently, restricts the meaning of CMI in §1202 to information contained in “automated copyright protection or management systems.” Section 1201 does not mention “copyright management information”; in fact, it does not refer to §1202 at all. Neither does it contain the phrase “automated copyright protection or management systems.” Similarly, §1202 does not refer to §1201, and the definition of CMI is located squarely in §1202.

If, in fact, §1201 and §1202 were meant to have such interrelated interpretations, it is peculiar that there is no explicit indication of this in the text of either provision. Instead, to all appearances, §1201 and §1202 establish independent causes of action which arise from different conduct on the part of defendants, albeit with similar civil remedies and criminal penalties. It may strike some as more intellectually harmonious to interpret the prohibition of removal of CMI in §1202 as restricted to the context of §1201, but nothing in the text of §1201 actually dictates that it should be taken to limit the meaning of “copyright management information.”

As for the purpose of the statute as a whole, it is undisputed that the DMCA was intended to expand—in some cases . . . significantly—the rights of copyright owners. The parties here differ only as to their conclusions regarding the *extent* to which the DMCA expanded those rights. Murphy’s definition of CMI provides for a significantly broader cause of action than the Station Defendants’ does. However, the Station Defendants can point to nothing in the statute as a whole which compels the adoption of their reading instead of Murphy’s. In short, considering the purpose of the statute does not provide us with meaningful guidance in this case.

. . . [I]n accordance with *In re Philadelphia Newspapers*, we must look to the legislative history of the DMCA only for that “extraordinary showing of contrary intentions” which would justify rejecting a straightforward reading of §1202. 599 F.3d at 314. . . . The Station Defendants rely on the survey of the legislative history undertaken by the courts in *IQ Group v. Wiesner Pub., LLC*, 409 F. Supp. 2d 587 (D. N.J. 2006) and *Textile Secrets Int’l, Inc. v. Ya-Ya Brand, Inc.*, 524 F. Supp. 2d 1184, 1198 (C.D. Cal. 2007). The *IQ Group* decision placed most emphasis on a “white paper” of the working group of the Information Infrastructure Task Force (IITF), the organization that produced the first draft of §§[1201] and 1202. This white paper reported that

combination of file-and system-based access controls using encryption technologies, digital signatures and steganography are . . . employed by owners of works to address copyright management concerns. . . . To implement these rights management functions, information will likely be included in digital versions of a work (i.e., *copyright management information*) to inform the user about the authorship and

ownership of a work. . . .

409 F. Supp. 2d at 594 (emphasis added). Thus, the *IQ Group* court concluded, the paper “understood ‘copyright management information’ to be information . . . that is included in digital versions of the work so as to implement ‘rights management functions’ of ‘rights management systems.’” *Id.* at 595. And, as the text of §1202 was not altered before its adoption by Congress, the court found that this gave a clear indication of Congressional intent. *Id.* at 594-95. Additionally, the Senate Committee Report to §1202 describes CMI as including “such items as the title of the work, the author . . . CMI need not be in digital form, but CMI in digital form is expressly included.” *Id.* at 596.

The *Textile Secrets* court also looked to the [WIPO] treaties that the DMCA was intended to implement. The WIPO treaties use a term “rights management information” and define it as “information which identifies the work, the author of the work . . . when any of these items of information is attached to a copy of a work or appears in connection with the communication of a work to the public.” They require that parties to the treaties provide adequate remedies against the “remov[al] or alter[ation of] any *electronic* rights management information without authority.” *Id.* (emphasis added) The *Textile Secrets* court concluded that “electronic rights management information” as used in the WIPO treaties and “copyright management information” as used in §1202 must be coterminous in meaning. 524 F. Supp. 2d at 1198. Therefore, it found, “copyright management information” must be electronic. *Id.*

While this analysis has some force, in the end, the strongest case which the Station Defendants can make is that the legislative history of the DMCA is *consistent* with its interpretation, not that it actually *contradicts* the reading advocated by Murphy. The IITF white paper describes CMI as “information [that] will likely be included in digital versions of a work . . . to inform the user about the authorship and ownership of a work.” *IQ Group*, 409 F. Supp. 2d at 594. This description leaves the question of just how that information will be included—that is, whether it *must* be used in some form of “an automated copyright protection or management system” or whether it can be conveyed by other means—entirely open.

Similarly, the WIPO treaties’ definition of “electronic rights management information” is “information [that] will likely be included in digital versions of a work . . . to inform the user about the authorship and ownership of a work.”¹¹ Although this definition occurs in the context of a broader discussion of systems that control access to copyrighted works, it does not *require* that “electronic rights management information” be embedded in such systems. . . .

Thus, while it is possible to read the legislative history to support the Station Defendants’ interpretation of CMI, that history does not provide the “extraordi-

11. The Station Defendants agree with Murphy that, whatever CMI is, it is not necessary for it to be “digital.” For example, they concede that a bar code printed in ink on a paper label might be CMI.

Chapter 9. Technological Protections

nary showing of contrary intentions” which would compel us to disregard the plain language of the statute. . . .

Therefore, we find that CMI, as defined in §1202(c), is *not* restricted to the context of “automated copyright protection or management systems.” Rather, a cause of action under §1202 of the DMCA potentially lies whenever the types of information listed in §1202(c)(1)-(8) and “conveyed in connection with copies . . . of a work . . . including in digital form” is falsified or removed, regardless of the form in which that information is conveyed. In this case, the mere fact that Murphy’s name appeared in a printed gutter credit near the Image rather than as data in an “automated copyright protection or management system” does not prevent it from qualifying as CMI or remove it from the protection of §1202. . . .

Pages 699-700. Replace the first paragraph and hypotheticals a and b of Question 1 with the following:

1. Do you agree with the result in *Murphy*? Does §1202 grant authors and copyright owners a right of attribution? How do the *mens rea* elements of that section cabin the protection granted by §1202? Reconsider your answers after you analyze hypotheticals c-d in the casebook.

Pages 704. Replace Question 7 with the following:

7. After years of legal wrangling with the FCC over the provisions of the cable plug-and-play rule, the cable industry petitioned for judicial review of the rule, arguing that the FCC lacked statutory authority to issue it. In *Echostar Satellite LLC v. FCC*, 704 F.3d 992 (D.C. Cir. 2013), the D.C. Circuit agreed. Ruling that neither the FCC’s statutory authority to “assure the commercial availability” of set-top boxes, 47 U.S.C. §549(a), nor its ancillary authority to make other rules “as may be necessary in the execution of its functions,” *id.* §154(i), authorized it to impose encoding rules for set-top boxes, the court vacated the rule in its entirety.

Chapter 10. State Law Theories of Protection, and Their Limits

A. Federal Intellectual Property Preemption: An Overview

Pages 720-21. In the Notes and Questions, delete the last two sentences of Question 4 and insert the following:

As discussed in Chapter 3, the Supreme Court followed the *Eldred* approach to uphold the Copyright Act's restoration provisions. *Golan v. Holder*, 132 S. Ct. 873 (2012).

E. Contract

Page 757. In the Note on Contractual Provisions Against Reverse Engineering, delete the last paragraph and replace it with the following:

As you read in Chapter 7 of the casebook, pages 565-74, over time, courts began to consider reverse engineering a fair use under certain circumstances. The Supreme Court has reaffirmed that some types of software may constitute patentable subject matter. *See Bilski v. Kappos*, 130 S. Ct. 3218 (2010); *Diamond v. Diehr*, 450 U.S. 175 (1981). Given *Vault* and the increased patenting of software, many thought a copyright preemption challenge to a breach of contract claim based on a EULA provision banning reverse engineering would likely succeed. Consider now *Bowers v. Baystate Technologies, Inc.*, 320 F.3d 1317 (Fed. Cir.), *cert. denied*, 539 U.S. 928 (2003) beginning on page 757 of the casebook.

Chapter 11. The Copyright Infringement Lawsuit

A. Proper Court

Pages 768-69. Replace the second and third paragraphs of Note 5 with the following:

As part of a package of patent law reforms in the America Invents Act (AIA), Pub. Law. No. 122-29, 125 Stat. 284-341 (2011), Congress addressed a related jurisdictional issue in copyright cases. Previously when a plaintiff filed a breach of contract claim in state court and the defendant asserted a counterclaim for copyright infringement, some state courts addressed the copyright counterclaim. This obviated the need for defendant to file a separate federal copyright action, but arguably was inconsistent with exclusive federal jurisdiction of copyright claims. See e.g., *Green v. Hendrickson Publishers, Inc.*, 770 N.E. 2d 784 (Ind. 2002). Alternatively, as discussed in Chapter 10.B of the casebook, some federal courts applied the “complete preemption” doctrine to sustain removal of certain breach of contract claims and other state law claims that met the criteria for preemption set forth in §301(a), and then dismissed the claims on the ground that they were “really” copyright claims. See *Ritchie v. Williams*, 395 F.3d 283 (6th Cir. 2005); *Briarpatch, Ltd. v. Phoenix Pictures, Inc.*, 373 F.3d 296 (2d Cir. 2004), *cert. denied*, 544 U.S. 949 (2005). Following dismissal, the party with a copyright claim could then file a “proper” federal copyright claim. The AIA amended the second sentence of 28 U.S.C. §1338(a) to clarify that “[n]o State court shall have jurisdiction over any claim for relief arising from any Act of Congress relating to patents, plant variety protection, or copyrights.” The AIA also amended the removal provisions to permit removal of a “civil action in which *any party* asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights.” 28 U.S.C. §1454 (emphasis added). Do the changes made by the AIA negate the need to resort to complete preemption in the copyright context?

B. Proper Timing

Page 773. *At the end of Question 3 insert the following:*

After *Muchnick*, the Ninth Circuit has approached satisfaction of the §411 requirements as a necessary element of an infringement claim, subject to a Federal Rule of Civil Procedure 12(b)(6) motion to dismiss. *See Cosmetic Ideas, Inc. v. IAC/ Interactive Corp.*, 606 F.3d 612, 615 (9th Cir.), *cert. denied*, 131 S. Ct. 686 (2010). In this context, the debate concerning the “Application approach” versus the “Registration approach” lives on. *See id.* at 615 n.4, 616-21 (discussing different approaches and concluding that “the application approach better fulfills Congress’s purpose of providing broad copyright protection while maintaining a robust federal register”).

C. Proper Plaintiffs (Standing)

Pages 780. *Replace Note 5 with the following:*

5. Other than an author entitled to ongoing royalties, who may assert standing based on beneficial ownership? Should an agent who has been granted the exclusive right to “negotiate, license, and otherwise cause and permit the exploitation of” a copyrighted work be entitled to bring a suit for infringement? *See Plunket v. Doyle*, No. 99 Civ. 11006(KMW), 2001 WL 175252, at *1 (S.D.N.Y. Feb. 22, 2001) (plaintiff lacked standing). In recent years, courts have focused increased attention on the ability of non-practicing entities, sometimes referred to as “trolls,” to enforce intellectual property rights. In the copyright context, courts have used the requirements of §501(b) to strictly limit those eligible to sue for infringement to those that can demonstrate an assignment of an exclusive right, not merely an assignment of a right to sue for infringement. *See, e.g., Righthaven, LLC v. Hoehn*, 792 F. Supp. 2d 1138 (D. Nev. 2011); *see also Silvers v. Sony Pictures Entm’t, Inc.*, 402 F.3d 881 (9th Cir.) (en banc) (rejecting assertion of beneficial ownership based on assignment of accrued infringement claim without assignment of underlying rights in the copyrighted work), *cert. denied*, 546 U.S. 827 (2005).

Associations do not have standing under the Copyright Act to sue on behalf of their members. Associations must have a legal or beneficial ownership interest in the copyrights allegedly infringed. *See Authors Guild, Inc. v. HathiTrust*, ___ F. Supp. 2d ___, 2012 WL 4808939, at *3, *5-7 (S.D.N.Y. *appeal docketed*, No. 12-04547 (2d Cir. Nov. 14, 2012)).

F. International Issues

Pages 796-97. *Delete the last sentence of the first paragraph of Note 5 and replace it with the following:*

Review the Note on Strategies to Address Online Infringement on pages 422-24 of this Supplement. PIPA and SOPA would both have permitted the Attorney General or a “qualifying plaintiff” to bring an *in rem* proceeding against a nondomestic domain name if the individual infringer could not be located and sued within the United States. (PIPA and an early version of SOPA authorized qualifying plaintiffs to bring such actions against domestic domain names as well.) Such a proceeding could have resulted in a court order against the domain name. That order then could have been served on operators of domain name servers and other third-party facilitators of the infringement, requiring those entities to assist in blocking access to that domain name. Is this an appropriate solution to the problem of cross-border infringement? There are also cases that indicate that courts are willing to assert jurisdiction over foreign parties for activity occurring online.

G. Civil Remedies

Page 807. *In Question 3 replace the case citation with:*

Salinger v. Colting, 607 F.3d 68 (2d Cir. 2010).

Page 820. *At the end of Question 4 insert the following:*

Mr. Bouchat continued to pursue infringement claims against the Ravens and a variety of others for use of the old Flying B logo (the Ravens changed their logo in 1999). *Bouchat v. Baltimore Ravens Ltd. Partnership*, 2012 WL 6738321, at *1 n.1 (D. Md. 2012) (noting seven different reported decisions). Bouchat did eventually receive an award of damages in one of those cases: \$721 for the logo’s use in highlight films sold by the NFL that included the 1996-98 seasons. *Id.* at *5. The court also set a royalty of \$100 for each use of highlight footage played in the stadium during the Ravens home games. *Id.* This decision includes reproductions of the images of the copyrighted work at issue, the work found to be infringing, and the new logo (shown below). What do you think of the damages ultimately awarded in light of the similarities and dissimilarities between Bouchat’s shield and Flying B logo?



Bouchat's "Shield Drawing"



Flying B Logo



New logo adopted in 1999

Page 829. Before the Notes and Questions, insert the following:

Capitol Records, Inc. v. Thomas-Rasset
692 F.3d 899 (8th Cir. 2012), cert denied, 2013 WL 1091785

[For an earlier opinion in this litigation, see pages 341-47 in the casebook.]

COLLTON, C.J.: This appeal arises from a dispute between several recording companies and Jammie Thomas-Rasset. . . . [F]or purposes of appeal, it is undisputed that Thomas-Rasset willfully infringed copyrights of twenty-four sound recordings by engaging in file-sharing on the Internet. After a first jury found Thomas-Rasset liable and awarded damages of \$222,000, the district court granted a new trial on the ground that the jury instructions incorrectly provided that the Copyright Act forbids making sound recordings available for distribution on a peer-to-peer network, regardless of whether there is proof of “actual distribution.” A second jury found Thomas-Rasset liable for willful copyright infringement under a different instruction, and awarded statutory damages of \$1,920,000. The district court remitted the award to \$54,000, and the companies opted for a new trial on damages. A third jury awarded statutory damages of \$1,500,000, but the district court ultimately ruled that the maximum amount permitted by the Due Process Clause of the Fifth Amendment was \$54,000 and reduced the verdict accordingly. The court also enjoined Thomas-Rasset from taking certain actions with respect to copyrighted recordings owned by the recording companies.

The companies appeal two aspects of the remedy. . . . They object to the district court’s ruling on damages, and they seek an award of \$222,000, which was the amount awarded by the jury in the first trial. . . . For tactical reasons, the companies do not seek reinstatement of the third jury’s award of \$1,500,000. They urge instead that this court should reverse the district court’s order granting a new trial, rule that the Copyright Act does protect a right to “making available” sound recordings, reinstate the first jury’s award of \$222,000, and direct entry of a broader injunction. In a cross-appeal, Thomas-Rasset argues that *any* award of statutory damages is unconstitutional, and urges us to vacate the award of damages altogether . . .

II. . . .

. . . [T]his court reviews judgments, not decisions on issues. . . . The entitlement of the companies to these remedies—damages of \$222,000 and an injunction against making copyrighted works available to the public—are the matters in controversy. . . . Once the requested remedies are ordered, the desire of the companies for an opinion on the meaning of the Copyright Act, or for a statement that Thomas-Rasset violated the law by making works available, is not sufficient to maintain an Article III case or controversy.

Chapter 11. The Copyright Infringement Lawsuit

For the reasons set forth below, we conclude . . . that statutory damages of at least \$222,000 were constitutional, and that the district court erred in holding that the Due Process Clause allowed statutory damages of only \$54,000. . . .

B.

On the question of damages, we conclude that a statutory damages award of \$9,250 for each of the twenty-four infringed songs, for a total of \$222,000, does not contravene the Due Process Clause. The district court erred in reducing the third jury's verdict to \$2,250 per work, for a total of \$54,000, on the ground that this amount was the maximum permitted by the Constitution.

The Supreme Court long ago declared that damages awarded pursuant to a statute violate due process only if they are "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." *St. Louis, I.M. & S. Ry. Co. v. Williams*, 251 U.S. 63, 67, (1919). Under this standard, Congress possesses a "wide latitude of discretion" in setting statutory damages. . . .

Thomas-Rasset urges us to consider . . . the "guideposts" announced by the Supreme Court for the review of punitive damages awards under the Due Process Clause. When a party challenges an award of punitive damages, a reviewing court is directed to consider three factors in determining whether the award is excessive and unconstitutional: "(1) the degree of reprehensibility of the defendant's misconduct; (2) the disparity between the actual or potential harm suffered by the plaintiff and the punitive damages award; and (3) the difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases." *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 418, (2003); *see also BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 574-75 (1996).

The Supreme Court never has held that the punitive damages guideposts are applicable in the context of statutory damages. Due process prohibits excessive punitive damages because "[e]lementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment, but also of the severity of the penalty that a State may impose." *Campbell*, 538 U.S. 408 at 417 (2003), (quoting *Gore*, 517 U.S. at 574). This concern about fair notice does not apply to statutory damages, because those damages are identified and constrained by the authorizing statute. The guideposts themselves, moreover, would be nonsensical if applied to statutory damages. It makes no sense to consider the disparity between "actual harm" and an award of statutory damages when statutory damages are designed precisely for instances where actual harm is difficult or impossible to calculate. Nor could a reviewing court consider the difference between an award of statutory damages and the "civil penalties authorized," because statutory damages *are* the civil penalties authorized.

Applying the *Williams* standard, we conclude that an award of \$9,250 per each of twenty-four works is not "so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." 251 U.S. at 67. Congress, exercising its "wide latitude of discretion," *id.* at 66, set a statutory damages range

for willful copyright infringement of \$750 to \$150,000 per infringed work. The award here is toward the lower end of this broad range. As in *Williams*, “the interests of the public, the numberless opportunities for committing the offense, and the need for securing uniform adherence to [federal law]” support the constitutionality of the award. *Id.* at 67.

Congress’s protection of copyrights is not a “special private benefit,” but is meant to achieve an important public interest: “to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.” *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429. With the rapid advancement of technology, copyright infringement through on-line file-sharing has become a serious problem in the recording industry. Evidence at trial showed that revenues across the industry decreased by fifty percent between 1999 and 2006, a decline that the record companies attributed to piracy. This decline in revenue caused a corresponding drop in industry jobs and a reduction in the number of artists represented and albums released. *See Sony BMG Music Entm’t v. Tenenbaum*, 660 F.3d 487, 492 (1st Cir. 2011).

Congress no doubt was aware of the serious problem posed by online copyright infringement, and the “numberless opportunities for committing the offense,” when it last revisited the Copyright Act in 1999. To provide a deterrent against such infringement, Congress amended §504(c) to increase the minimum per-work award from \$500 to \$750, the maximum per-work award from \$20,000 to \$30,000, and the maximum per-work award for willful infringement from \$100,000 to \$150,000. *Id.*

Thomas-Rasset contends that the range of statutory damages established by §504(c) reflects only a congressional judgment “at a very general level,” but that courts have authority to declare it “severe and oppressive” and “wholly disproportionate” in particular cases. The district court similarly emphasized that Thomas-Rasset was “not a business acting for profit, but rather an individual consumer illegally seeking free access to music for her own use.” By its terms, however, the statute plainly encompasses infringers who act without a profit motive, and the statute already provides for a broad range of damages that allows courts and juries to calibrate the award based on the nature of the violation. For those who favor resort to legislative history, the record also suggests that Congress was well aware of the threat of noncommercial copyright infringement when it established the lower end of the range. *See* H.R. Rep. 106-216, at 3 (1999), 1999 WL 446444, at *3. Congressional amendments to the criminal provisions of the Copyright Act in 1997 also reflect an awareness that the statute would apply to noncommercial infringement. *See* No Electronic Theft (NET) Act, Pub. L. No. 105-147, § 2(a), 111 Stat. 2678 (1997).

In holding that any award over \$2,250 per work would violate the Constitution, the district court effectively imposed a treble damages limit on the \$750 minimum statutory damages award. The district court based this holding on a “broad legal practice of establishing a treble award as the upper limit permitted to address willful or particularly damaging behavior.” Any “broad legal practice” of treble damages for statutory violations, however, does not control whether an

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award of statutory damages is within the limits prescribed by the Constitution. The limits of treble damages to which the district court referred, such as in the antitrust laws or other intellectual property laws, represent congressional judgments about the appropriate maximum in a given context. They do not establish a *constitutional* rule that can be substituted for a different congressional judgment in the area of copyright infringement. Although the United States seems to think that the district court's ruling did not question the constitutionality of the statutory damages statute, the district court's approach in our view would make the statute unconstitutional as applied to a significant category of copyright infringers. The evidence against Thomas-Rasset demonstrated an aggravated case of willful infringement by an individual consumer who acted to download and distribute copyrighted recordings without profit motive. If an award near the bottom of the statutory range is unconstitutional as applied to her infringement of twenty-four works, then it would be the rare case of noncommercial infringement to which the statute could be applied. . . .

. . . The judgment of the district court is vacated, and the case is remanded with directions to enter a judgment for damages in the amount of \$222,000. . . .

Pages 829-31. Renumber Questions 2-6 as Questions 9-12 and insert the following as Questions 2-8:

2. Do you agree with the *Capitol Records* court that a treble damages limit on the minimum statutory damages award would amount to holding the statutory damages provision of the Copyright Act unconstitutional as applied to many small scale infringers like Thomas-Rasset? Was it appropriate for the district court to use trebling of the minimum award as the measure of statutory damages when Congress did not include a treble damages provision in the Act? What justifications exist for treating statutory damages for willful copyright infringement differently from statutory damages in antitrust law or patent law where a treble damage limit exists?

3. What do you make of the Eighth Circuit's conclusion that the size of a statutory damages award raises no due process concerns because Congress has prescribed the outer limits for such awards in the Copyright Act? Review §504(c) once again. Do you agree that it provides sufficient "fair notice" of the severity of the penalty that could be imposed on an infringer?

4. Although the district court in *Capitol Records* had emphasized that Thomas-Rasset lacked a profit motive, the Eighth Circuit stated that "the statute plainly encompasses infringers who act without a profit motive, and the statute already provides for a broad range of damages that allows courts and juries to calibrate the award based on the nature of the violation." *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899, 908 (8th Cir. 2012). If courts may "calibrate" an award based on the nature of the violation, shouldn't they also be able to declare an award "severe and oppressive" and "wholly disproportionate" given the facts of a particular case?

What grounds does the Eighth Circuit give for reversing the lower court's conclusion that the award met that standard?

5. In *Sony BMG Music Entertainment v. Tenenbaum*, 721 F. Supp. 2d 85 (D. Mass. 2010), *rev'd*, 660 F.3d 487 (1st Cir. 2011), the district court thought that the *BMW v. Gore* factors could be adapted to the statutory damages context:

The distinction between substantive and procedural due process is an important component of the plaintiffs' and the U.S. government's argument that the *BMW* guideposts do not apply to Tenenbaum's case. If the Court's major concern in *BMW* was ensuring that defendants have notice of the civil penalties that may be imposed upon them, *BMW*'s relevance to the case at bar may be minimal. . . .

Cases decided after *BMW*, however, have reaffirmed that a court's review of a jury's punitive award under the Due Process Clause has a significant substantive component. . . .

. . . At their root, the standards articulated in *Williams*, *BMW*, and *State Farm* all aim at providing defendants with some protection against arbitrary government action in the form of damages awards that are grossly excessive in relation to the objectives that the awards are designed to achieve. Indeed, early twentieth century cases such as *Williams* were the seedlings from which the Supreme Court's recent punitive damages jurisprudence sprouted. . . . And *BMW* itself cites *Williams* for the proposition that "punitive award[s] may not be 'wholly disproportioned to the offense.'" *BMW*, 517 U.S. at 575 (quoting *Williams*, 251 U.S. at 66-67).

Furthermore, *BMW* and *State Farm* are not irrelevant in a case involving statutory damages merely because the defendant arguably has "fair notice" of the amount of damages that might be imposed on him. As noted above, the Supreme Court has recognized that its punitive damages jurisprudence has both procedural and substantive components. *State Farm*, 538 U.S. at 416. Thus, the due process concerns articulated in *BMW* and *State Farm* are not obviated merely "because the defendant [could] see [the grossly excessive award] coming." Barker, *supra*, at 542.

. . . [I]t is far from clear that Congress contemplated that a damages award as extraordinarily high as the one assessed in this case would ever be imposed on an ordinary individual engaged in file-sharing without financial gain. Just because the jury's award fell within the broad range of damages that Congress set for *all* copyright cases does not mean that the members of Congress who approved the language of section 504(c) intended to sanction the eye-popping award imposed *in this case*. In fact, a careful review of section 504(c)'s legislative history suggests that Congress likely did not foresee that statutory damages awards would be imposed on noncommercial infringers sharing and downloading music through peer-to-peer networks. . . .

Id. at 101-04.

The First Circuit reversed, citing the canon of constitutional avoidance. It ruled that the district court should have used the general device of remittitur. Given that the defendants had indicated they likely would not accept remittitur, why do you think the court ruled as it did? Which approach to the due process inquiry makes more sense, the Eighth Circuit's or the *Tenenbaum* district court's? Why?

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6. Which defendant seems more culpable to you, Thomas-Rasset or Zomba? During the first trial, the jury heard evidence that Thomas-Rasset had removed and replaced the hard drive on her computer after she was notified of her potential infringement. *Capitol Records*, 692 F.3d at 903. At the second trial, Thomas-Rasset tried to conceal her actions by suggesting that either her boyfriend or daughter had engaged in the file-sharing. Do these facts alter your relative culpability assessment? Should the degree of a defendant's culpability affect how statutory damages are assessed? Should courts apply a different rule for assessing statutory damages awards against individual defendants than against business defendants? Should Congress create such a rule?

7. The *Zomba* court notes with suspicion Panorama's claim that it held a good-faith belief that its actions constituted fair use. Section 504(c)(2) gives the court discretion to reduce a statutory damages award "to a sum of not less than \$200" where the infringer proves that she "was not aware and had no reason to believe that . . . her acts constituted an infringement of copyright." Is a good-faith belief that one's conduct is lawful sufficient? Or, must that good-faith belief also be reasonable? See *Bryant v. Media Right Productions Inc.*, 603 F.3d 135 (2d Cir.), *cert. denied*, 131 S. Ct. 656 (2010) (affirming a reduced statutory damages award because the court found it was "reasonable for [defendant] to believe" that its conduct was lawful).

The defendant's ability to invoke §504(c)(2) is cabined by §§401(d) and 402(d): "If a notice of copyright . . . appears on the published copy or copies to which a defendant in a copyright infringement suit had access, then no weight shall be given to such a defendant's interposition of a defense based on innocent infringement in mitigation of actual or statutory damages. . . ." 17 U.S.C. §401(d); *see also id.* §402(d) (same rule for phonorecords). If an individual is sued for her online file-sharing activities, and the copyright owner can prove that all authorized published phonorecords of the work have included notice of copyright, should an argument for mitigation of statutory damages based on innocent infringement be foreclosed as a matter of law? If not, what proof should a court require the defendant to produce? See *Maverick Recording Co. v. Harper*, 598 F.3d 193 (5th Cir. 2010) (holding proof of defendant's state of mind irrelevant to the question whether §402(d) forecloses mitigation), *cert. denied*, 131 S. Ct. 590 (2010).

8. The Eighth Circuit notes that copyright is not a "special private benefit" but instead is meant to "motivate the creative activity of authors and inventors." It also cites evidence submitted during trial by industry groups, purporting to show that copyright infringement through online file-sharing has substantially decreased both industry revenues and the amount of music produced. If more investigation disproves this contention, should the legal analysis change? Professor Joel Waldfoegel, a leading economist, contends that there is no empirical evidence of a reduction in the quality of music produced since the inception of file-sharing. He demonstrates that there has been an increase in the *quality* and *quantity* of music since Napster. See Joel Waldfoegel, *Copyright Protection, Technological Change, and the Quality of New Products: Evidence from Recorded Music Since Napster*, 55 J. OF LAW & ECON., 715 (2012).

Petrella v. Metro-Goldwyn-Mayer, Inc.
134 S.Ct. 1962 (2014)

GINSBURG, J., The Copyright Act provides that “[n]o civil action shall be maintained under the [Act] unless it is commenced within three years after the claim accrued.” 17 U.S.C. § 507(b). This case presents the question whether the equitable defense of laches (unreasonable, prejudicial delay in commencing suit) may bar relief on a copyright infringement claim brought within § 507(b)’s three-year limitations period. . .

I

The federal limitations prescription governing copyright suits serves two purposes: (1) to render uniform and certain the time within which copyright claims could be pursued; and (2) to prevent the forum shopping invited by disparate state limitations periods, which ranged from one to eight years. To comprehend how the Copyright Act’s limitations period works, one must understand when a copyright infringement claim accrues.

A claim ordinarily accrues “when [a] plaintiff has a complete and present cause of action.” *Bay Area Laundry and Dry Cleaning Pension Trust Fund v. Ferbar Corp. of Cal.*, 522 U.S. 192, 201, 118 S.Ct. 542, 139 L.Ed.2d 553 (1997) (internal quotation marks omitted). In other words, the limitations period generally begins to run at the point when “the plaintiff can file suit and obtain relief.” *Ibid.* A copyright claim thus arises or “accrue[s]” when an infringing act occurs.⁴

Looking Forward
Section 507 also provides a statute of limitation for criminal actions: “no criminal proceeding shall be maintained under the provisions of this title unless it is commenced within 5 years after the cause of action arose.” We address criminal proceeding later in this Chapter.

It is widely recognized that the separate-accrual rule attends the copyright statute of limitations. Under that rule, when a defendant commits successive violations, the statute of limitations runs separately from each violation. Each time an infringing work is reproduced or distributed, the infringer commits a new wrong. Each wrong gives rise to a discrete “claim” that “accrue[s]” at the time the wrong occurs. In short, each infringing act starts a new limitations period.

Under the Act’s three-year provision, an infringement is actionable within three years, and only three years, of its occurrence. And the infringer is insulated from liability for earlier infringements of the same work. Thus, when a defendant has engaged (or is alleged to have engaged) in a series of discrete infringing acts, the copyright holder’s suit ordinarily will be timely under § 507(b) with respect to more recent acts of infringement (*i.e.*, acts within the three-year window), but untimely with respect to prior acts of the same or similar kind. . . .

II. A

The allegedly infringing work in this case is the critically acclaimed motion picture *Raging Bull*, based on the life of boxing champion Jake LaMotta. After retiring from the ring, LaMotta worked with his longtime friend, Frank Petrella, to tell the story of the boxer’s career. Their venture resulted in three copyrighted works: two screenplays, one registered in 1963, the other in 1973, and a book, registered in 1970. This case centers on the screenplay registered in 1963. The registration identified Frank Petrella as sole author, but also stated that the screenplay was written “in collaboration with” LaMotta.

In 1976, Frank Petrella and LaMotta assigned their rights in the three works, including renewal rights, to Chartoff–Winkler Productions, Inc. Two years later, respondent United Artists Corporation, a

⁴ Although we have not passed on the question, nine Courts of Appeals have adopted, as an alternative to the incident of injury rule, a “discovery rule,” which starts the limitations period when “the plaintiff discovers, or with due diligence should have discovered, the injury that forms the basis for the claim.” *William A. Graham Co. v. Haughey*, 568 F.3d 425, 433 (C.A.3 2009) (internal quotation marks omitted). See also 6 W. Patry, Copyright § 20:19, p. 20–28 (2013) (hereinafter Patry) (“The overwhelming majority of courts use discovery accrual in copyright cases.”).

subsidiary of respondent Metro–Goldwyn–Mayer, Inc. (collectively, MGM), acquired the motion picture rights to the book and both screenplays, rights stated by the parties to be “exclusiv[e] and forever, including all periods of copyright and renewals and extensions thereof.” *Id.*, at 49. In 1980, MGM released, and registered a copyright in, the film *Raging Bull*, directed by Martin Scorsese and starring Robert De Niro, who won a Best Actor Academy Award for his portrayal of LaMotta. MGM continues to market the film, and has converted it into formats unimagined in 1980, including DVD and Blu-ray.

Frank Petrella died in 1981, during the initial terms of the copyrights in the screenplays and book. As this Court’s decision in *Stewart* confirmed, Frank Petrella’s renewal rights reverted to his heirs, who could renew the copyrights unburdened by any assignment previously made by the author. See 495 U.S., at 220–221.

Plaintiff below, petitioner here, Paula Petrella (Petrella) is Frank Petrella’s daughter. Learning of this Court’s decision in *Stewart*, Petrella engaged an attorney who, in 1991, renewed the copyright in the 1963 screenplay. Because the copyrights in the 1973 screenplay and the 1970 book were not timely renewed, the infringement claims in this case rest exclusively on the screenplay registered in 1963. Petrella is now sole owner of the copyright in that work.

In 1998, seven years after filing for renewal of the copyright in the 1963 screenplay, Petrella’s attorney informed MGM that Petrella had obtained the copyright to that screenplay. Exploitation of any derivative work, including *Raging Bull*, the attorney asserted, infringed on the copyright now vested in Petrella. During the next two years, counsel for Petrella and MGM exchanged letters in which MGM denied the validity of the infringement claims, and Petrella repeatedly threatened to take legal action.

B

Some nine years later, on January 6, 2009, Petrella filed a copyright infringement suit in the United States District Court for the Central District of California. She alleged that MGM violated and continued to violate her copyright in the 1963 screenplay by using, producing, and distributing *Raging Bull*, a work she described as derivative of the 1963 screenplay. Petrella’s complaint sought monetary and injunctive relief. Because the statute of limitations for copyright claims requires commencement of suit “within three years after the claim accrued,” § 507(b), Petrella sought relief only for acts of infringement occurring on or after January 6, 2006. No relief, she recognizes, can be awarded for infringing acts prior to that date.

MGM moved for summary judgment on several grounds, among them, the equitable doctrine of laches. Petrella’s 18–year delay, from the 1991 renewal of the copyright on which she relied, until 2009, when she commenced suit, MGM maintained, was unreasonable and prejudicial to MGM.

The District Court granted MGM’s motion. . . [holding] laches barred Petrella’s complaint. . . . In particular, the court stated, MGM had shown “expectations-based prejudice,” because the company had “made significant investments in exploiting the film”; in addition, the court accepted that MGM would encounter “evidentiary prejudice,” because Frank Petrella had died and LaMotta, then aged 88, appeared to have sustained a loss of memory.

The U.S. Court of Appeals for the Ninth Circuit affirmed the laches-based dismissal. . . . “[T]he true cause of Petrella’s delay,” the court suggested, “was, as [Petrella] admits, that ‘the film hadn’t made money’ [in years she deferred suit].” *Id.*, at 953. . . .

We granted certiorari to resolve a conflict among the Circuits on the application of the equitable defense of laches to copyright infringement claims brought within the three-year look-back period prescribed by Congress.

III

We consider first whether, as the Ninth Circuit held, laches may be invoked as a bar to Petrella’s pursuit of legal remedies under 17 U.S.C. § 504(b). The Ninth Circuit erred, we hold, in failing to recognize that the copyright statute of limitations, § 507(b), itself takes account of delay. As earlier observed, a successful plaintiff can gain retrospective relief only three years back from the time of suit. No recovery may be had for infringement in earlier years. Profits made in those years remain the defendant’s to keep. Brought to bear here, § 507(b) directs that MGM’s returns on its investment in *Raging Bull* in years outside the three-year window (years before 2006) cannot be reached by Petrella.

Only by disregarding that feature of the statute, and the separate-accrual rule attending § 507(b), could the Court of Appeals presume that infringing acts occurring before January 6, 2006 bar all relief, monetary and injunctive, for infringement occurring on and after that date.¹³ . . .

IV. . . .

A

The expansive role for laches MGM envisions careens away from understandings, past and present, of the essentially gap-filling, not legislation-overriding, office of laches. Nothing in this Court's precedent suggests a doctrine of such sweep. Quite the contrary, we have never applied laches to bar in their entirety claims for discrete wrongs occurring within a federally prescribed limitations period. Inviting individual judges to set a time limit other than the one Congress prescribed, we note, would tug against the uniformity Congress sought to achieve when it enacted § 507(b). . . .

C

MGM insists that the defense of laches must be available to prevent a copyright owner from sitting still, doing nothing, waiting to see what the outcome of an alleged infringer's investment will be. See Brief for Respondents 48. In this case, MGM stresses, “[Petrella] *conceded* that she waited to file because ‘the film was deeply in debt and in the red and would probably never recoup.’ ” *Id.*, at 47 (quoting from App. 110). The Ninth Circuit similarly faulted Petrella for waiting to sue until the film *Raging Bull* “made money.” 695 F.3d, at 953 (internal quotation marks omitted).

It is hardly incumbent on copyright owners, however, to challenge each and every actionable infringement. And there is nothing untoward about waiting to see whether an infringer's exploitation undercuts the value of the copyrighted work, has no effect on the original work, or even complements it. Fan sites prompted by a book or film, for example, may benefit the copyright owner. See Wu, *Tolerated Use*, 31 Colum. J.L. & Arts 617, 619–620 (2008). Even if an infringement is harmful, the harm may be too small to justify the cost of litigation.

If the rule were, as MGM urges, “sue soon, or forever hold your peace,” copyright owners would have to mount a federal case fast to stop seemingly innocuous infringements, lest those infringements eventually grow in magnitude. Section 507(b)'s three-year limitations period, however, coupled to the separate-accrual rule, avoids such litigation profusion. It allows a copyright owner to defer suit until she can estimate whether litigation is worth the candle. She will miss out on damages for periods prior to the three-year look-back, but her right to prospective injunctive relief should, in most cases, remain unaltered.¹⁹

E

Finally, when a copyright owner engages in intentionally misleading representations concerning his abstention from suit, and the alleged infringer detrimentally relies on the copyright owner's deception, the doctrine of estoppel may bar the copyright owner's claims completely, eliminating all potential remedies. The test for estoppel is more exacting than the test for laches, and the two defenses are differently oriented. The gravamen of estoppel, a defense long recognized as available in actions at law, see *Wehrman v. Conklin*, 155 U.S. 314, 327 (1894), is misleading and consequent loss. Delay may be involved, but is not an element of the defense. For laches, timeliness is the essential element. In contrast to laches, urged by MGM entirely to override the statute of limitations Congress prescribed, estoppel does not undermine Congress' prescription, for it rests on misleading, whether engaged in early on, or later in time. . . .

¹³ Assuming Petrella had a winning case on the merits, the Court of Appeals' ruling on laches would effectively give MGM a cost-free license to exploit *Raging Bull* throughout the long term of the copyright. The value to MGM of such a free, compulsory license could exceed by far MGM's expenditures on the film.

¹⁹ The dissent worries that a plaintiff might sue for profits “every three years ... until the copyright expires.” *Post*, at 1981; see *post*, at 1979. That suggestion neglects to note that a plaintiff who proves infringement will likely gain forward-looking injunctive relief stopping the defendant's repetition of infringing acts.

V

. . . Congress' time provisions secured to authors a copyright term of long duration, and a right to sue for infringement occurring no more than three years back from the time of suit. That regime leaves "little place" for a doctrine that would further limit the timeliness of a copyright owner's suit. In extraordinary circumstances, however, the consequences of a delay in commencing suit may be of sufficient magnitude to warrant, at the very outset of the litigation, curtailment of the relief equitably awardable.

Chirco v. Crosswinds Communities, Inc., 474 F.3d 227 (C.A.6 2007), is illustrative. In that case, the defendants were alleged to have used without permission, in planning and building a housing development, the plaintiffs' copyrighted architectural design. Long aware of the defendants' project, the plaintiffs took no steps to halt the housing development until more than 168 units were built, 109 of which were occupied. *Id.*, at 230. Although the action was filed within § 507(b)'s three-year statute of limitations, the District Court granted summary judgment to the defendants, dismissing the entire case on grounds of laches. The trial court's rejection of the entire suit could not stand, the Court of Appeals explained, for it was not within the Judiciary's ken to debate the wisdom of § 507(b)'s three-year look-back prescription. *Id.*, at 235. Nevertheless, the Court of Appeals affirmed the District Court's judgment to this extent: The plaintiffs, even if they might succeed in proving infringement of their copyrighted design, would not be entitled to an order mandating destruction of the housing project. That relief would be inequitable, the Sixth Circuit held, for two reasons: the plaintiffs knew of the defendants' construction plans before the defendants broke ground, yet failed to take readily available measures to stop the project; and the requested relief would "work an *unjust* hardship" upon the defendants and innocent third parties. *Id.*, at 236.

In sum, the courts below erred in treating laches as a complete bar to Petrella's copyright infringement suit. The action was commenced within the bounds of § 507(b), the Act's time-to-sue prescription, and does not present extraordinary circumstances of the kind involved in *Chirco* Petrella notified MGM of her copyright claims *before* MGM invested millions of dollars in creating a new edition of Raging Bull. . . . MGM released Raging Bull more than three decades ago and has marketed it continuously since then. Allowing Petrella's suit to go forward will put at risk only a fraction of the income MGM has earned during that period and will work no unjust hardship on innocent third parties, such as consumers who have purchased copies of Raging Bull. Cf. *Chirco*, 474 F.3d, at 235–236 (destruction remedy would have ousted families from recently purchased homes). The circumstances here may or may not (we need not decide) warrant limiting relief at the remedial stage, but they are not sufficiently extraordinary to justify threshold dismissal.

Should Petrella ultimately prevail on the merits, the District Court, in determining appropriate injunctive relief and assessing profits, may take account of her delay in commencing suit. In doing so, however, that court should closely examine MGM's alleged reliance on Petrella's delay.²² This examination should take account of MGM's early knowledge of Petrella's claims, the protection MGM might have achieved through pursuit of a declaratory judgment action, the extent to which MGM's investment was protected by the separate-accrual rule, the court's authority to order injunctive relief "on such terms as it may deem reasonable," § 502(a), and any other considerations that would justify adjusting injunctive relief or profits. . . .

²² While reliance or its absence may figure importantly in this case, we do not suggest that reliance is in all cases a *sine qua non* for adjustment of injunctive relief or profits.